ACCI Business Tendency Survey Report

April 2015

With the cooperation of GIZ

ACCI Business Tendency Survey Report[1]

Major findings

This survey reveals that that business community has lost the enthusiasm that they expressed in last November, a month after the establishment of the National Unity government.

Herat and Kabul show the least favorable conditions, while Balkh, Nangarhar and Kandahar are comparatively more confident regarding the six coming months.

The comparison of three latest surveys shows that the real business condition has largely worsened after the last presidential elections.

The business climate for both SMEs and Large enterprises has deteriorated but SMEs report worse condition.

The expectations for the increase of order books are high (54.5) across the country, but the current situation (-47.61) is even worse than last November (-41).

Based on the comparison of three recent survey data, business people perceive that Kabul security condition has continually deteriorated while other regions have reported consistent security improvements.

According to this survey the most important factor for business development is considered to be security; it is followed by lack of market and demand, poor infrastructure, administrative burdens and lack of access to finance.

Business people perceive that the capital flight has extremely increased.

A. Business Climate

The Business Climate is an indicator for GDP growth tendencies. The indicator usually is leading; it indicates GDP changes in advance (on average a few months if no unexpected change in frame conditions occurs).

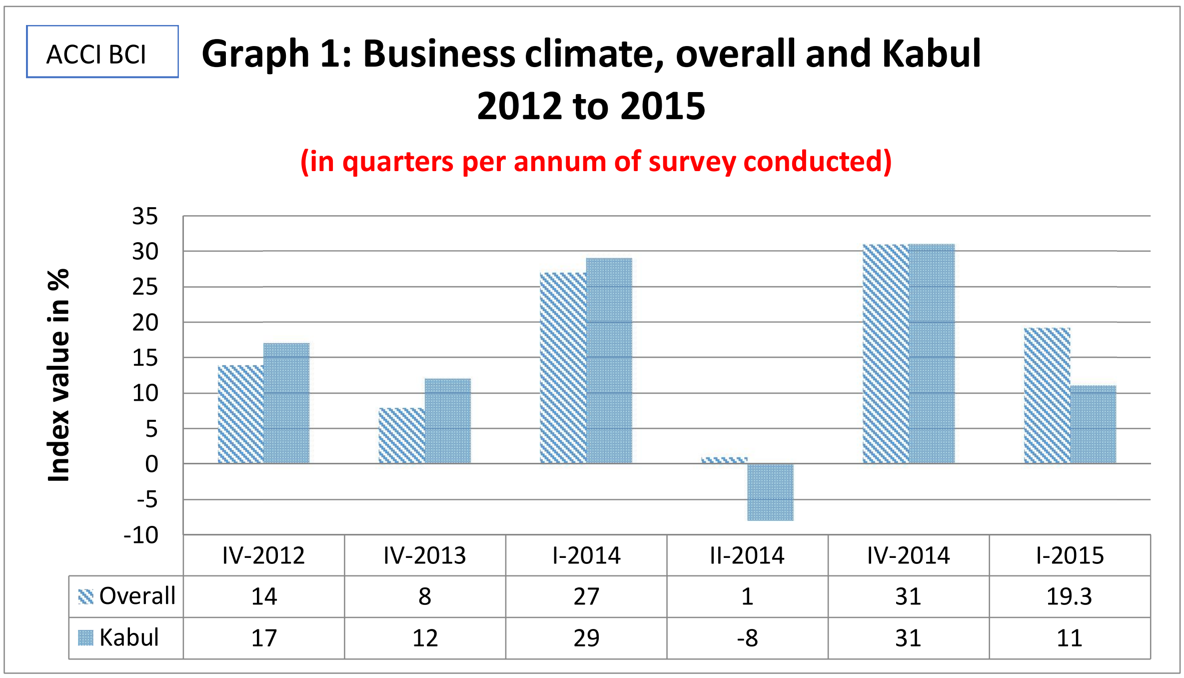
The Business Climate indicator is constructed from the judgments of managers on their present business situation and their business expectations for the next six months by a standardized and internationally used formula (for methodology see at the end of the report).

The indicator values range from 0 (meaning "normal") up to a possible maximum of plus 100 for a positive climate and from 0 to a possible minimum of minus 100 for a negative climate.

[1] The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The first survey was carried out in December 2012 in Kabul and Balkh regions and second survey in October 2013 covers Kabul, Balkh and Kandahar, third time it covers Nangarhar and fifth time it included Herat too.

A.1- Business Climate overall and by Region

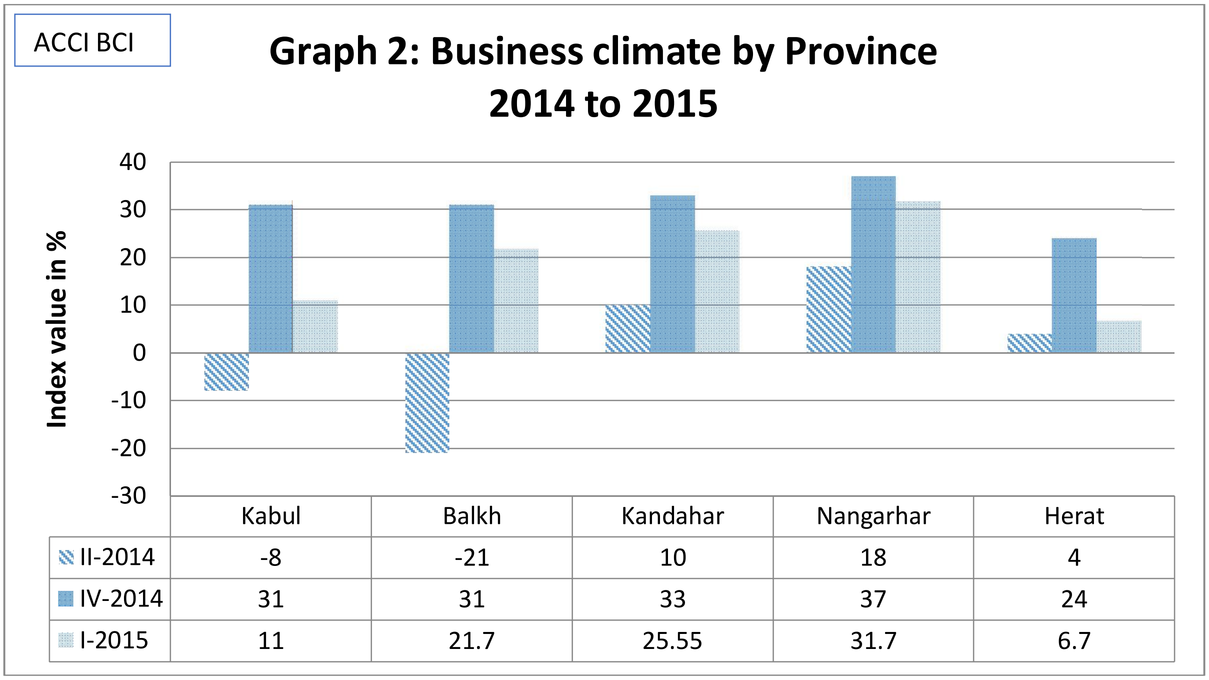
The overall business climate indicator in April 2015 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued (19.3) points while last year it was (27) points for the same season. The findings of this survey shows that business community no more maintains the enthusiasm that they expressed in last November survey as they expected a better condition after the establishment of the National Unity Government which was achieved after months of political uncertainties. Although, the surveyed businesses expect a better condition for coming months, the current situation of their businesses is reported to be very poor (-37.5).



Herat and Kabul show the least favorable conditions, while Balkh, Nangarhar and Kandahar are comparatively more confident regarding the six coming months. As illustrated in graph 2, none of the regions show any improvement in their business climates if compared to last season.[2]

The comparison over time shows a highly volatile and inconsistent business climate.

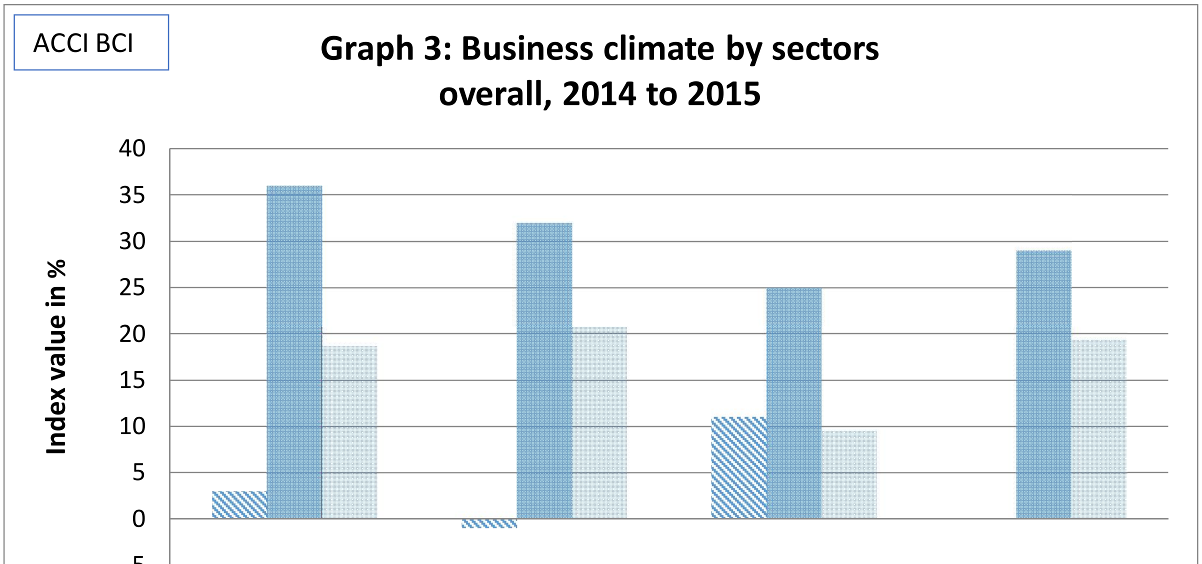
[2] The number of Provinces were increased over time to five, which should represent the country's situation:
IV-2012 Kabul, Balkh
IV-2013 Kabul, Balkh, Kandahar
I-2014 Kabul, Balkh, Kandahar, Nangarhar
II-2014 Kabul, Balkh, Kandahar, Nangarhar, Herat,



A.2- Business Climate by Sectors

This survey shows a sharp decline in all four sectors. Construction has the worst condition while trade tops in sectorial ranking, though in comparison to the last survey the later has also experienced a severe deterioration of business climate.

As illustrated in graph 3, manufacturing, service and trade sectors also suffer from a worsened business condition, compared to the last survey. Respondents remain hopeful about the coming six months, while the balances of positive minus negative responses on their current business performance ranged between -33.1 and -55.2 across the sectors.



	Manufacturing	Trade	Construction	Service
II-2014	3	-1	11	0
IV-2014	36	32	25	29
I-2015	18.7	20.7	9.5	19.3

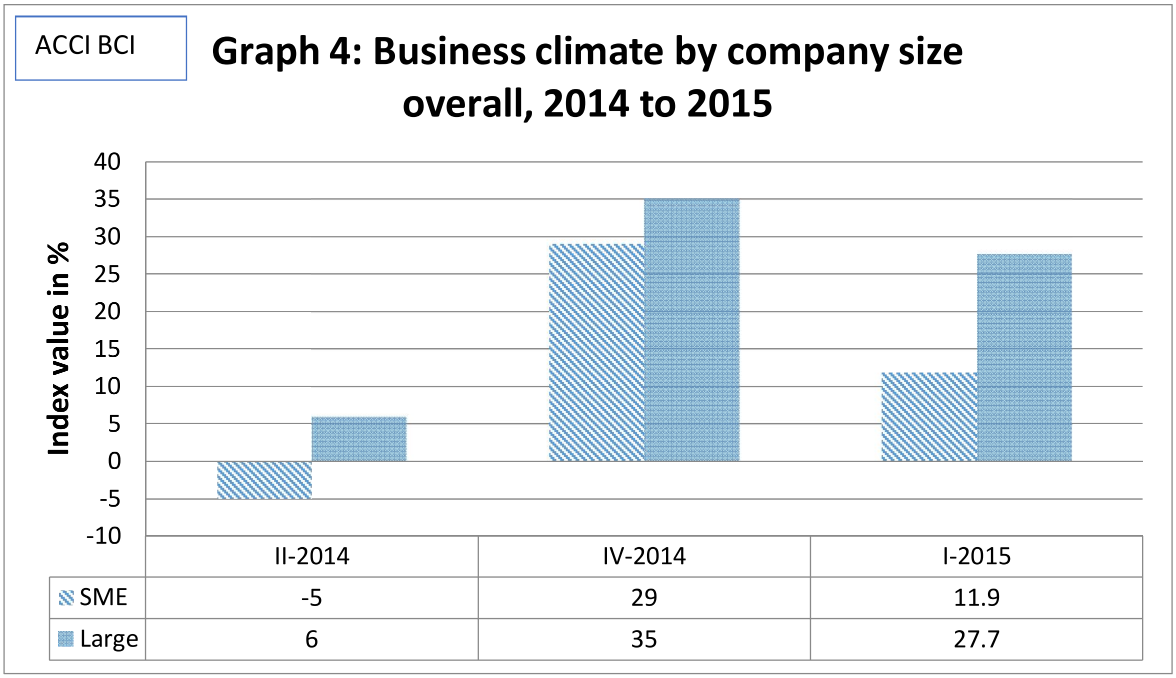
The comparison of three latest surveys shows that the real business condition has largely worsened after the last presidential elections while expectations remain positive and the business community struggle to see the materialization of promises made during elections and after the establishment of the National Unity Government.

A.3- Business Climate by Company Size

The business climate for both SMEs and Large enterprises has deteriorated but SMEs report comparatively more problems.

The Business Climate Indicator value for SMEs was (29) in November 2014, when the enthusiasm loomed large for the hard earned political agreement on elections results, but now this indicator has declined to 11.9, which reflects the concerns of business community regarding the lack of practical steps for the improvement of business environment despite gushy promises.

The Business Climate for larger companies also shows a notable decline from 35 points to 27.7 points. The surveyed companies are expecting an improvement in their business climates in coming six months.



B. Order Books

The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. However, the result figures are based on percentage balance values (positive minus negative answers).

The expectations for the increase of order books are high (54.5) across the country, but the current situation (-47.61) is even worse than last November (-41).

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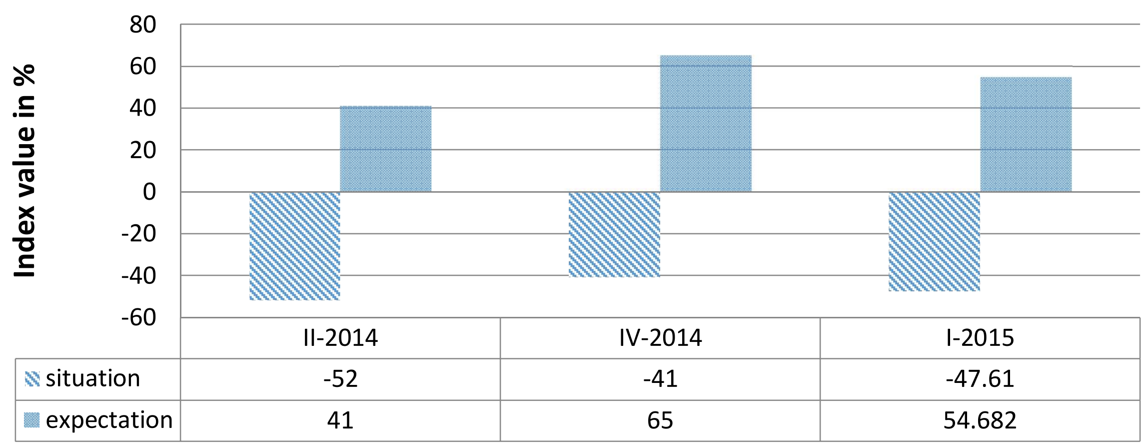
Graph 5: Order books, situation and expectation overall, 2014 to 2015

(in quarters per annum of survey conducted)



The comparison of the current situation of the order books with what the companies expected (65) in previous survey shows an extreme difference, and the companies in general had a too optimistic outlook in November 2014 compared with their judgment on the real situation in April 2015.

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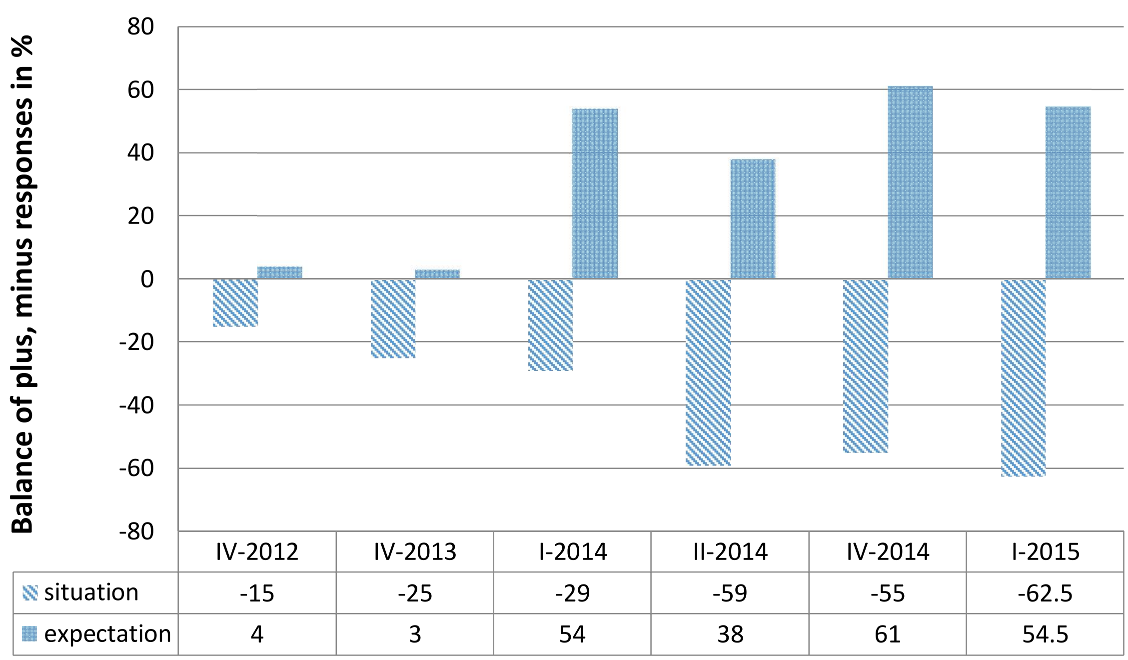
Graph 6: Order books, situation and expectation Kabul, 2012 to 2015

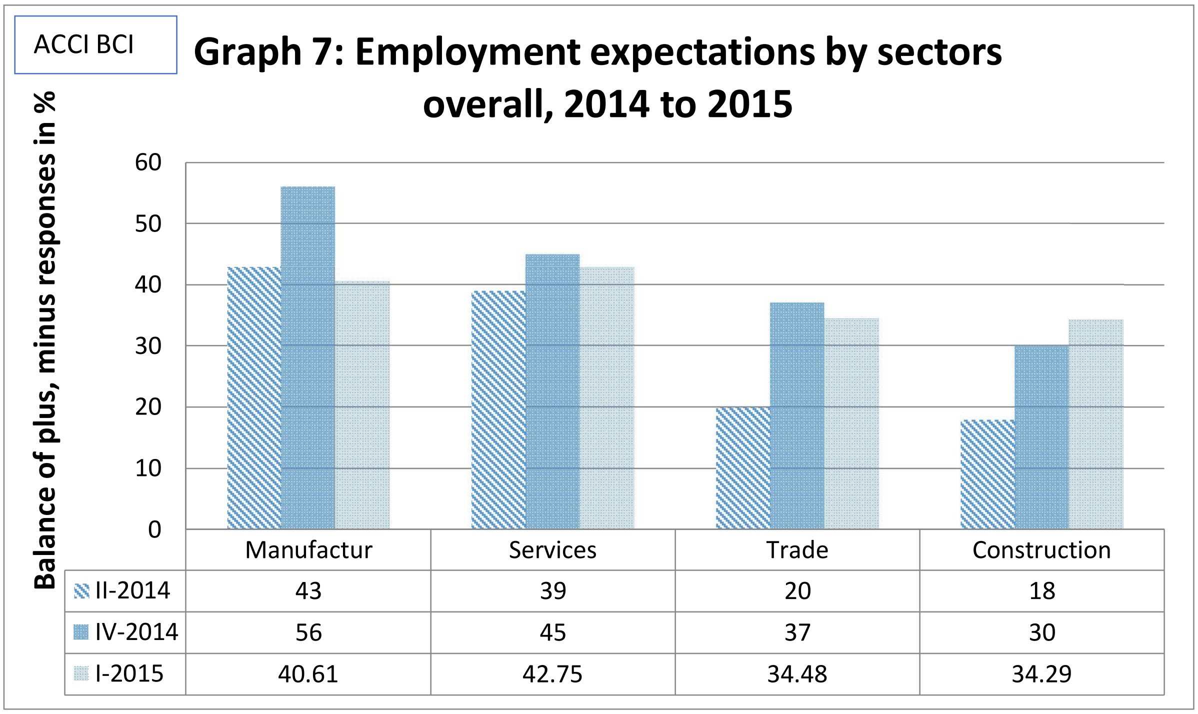


An overview of the order books indicators over time reveals the inverse correlation between the order books situation and expectation. Since 2012 the order books situation has continually declined while almost with the same path the expectations have increased.

C. Employment Expectation

In general, the managers and owners of surveyed companies had a very optimistic outlook regarding their employments in coming three months.

The balance of the employment plans is 38.39 points across the sectors but services and manufacturing companies expect slightly more employment than trade and construction.



	Manufactur	Services	Trade	Construction
II-2014	43	39	20	18
IV-2014	56	45	37	30
I-2015	40.61	42.75	34.48	34.29

It is worth mentioning that the real situation of the employment was extremely different to what the businesses expected in previous survey. In November the surveyed companies expected an increase of about 42 points in their employments for then the coming three months, while this survey showed a negative tendency in employment during last three months. According to this survey at least 25 percent of the employees of the surveyed companies seems to have lost their jobs during last three months, indicating the dire situation of business mainly caused by poor governance and political confusions.

Construction employees have lost considerably more jobs (-43.8) compared to trade (-17.2), manufacturing (-20.6) and service (-21.4). SMEs have lost more jobs than larger companies.

D. Security Situation

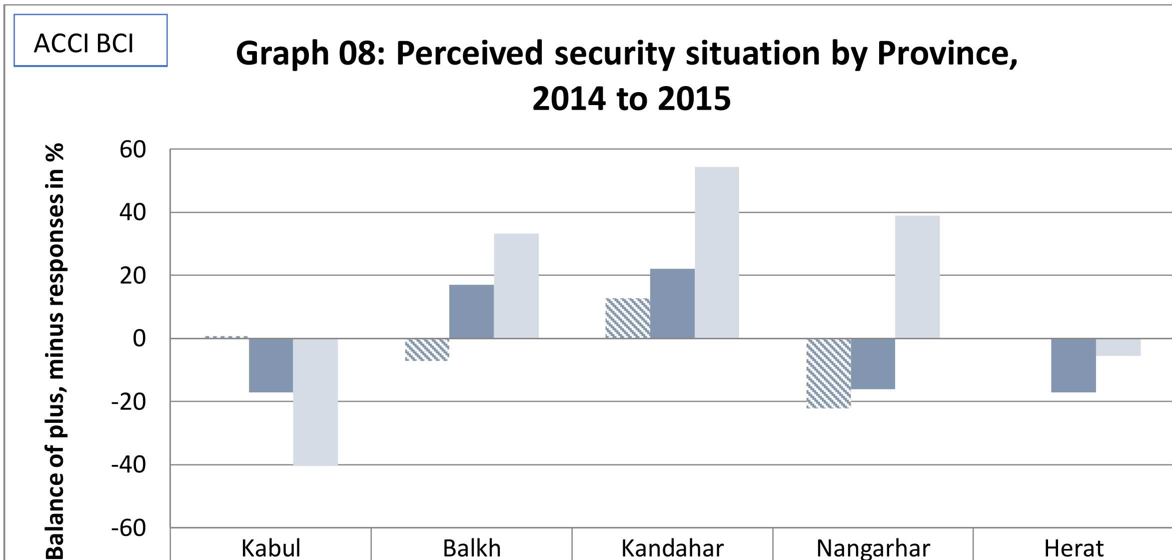
Business managers in Kandahar, Nangarhar and Balkh regions reported considerable improvements in their security situation during last three months. In Herat the security situation has slightly improved compared to last survey, but the balance is still negative.

In contrast to all other regions, Kabul based companies have reported an extremely deteriorated security condition (-40.5).

The comparison of three recent survey data also show that Kabul security condition has continually deteriorated while the other regions have reported consistent security improvements.

Kandahar businesses have shown the highest confidence regarding the security condition in all last three surveys while Nangarhar which recorded negative security indicators in July and November 2014, has also drastically jumped to the second most confident region in terms of security situation.

Graph 08: Perceived security situation by Province, 2014 to 2015



	Kabul	Balkh	Kandahar	Nangarhar	Herat
II-2014	1	-7	13	-22	0
IV-2014	-17	17	22	-16	-17
I-2015	-40.5	33.33	54.45	38.88	-5.55

E. Desired Improvements for Business Development

The evaluation of major business constraints shows that the most important factor for business development is considered to be security; it is followed by market and demand, better infrastructure, administrative reforms and access to finance. As illustrated in Graph 9. the participants of all three recent surveys agreed in ranking the major business obstacles.

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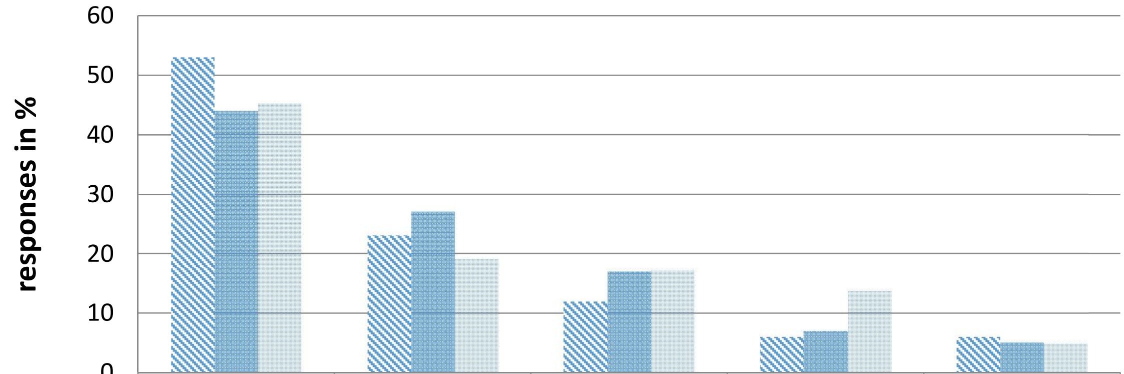
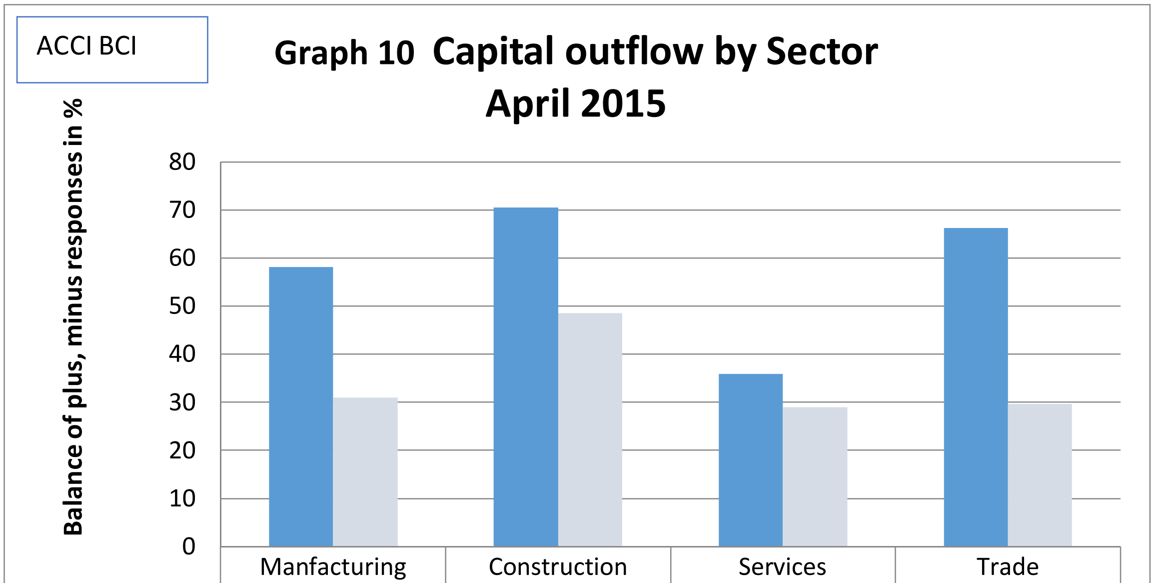
Graph 09: Desired improvements for business development, overall, 2014 to 2015



	Security	Market	Infrastructure	Administration	Finance
II-2014	53	23	12	6	6
IV-2014	44	27	17	7	5
I-2015	45.18	19.11	17.14	13.75	4.82

F. Capital Flight

This time we also asked the respondents about the capital flight in their business sector during last three months and we also asked them whether they expect that the outflow of capital from their business sector to other countries will increase, remain the same or decrease. According to this survey the business people perceive that the capital flight has extremely increased (56.8 points) during last three months. The trade and construction sectors have experienced more capital flight than manufacturing and services. Meanwhile they believe that the outflow of capital will keep increasing, but with a slower pace.



	Manfacturing	Construction	Services	Trade
Situation	58.18	70.47	35.86	66.2
Expectation	30.91	48.57	28.97	29.65

ACCI Business Tendency Survey Report

(Northeast)

April 2015

With the cooperation of GIZ

ACCI Business Tendency Survey Report[3]

Major findings

The real business condition in Northeast region has largely worsened since November 2014, while expectation remains high.

Larger companies' business condition has deteriorated more than that of SMES.

Security condition has extremely worsened and demand for security and administrative reforms have increase since last survey.

Business people in Northeastern region also perceive that the capital flight has extremely increased.

A. Business Climate

The Business Climate is an indicator for GDP growth tendencies. The indicator usually is leading; it indicates GDP changes in advance (on average a few months if no unexpected change in frame conditions occurs).

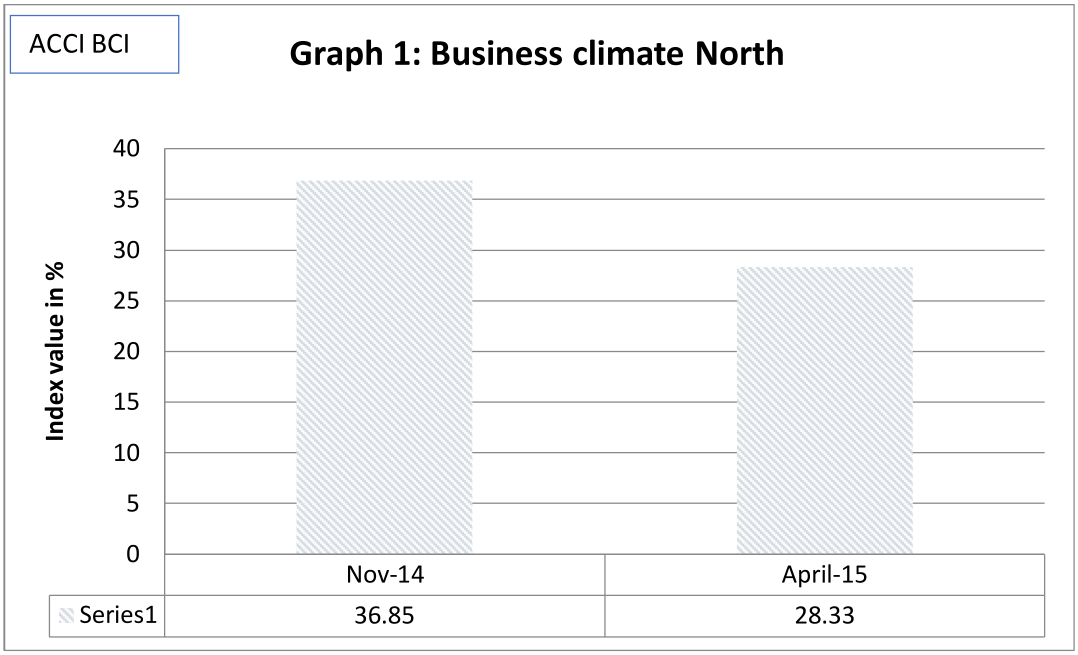
The Business Climate indicator is constructed from the judgments of managers on their present business situation and their business expectations for the next six months by a standardized and internationally used formula (for methodology see at the end of the report).

The indicator values range from 0 (meaning "normal") up to a possible maximum of plus 100 for a positive climate and from 0 to a possible minimum of minus 100 for a negative climate.

A.1- Business Climate overall

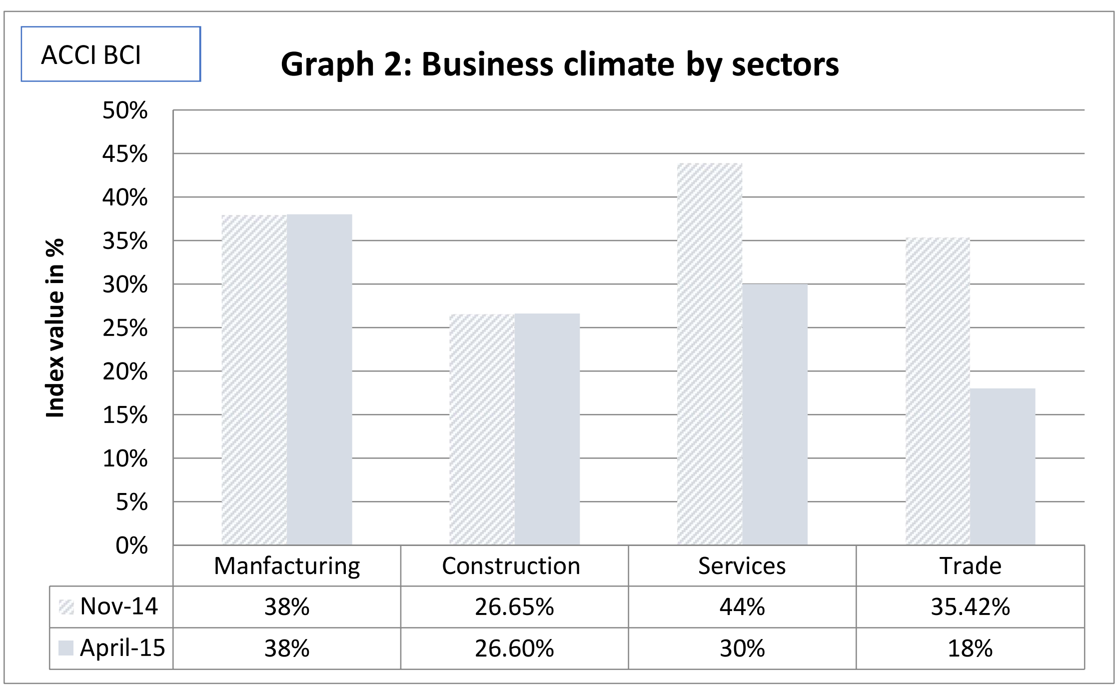
The business climate in the Northeastern region (Badakhshan, Baghlan, Kunduz, Samangan and Takhar provinces) has deteriorated during last three months while compared to the regions included in National Survey, the Northeastern businesses report a better business climate. Though these businesses perceive their current condition very poor (-31) but their expectations are very high for coming six months (87.7).

[3] The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The first survey was carried out in December 2012 in Kabul and Balkh regions and second survey in October 2013 covers Kabul, Balkh and Kandahar, third time it covers Nangarhar and fifth time it included Herat too.



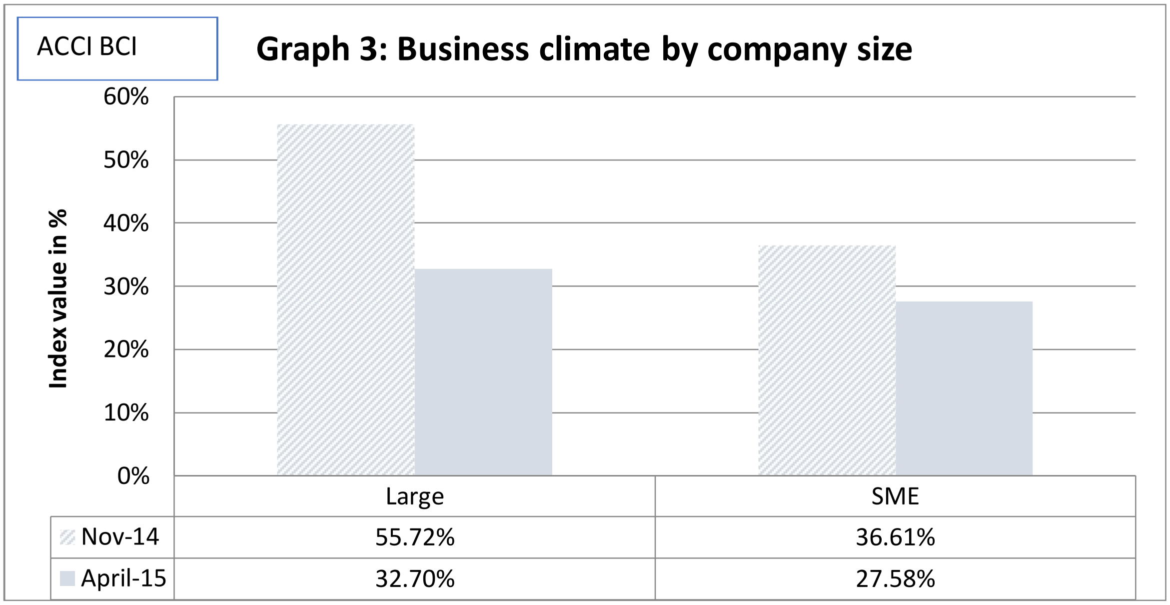
A.2- Business Climate by Sectors

As shown the following graph, the manufacturing and construction report stable business conditions while services and trades complain about the declines in their businesses. It is worth mentioning that in the National Survey, all four sectors show sharp decline in their businesses.



A.3- Business Climate by Company Size

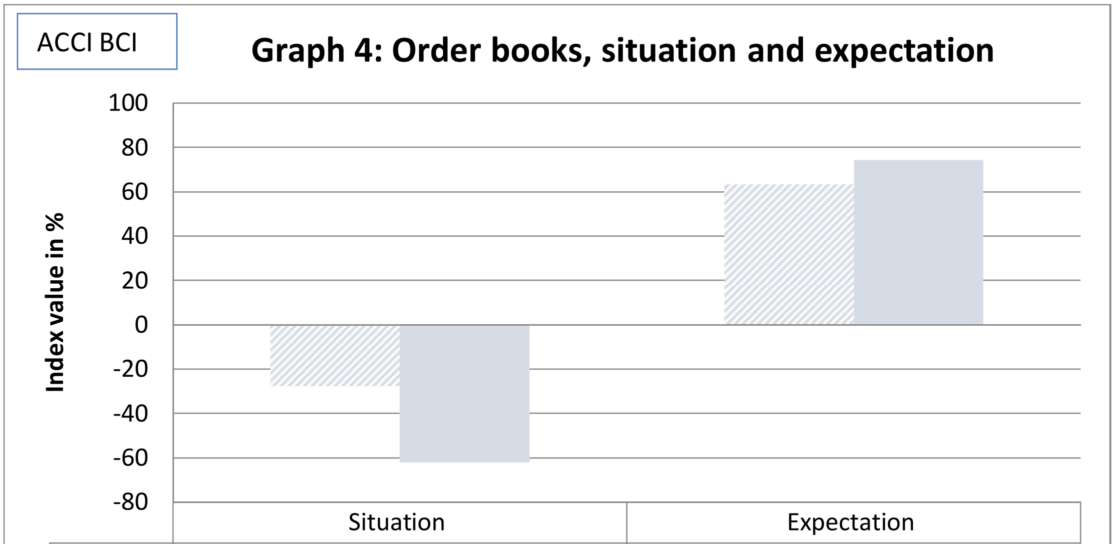
Like the National Survey SMEs have reported worse business condition, but this survey shows that Northeastern larger companies have suffered from a steeper business decline during last three months.



B. Order Books

The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. However, the result figures are based on percentage balance values (positive minus negative answers).

The expectations for the increase of order books are much higher (74.45) than the National Survey average (54.5), but the current situation (-62.2) of their order books are worse than last November (-27.8) and much lower than the National Survey average (-47.61).

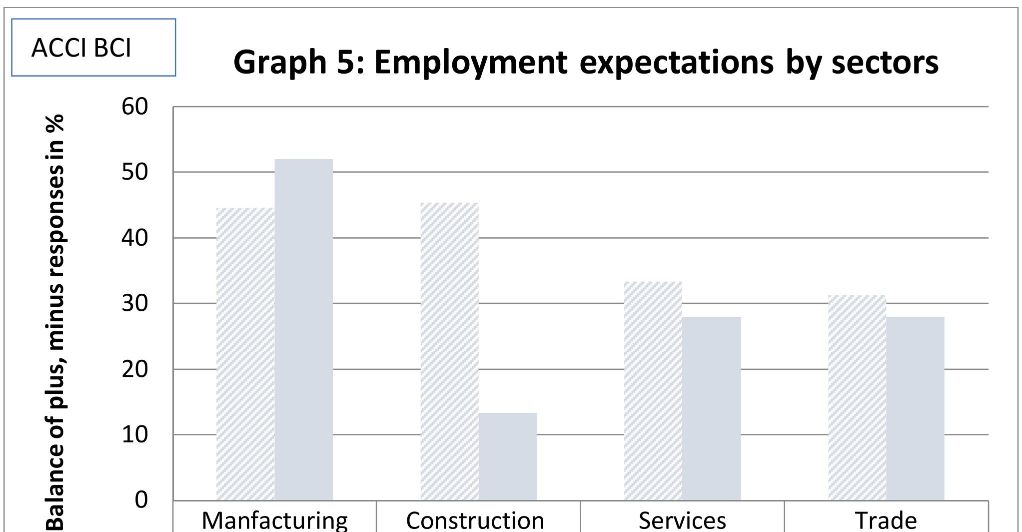


	Situation	Expectation
Nov-14	-27.82	63.27
Apirl-15	-62.22	74.45

C. Employment Expectation

In general, the managers and owners of surveyed companies had a too optimistic outlook regarding their employments in coming three months.

The balance of the employment plans is 32.2 points across the sectors but manufacturing companies expect much more employment than trade and services. Construction companies have the lowest employment expectation.

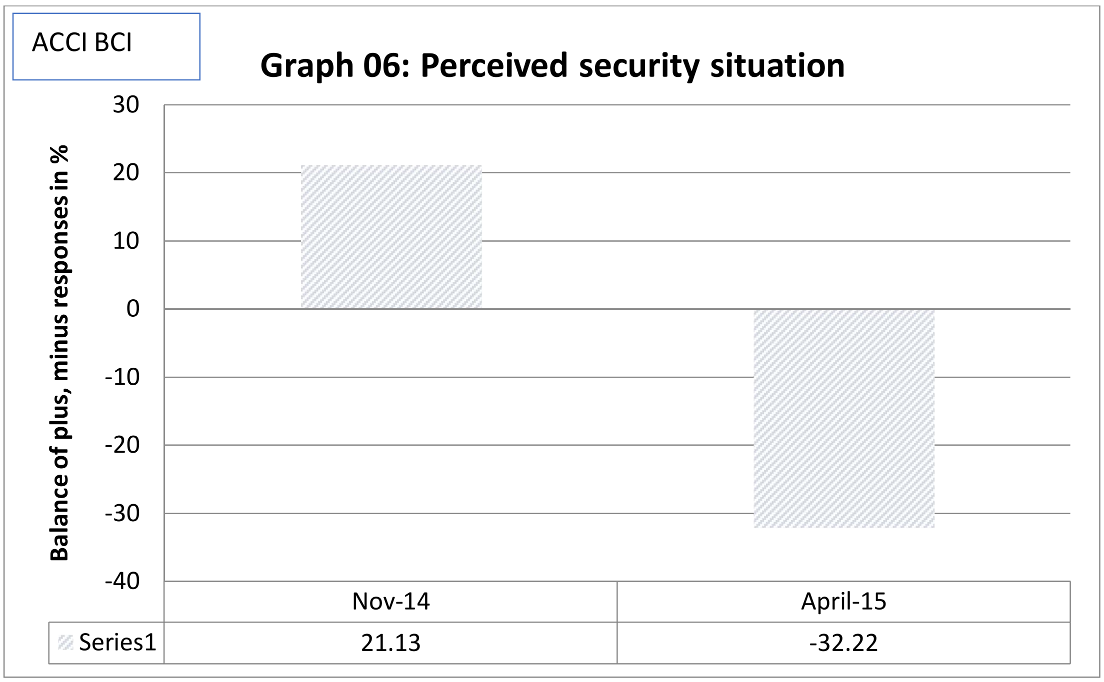


	Manfacturing	Construction	Services	Trade
Nov-14	44.6	45.4	33.3	31.3
April-15	52	13.33	28	28

As illustrated in this graph, except Manufacturing, all other sectors have shown lower employment expectations compared to last survey which was conducted in last November.

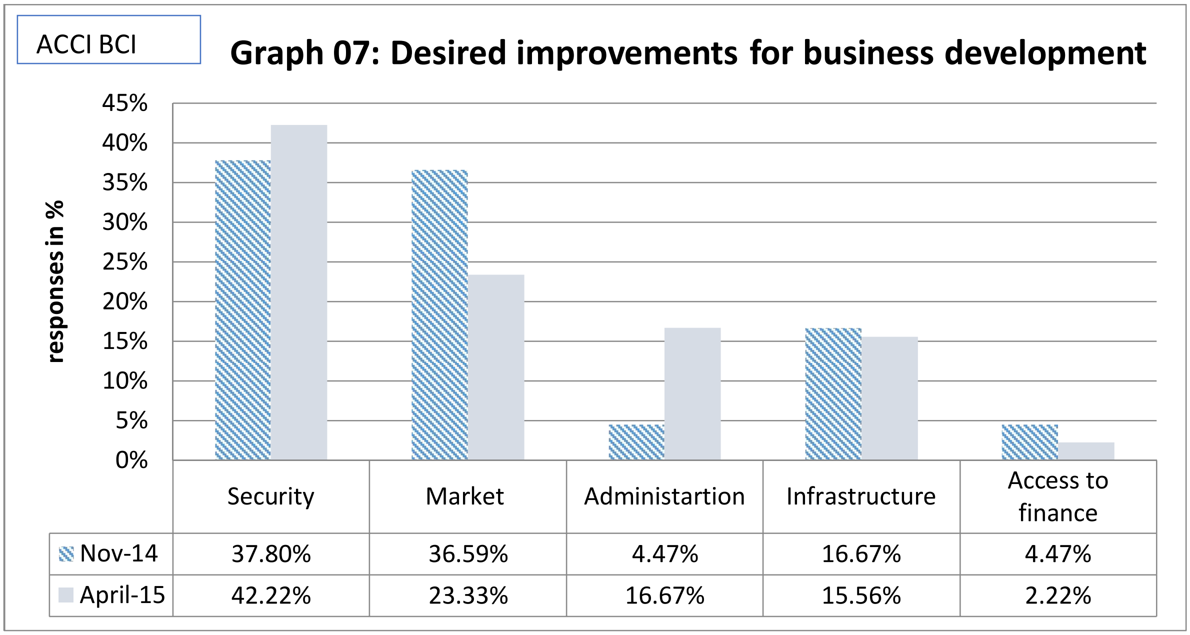
D. Security Situation

The security condition in Northeast region has extremely worsened since November 2014. In last survey majority of respondents were happy about the security developments in their regions and the balance of positive minus negative responses was equal to 21 but this time this indicator has declined to -32.



E. Desired Improvements for Business Development

The evaluation of major business constraints shows that the most important factor for business development is considered to be security; it is followed by market and demand, administrative reforms, better infrastructure and access to finance. As shown in the following graph the demands for security and administrative reforms have noticeably increased in this survey.

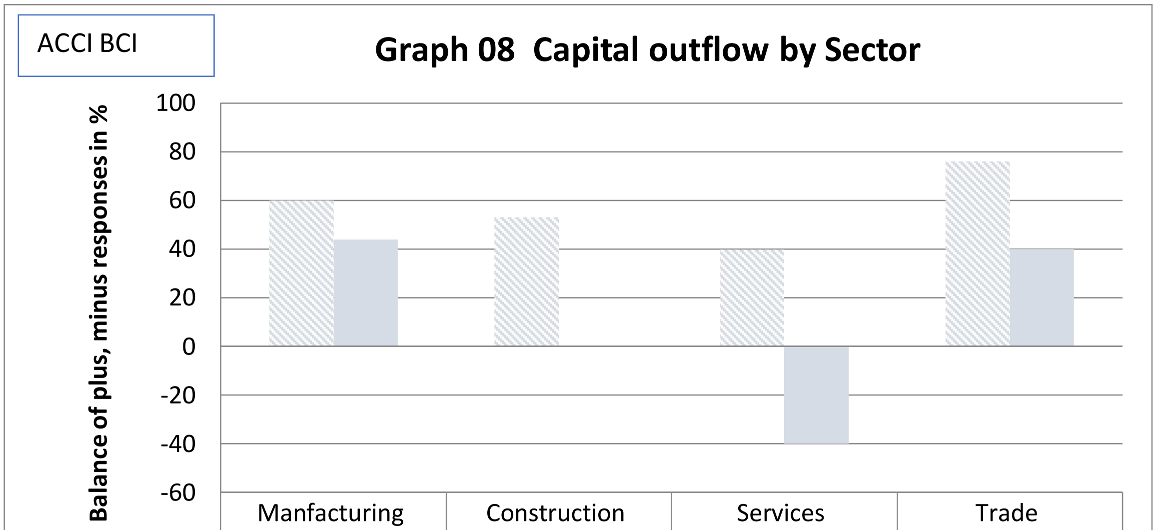


	Security	Market	Administartion	Infrastructure	Access to finance
Nov-14	37.80%	36.59%	4.47%	16.67%	4.47%
April-15	42.22%	23.33%	16.67%	15.56%	2.22%

F. Capital Flight

This time we also asked the respondents about the capital flight in their business sector during last three months and we also asked them whether they expect that the outflow of capital from their business sector to other countries will increase, remain the same or decrease.

According to this survey the business people perceive that the capital flight has extremely increased during last three months. The trade and manufacturing sectors have experienced more capital flight than construction and services. Meanwhile the traders and manufacturers believe that the outflow of capital will keep increasing with a slower pace while service companies expect a large decrease in capital flight.



	Manfacturing	Construction	Services	Trade
Situation	60	53.3	40	76
Expectation	44	0	-40	40

Appendix:

The Definition of the Business Climate Indicator

The Business Climate is based on a periodic survey of company managers in Manufacturing, Construction, Services and Trade sectors. The managers are requested to report on their present business situation as well as on their expectations for the next six months. They may judge their situation to be "better than normal", "normal" or "worse than normal". On their expectations they may answer that the situation will "improve", "remain the same" or "deteriorate".

The balance value of the present situation is the difference of the percentage shares of the answers "better than normal" and "worse than normal". The balance value for the expectations is the difference of the percentage shares of the answers "improve" and "deteriorate".

The Business Climate is the arithmetic mean of the situation (balance value) and the expectations (balance value).

In graphical presentations for the first survey rounds the "normal" and "remain the same" judgments are taken as the zero line. The range of the climate indicator may vary between 0 and in its maximum up to one hundred towards the positive (plus) and as well one hundred towards the negative (minus) side. At a later stage, after time series can be established, the "zero" line will be based on a normal year climate (taken as 100 and the following quarterly climate values indexed to this year).

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