Afghanistan Chamber Of Commerce & Industries

اتاق تجارت و صنایع افغانستان

دافغانستان د سوداګرۍ او صنایعو اتاق

ACCI Business Monitor

November

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ACCI Business Monitor

2014

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Foreword

The last thirteen years of international assistance in Afghanistan proved that working for the economic peace and welfare in this country is not only a simple doing business, it is also a contribution to regional and global peace.

The Government's commitments and the efforts President Ghani has made during recent months, have sparkled optimism and hopes across the country; and the private sector is enthusiastically looking forward to see more practical steps in materializing those promises.

As before ACCI believes that the ongoing insecurity and economic hardships can be addressed with a political will to rouse and utilize the national potentials. With the existing rich natural resources, the important strategic location and potential human resources, Afghanistan can rely on its own capacities and resources to reach its development goals with the support of international community.

During 2014 ACCI held two business forums, one in February and another in October, to reach a general consensus on top reform priorities needed to push the economic and business developments. The findings were presented in London Conference, December 2014.

The eleven reform priorities presented by the private sector were specific, realistic, measurable and implementable in 1-5 years. The main focus were on the areas where the need for reform is the most urgent and the greatest impacts can be achieved.

We believe that achieving such goals require long term commitments and decisive actions to ensure good governance, improve the business environment and build the necessary infrastructures.

The Government in several occasions has committed to improve the conditions for doing business to attract further investment and generate more employment. ACCI is contributing to this reform process by providing up-to-date information on the business situation and the economic environment.

The current ACCI Business Monitor captures the perceptions of 850 entrepreneurs located in the provinces of Kabul, Balkh, Kandahar, Nangarhar and Herat. Meanwhile we have conducted a pilot survey in five Northeastern provinces (Kunduz, Takhar, Badahkshan, Baghlan and Samangan) where 350 Business Managers have participated. The report of this pilot Northeastern survey is also published as an annex of this Business Monitor Report.

Hereby I would like to sincerely thank German Development Cooperation for the technical supports it has generoulsy offered to ACCI in implementing this survey and several other private sector development projects.

The ACCI Business Monitor will continue to serve as an information base for the public-private dialogue by enhancing a common understanding of the challenges faced by the private sector. We expect that Afghan Government will incorporate the findings of this survey into relevant business and economic policies and take specific actions to establish a consistent regulatory framework and improve the country's doing business indicators to encourage domestic and foreign investments.

Sincerely

Atiqullah Nusrat
ACCI Chief Executive Officer

ACCI Business Bottleneck Survey Report

Introduction

The ACCI Bottleneck Survey provides political and economic decision-makers as well as the business community and the interested public with data collected directly from the companies. The survey identifies the impediments for doing business in the country and it is monitoring the change over time.

For the bottleneck survey representative samples are drawn from companies in the provinces of Kabul, Balkh, Kandahar, Nangarhar and Herat. The samples are structured by economic sectors and company size. The sample size for Kabul is about 130 and for each province about 40 companies. The interviews for this survey were conducted by phone in November 2014. The ACCI assures that all individual data obtained from the survey are treated as confidential and the privacy rules are applied to the publication of the results as well. The collected data was compiled and analyzed in-house.

by ACCI research unit. This unit was established in 2012 with the technical supports from German Development Cooperation.

Results of the Business Bottleneck Survey

As mentioned already, the Business Bottleneck Survey identifies the barriers for doing business by capturing the perceptions of entrepreneurs in Kabul, Balkh, Kandahar, Nangarhar and Herat provinces. The questionnaire focuses on problem areas raised as important in the "National Business Agenda". The interviews of this third bottleneck survey round were conducted in late November and early December 2014. The sample size was 290 companies interviewed by telephone.

The major findings of the survey can be summarized as bellow:

- ACCI Bottleneck survey reveals that about 80% of companies' believe that security condition has not improved or it has deteriorated during this year, while only 20% mainly in Kandahar and Kabul say they have witnessed an improvement in security.

- This survey signifies that lack of the necessary infrastructure is the second largest business impediment. More than 77 percent of the surveyed companies complained that they have no access to the proper infrastructure. Only 8% of these companies say their main infrastructure problem is lack of water and sewerage system, the rest (92%) unitedly say their businesses suffer from the lack of electricity.

- ACCI Business Monitor reveals that lack of transparency, political interference, bribery and excessive bank guarantee requirements in public tender is also a major problem.

- The survey shows that complaints about the custom conditions are relatively high in Herat and Nangarhar regions.

- This year the assessment of businesses about the tax system has improved by 12% compared to last year and only 35% of the surveyed companies in Kabul, Balkh and Kandahar said they have problems in tax system.

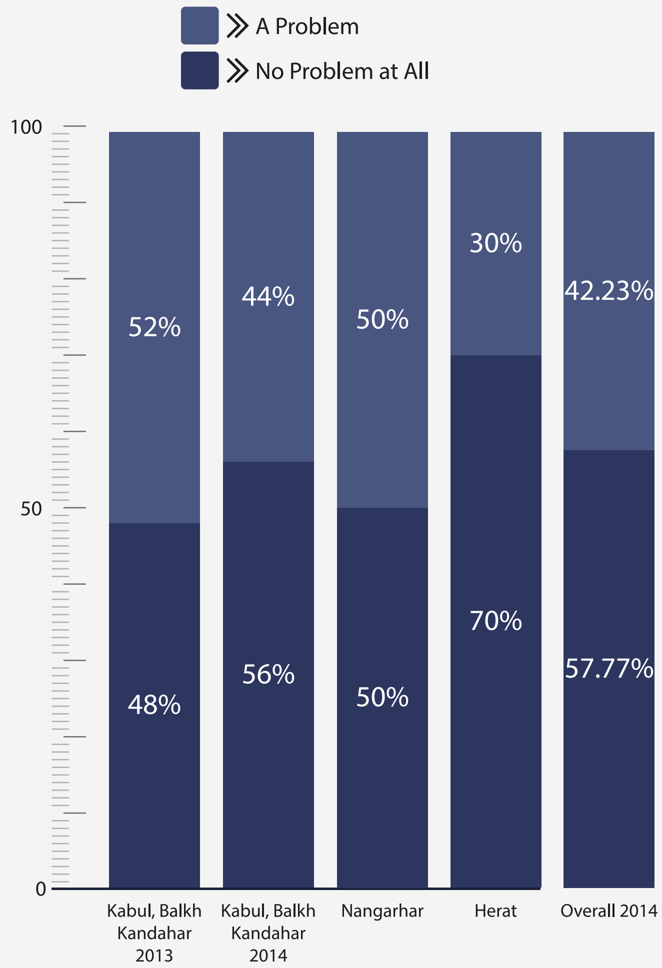
- The support for more engagement of women in businesses is high, especially in Nangarhar and Kabul regions.

a) Getting Land

The Business Bottleneck Survey shows that 44 percent (compared to 54 percent one year ago) of the respondents in Kabul, Balkh and Kandahar regard getting land as a problem, and 56 percent (46 percent in 2013) say it is no problem to obtain or rent land. The survey reveals that getting land is a crosscutting concern but medium size enterprises say it is slightly harder to get land for economic use compared to large and small companies. Among the different economic sectors, traders say they suffer most from the problems in getting land. About 44% of percent of manufacturing companies, 41.4% of services and 24.3% of construction companies also complain about their problems in access to land. It is worth mentioning that last year about two third of manufacturers stated problems in getting land for economic use, while this year manufacturing and construction sectors show a considerable improvement.

As last year companies mark the high prices and rents for real estate as a reason for their negative assessment. A considerable number of companies (26%) said that the unavailability of industrial land is a major problem for their businesses. For 12.7% of the companies, political interference is a major problem. Legal and ownership issues are also noted by a small number of respondents as obstacles in obtaining land.

Getting Land



b) Availability of Finance

Although the financial system has grown quickly during last thirteen years, it is still under-developed and its role in economic activities remains very limited. While exact numbers are not available, only a small segment of the private sector has access to formal financial services. Many businesses are unable to obtain capital due to the punitive interest rates and collateral requirements imposed by the vast majority of banks. However, even if the rates were made more favorable, many businesspeople would still refuse to consider obtaining a loan because, as they believe, interest violates Islamic principles.

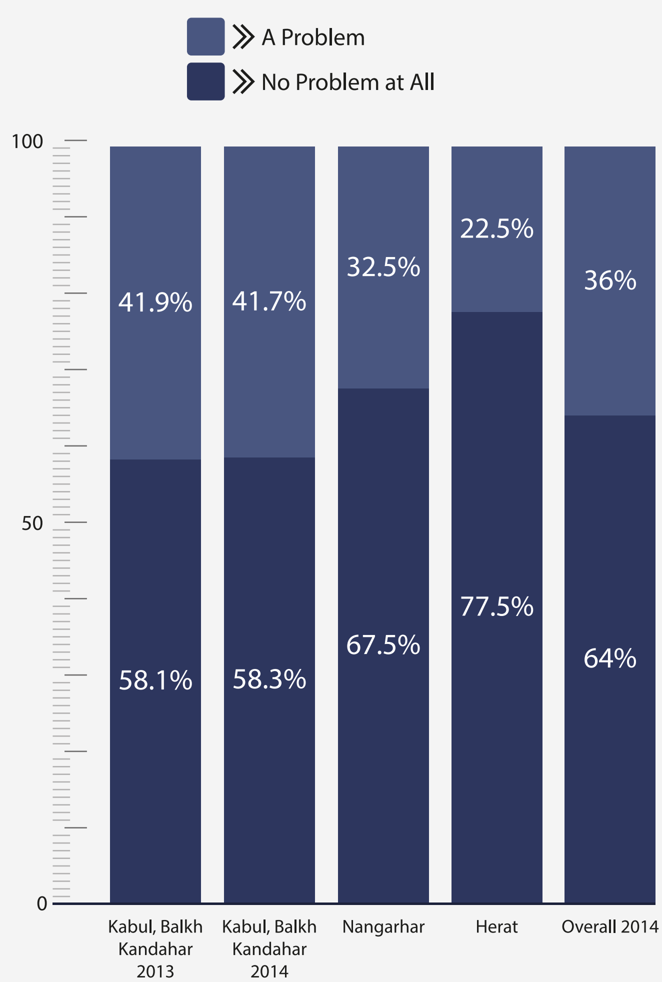
Overall, 36 percent of the respondents say that they have problems in access to finance, whereas 64 percent say they have no problem. In Kabul half of the surveyed companies reported problems, which shows a considerable increase in problems compared to last year (31.5%). In contrast, majority of Balkh companies (80%) reported that they had no problem in access to finance, while last year more than half of them (52%) reported problems. Kandahar companies also reported that they had less problem compared to last year (35% against 65%). Nangarhar (37.5) and Herat (32.5%), surveyed for the first year reported a modest condition.

SMEs (42%) report more problem compared to large companies (32.8%).

Among the sectors, the trade reports the highest and manufacturing reports the lowest problems. More than half of trade companies (52.8%) say they have problems in obtaining loans. 42.8% of construction companies, 35.7% service companies and 28.7% of manufacturing also state problems.

Like last two years the majority of companies (59.26%) facing the problem in obtaining finance marked high interest rates as the main reason. 20.37% of the respondents said that excessive collateral requirements were the main reason and for the rest of companies too difficult business plan or project plan requirements and need of political connections were main reasons.

Availability of Finance



c) Tax System

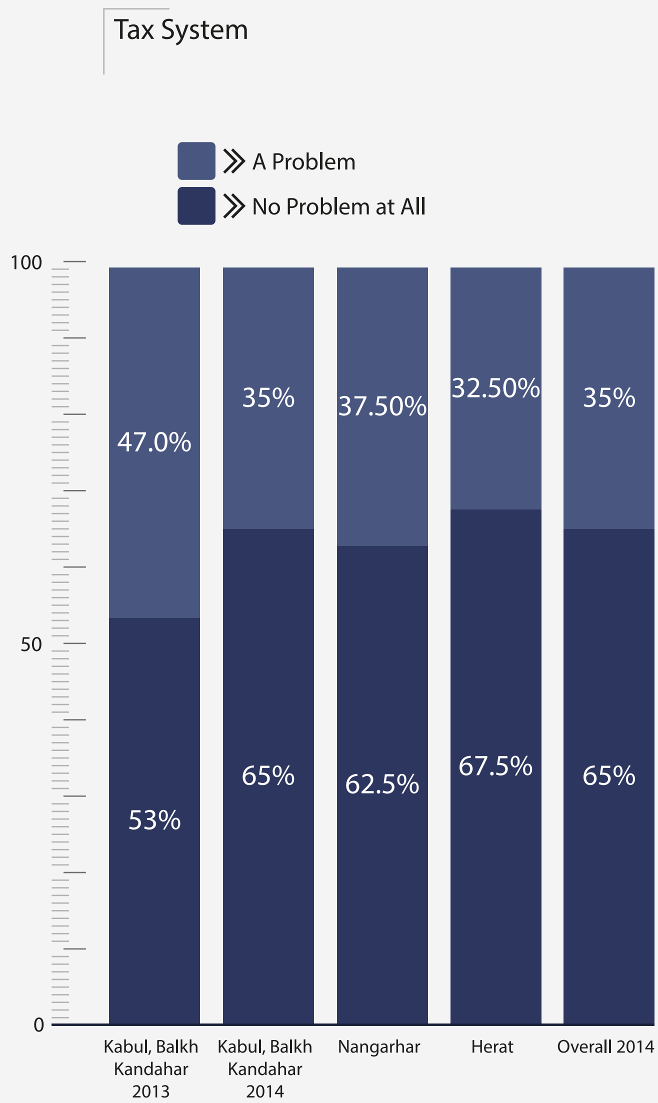
Enterprises in Afghanistan are confronted with a convoluted taxation system consisting of a wide range of different taxes. The system is regarded by the private sector as complex, confusing and unpredictable opening the door for bad practices.

This year the assessment of businesses about the tax system has improved about 12% compared to last year and 35% of the surveyed companies in Kabul, Balkh and Kandahar say that they have problems in tax system. Nangarhar (37.5%) and Herat (32.5%) respondents also stated a similar conception.

In all five regions trade (52.86%) and construction (42.86) companies complain more about the tax procedures. 35.7% of services also said that the tax system is challenging for their businesses. The survey indicates that the Manufacturing companies are much happier about the taxation system compared to last year. Last year 60% of manufactures reported that they had a problem in tax procedures while this year the number of complains decreased as low as (28.75%).

As last year, SMEs report more problems than large companies. 42.7% of medium, 41% of small and about 33% of large companies confirmed that the tax system is challenging for their businesses.

The majority of companies who have problems in tax system (80.87%) stated that "the tax system is unjust and arbitrary" or "taxes are too sophisticated and therefore not transparent". Less than 20% of the surveyed companies said that tax officers do not follow the rules and illegal taxes are raised.



d) Custom Conditions

The business community often complains that border posts lack modern infrastructure, such as storage facilities and technical laboratories. Furthermore, the custom procedures in place are regarded as complicated and arbitrary opening the door for duplicative charges and duties at border posts and inside the country.

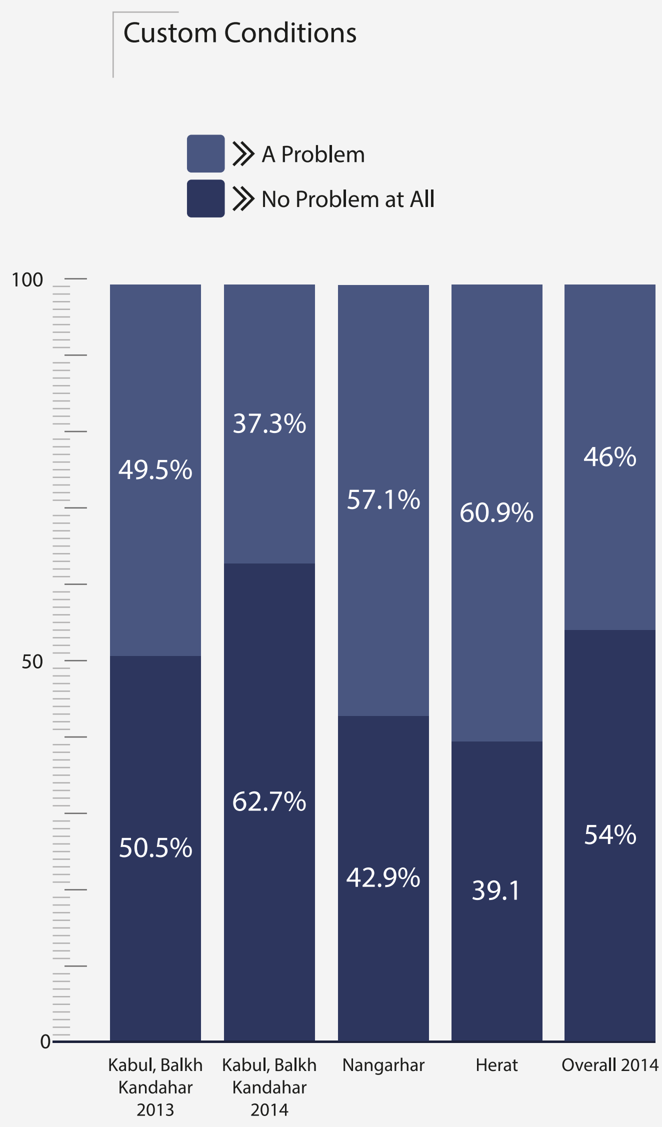
The Business Bottleneck Survey focuses on the regulatory environment for exports and imports. It reveals that a littel improvement has occurred in custom condition since last year. In last survey at least half of the business people were not happy with the custom condition while this year 37.3% of the businesses in the same regions complained about it. The regional differences are high as before: About 60.8 percent to surveyed businesses who deal with the customs in Herat region, more than 57 percent of the same category of companies in Nangarhar say they face problems in costumes. In Kabul 42.8 % of the companies who deal with customs say they have problems. About one third of Balkh and Kandahar companies also report problems.

Like last year about two third (65.5%) of manufacturing, 54.5% of construction, 38% of trade and 36.7% of service companies who deal with customs say they have problems. In last survey more traders (48%) complained about the custom conditions.

The feedbacks of different size companies on custom conditions show that large companies have more problems (58.3%) than small (41.7%) and medium (39.3%) companies.

The biggest reason behind the problem was mentioned "unjust and arbitrary system" and "too sophisticated None-transparent Tariffs".

About 13.8% said that custom officer do not follow the rules and 12% said that the collection of "illegal fees" is problem. A small number of companies also mentioned that "too low capacity of border and custom posts to handle imports and exports" is a major reason behind the problems.

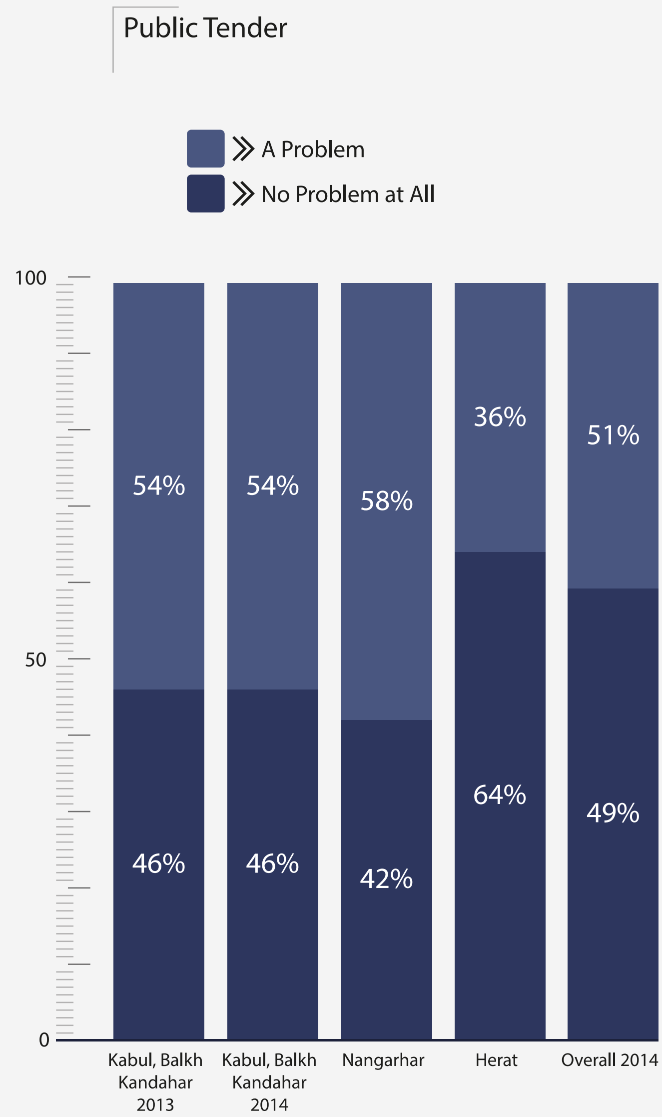


e) Public Tender

There is a lack of transparency and competition in bidding processes. Like earlier surveys, this bottleneck survey also confirms majority of companies complain about the lack of transparency, political interferences, bribery and excessive bank guarantee requirements in public tender. In Kabul and Kandahar regions the public tendering conditions are worsened compared to last year, as 63% and 57% of those regions' companies respectively report problems. Nangarhar companies also report a condition similar to that of Kandahar. Balk (42.8%) companies' perception has improved compared to last year when 68% of that region's companies complained about the public tendering procedures and conditions. Herat region has the lowest number of complaints (36%).

Medium and large companies report more problems compared to small size companies. The majority of companies (51%) says that the major reason behind the problem is "unclear and arbitrary procedures"; followed by "political interference" and "bribery". A small number of companies point to "excessive bank guarantee requirements" as their major problems. It is worth mentioning that last year, only (10%) of companies had said that the major reason behind the public tendering problem was "unclear and arbitrary procedures". It is worth mentioning that the major shift has happened in the perception of Kabul and Balkh businesses compared to last year. Last year 14% of Kabul companies and 4% of Balkh companies reported that "unclear and arbitrary procedures" was the main reason behind the problem while this year 56% and 44.4% of companies of those regions respectively confirmed that it was the major reason.

The provision of information on procurement opportunities in a timely manner is one of the basic requirements of a transparent and competitive tendering. The ACCI responds to this request and publishes public invitation to tender on the website of the tender distribution center (http://www.kabul-tenders.org) on a regular basis.



f) Business Registration and Extension

Starting a business in Afghanistan is not a concern of the private sector. To establish a limited liability company, the applicant must provide four documents and it takes seven days to register at the Afghanistan Investment Support Agency. No minimum capital is required to register at AISA.

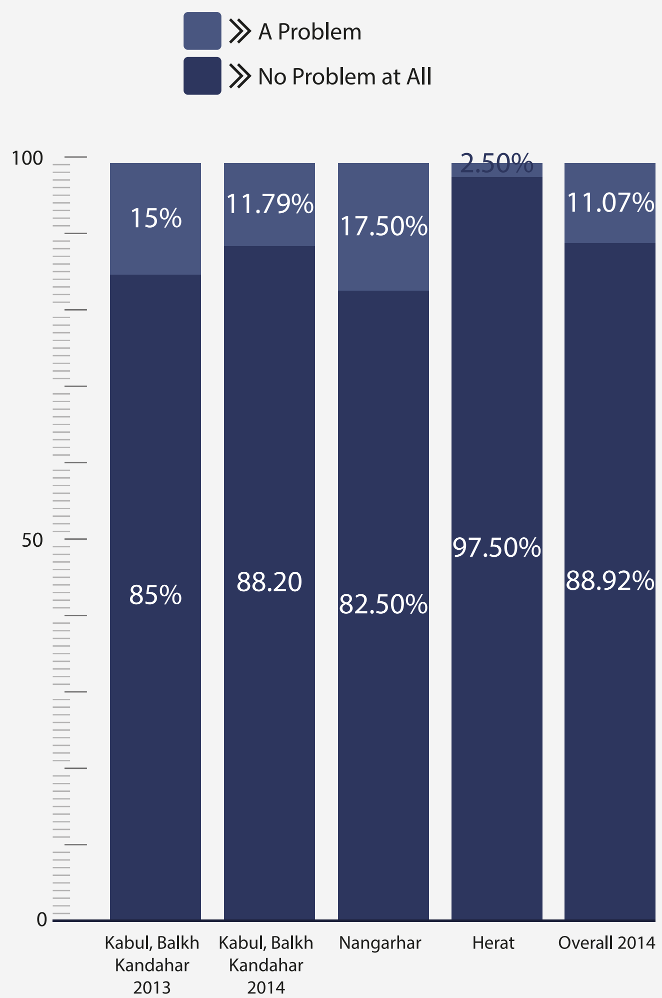
Whereas starting a business is not regarded as a serious problem in Afghanistan, more companies report challenges in extending their business licenses. Last year the Ministry of Commerce and Industries extended the validity period of the business licenses from one year to three years, which has positively affected the perception of our respondents. This reform is also implemented in AISA. While in other agencies such as the Ministry of Transport and Aviation, and the municipalities businesses need to renew their licenses every year.

Like last year, Kandahar businesses report the worse condition (22,5%) following by Nangarhar (17.5%). Herat (2.5%) reported the least problems, while Kabul (5.4%) and Balkh (7.5%) companies expressed high rate of satisfaction about the current conditions of business registration and extension.

Small companies reported a little more problem than medium and large size companies.

The two major reasons behind the problem are said to be “complicated procedures” and “bribery and high additional costs”. The Validity of registration or extension are also mentioned as a reason while a small number of companies have also complained that registration or extension offices are far from their business locations.

Business Registration and Extension



g) Infrastructure

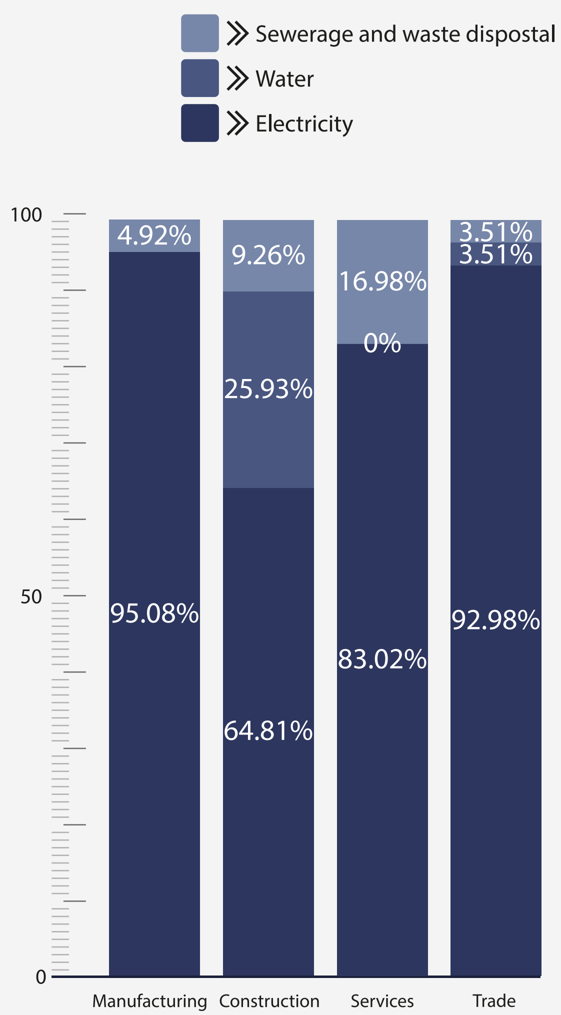
Afghanistan lacks a good infrastructural basis for private sector development. Efforts are made to improve this situation. However, the business community often complains about lack of electricity, water, sewage, transport and telecommunication services

The Business Bottleneck Survey reveals that infrastructure is a cross-sectroal and country-wide problem as 75.6% of all surveyed businesses say they have infrastructural problems. Balkh (60%) and Herat (67.5%) report comparatively better situations while 92.5% of Kandahar businesses, 87.5% of Nangarhar companies and 78.5% of Kabul entrepreneurs complain about the lack of proper infrastructures.

Like last two years, surveyed businesses called unitedly (84.4%) that electricity is their utmost limiting infrastructural problem. Manufacturing (95%) and trade (93%) say that electricity is their only and the most needed infrastructural shortage. In services (83%) of companies vote for the electricity as their main infrastructural shortage and give a sizable weight (17%) to needs for the improvements of sewerage and waste disposal systems. Construction companies also agree that the major infrastructure issue is electricity (64.8%) but meanwhile they tend to point to lack of industrial water (26%) and lack of proper sewerage system (9%) as their infrastructural problems.

Though larger companies tend to emphasize more on infrastructure problems, but this difference is not considerable.

Infrastructure

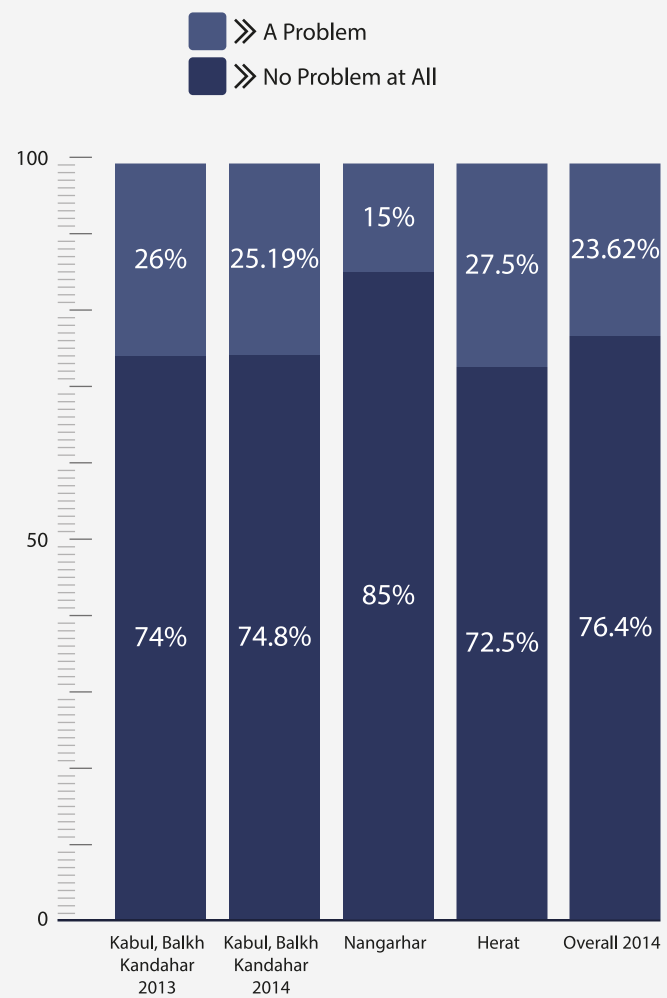


h) Qualified Labor Force

Due to outmigration and lack of training facilities Afghanistan is in short of qualified labor. The Business Bottleneck Survey reveals that the lack of qualified labor force is more problematic for Kandahar, Herat and Kabul regions compared to Balkh and Nangarhar.

Services (41.4%) report considerable more problem compared to manufacturing (18%), trade (21%) and construction (12.8%). Large companies report marginally more problem than SMEs.

Qualified Labor Force



i) Security

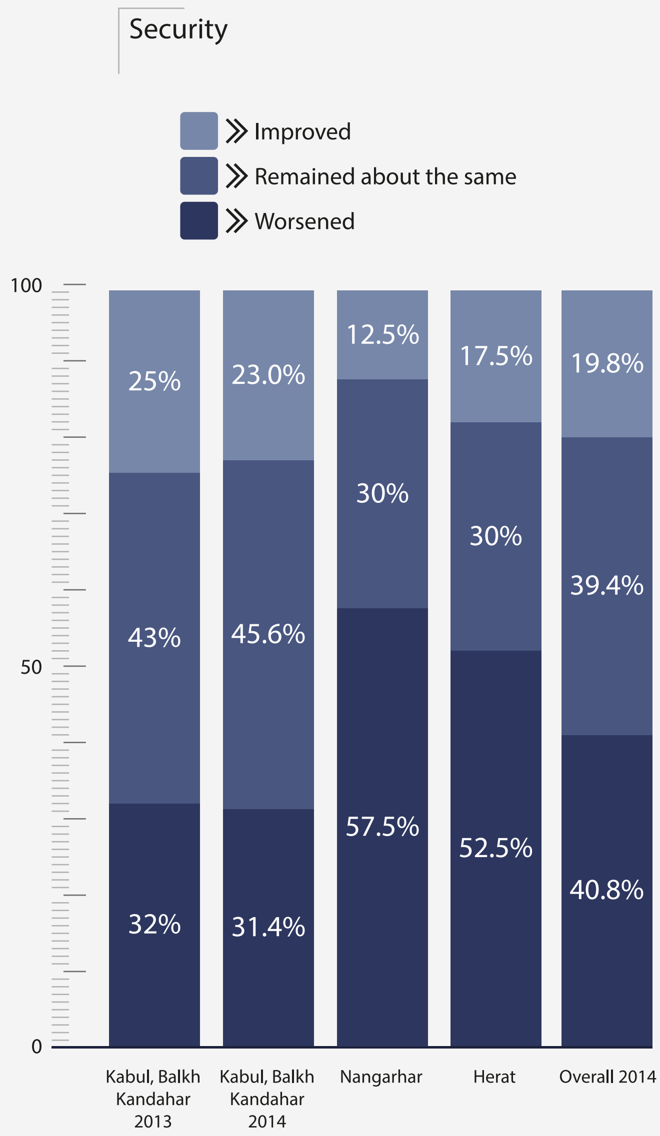
Insecurity is a chief concern throughout all sectors of the Afghan business community. Transportation of goods and construction material is extremely difficult and risky in some regions of the country.

In this regard, the Business Bottleneck Survey provides further insights. The new survey reveals that security condition has not improved in Kabul, Balk and Kandahar regions compared to last year. Kandahar companies report a better condition in contrast to other regions, but the level of optimism in this southwestern region has also dropped considerably. Last year only 15% of Kandahar companies reported that the security had deteriorated while this year the number has increased to 32.5% which is equal to those who report an improvement and slightly less than those who say no change has happened (35%).

Herat and Nangarhar reported the highest level of security deterioration, while majority of Balkh companies (65%) say they have witnessed no change in security condition. Kabul sets the third unsecured region with 39.2% of companies say their security situation has worsened and 36.9% say it has neither improved nor worsened.

The sectoral differences are high: 54.3% of service, more than 47% of trade and 44.3% of construction companies report that the security has worsened while only about 19% of manufacturing companies say it has deteriorated.

Like last year there is no noticeable difference in the perception of small, medium and large size companies on security conditions.



k) Attitude towards Women

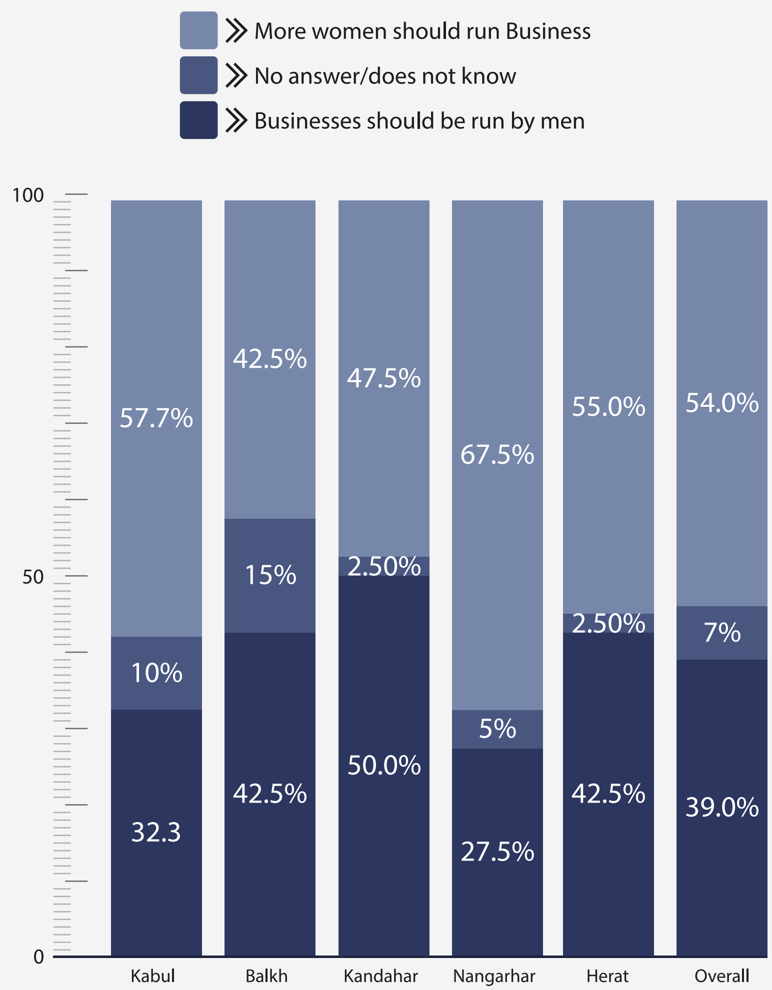
In Afghanistan the range of economic activities available to women is severely limited by a complex set of cultural and other factors which is a loss of productive human resources for the country.

Despite the challenges faced by women in businesses, the Business Bottleneck Survey shows a considerable support for women operating in the private sector. In overall, 54% of the surveyed companies say that more women should run businesses. The support for women engagements in business and economic activities is higher in Nangarhar (67.5%) and Kabul (57.7%) regions compared to Balkh (42.5%) and Kandahar (47.5%). In Herat 55% of the surveyed companies say more women should run businesses.

Women entrepreneurship is more encouraged by manufacturers (58.8%) and service company managers (61.4%). In trades and constructions half of the survey companies say they believe more women should run businesses.

The large (61.6 %) and medium (54.7%) companies are more supportive compared to small business managers (51%).

Attitude towards Women



ACCI Business Tendency Survey Report

November 2014

Major Findings

According to this Survey, the business climate has improved during last three months in contrast to the earlier season when businesses experienced an unprecedented decline amid the electoral confusion and subsequent political uncertainties.

The manufacturing sector and bigger companies are comparatively more optimistic. As before, the real situation do not meet with what the businesses expected three months back, and they foresee more positive outlook for their future order books.

This survey, like the bottleneck survey, confirms that the most important factor for business development is security. Other major business impediments are lack of market and demand, poor infrastructure, administrative burdens and lack of access to finance.

The employment plans for next three months are promising, especially in manufacturing and services.

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.

* 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 and third time it covers Nangarhar too. And in fourth survey (July 2014) it covered Herat too.

This time the survey is repeated in all those five regions.

A.1- Business Climate overall and by Region

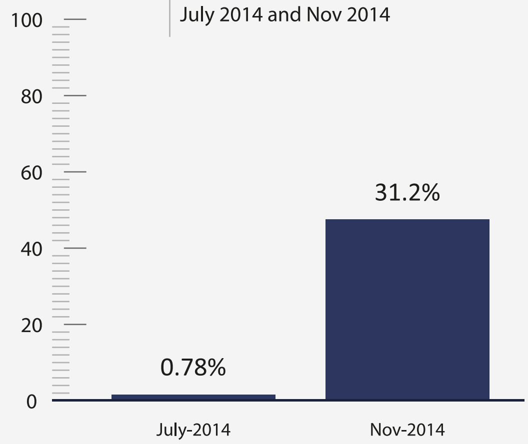
The overall business climate indicator in July 2014 for Kabul, Balkh, Kandahar, Nangarhar and Herat regions altogether valued (0.78) points and in Nov 2014 it increased to (31.2) percent.

The regional business climate in Nov 2014 shows that Nangarhar (36.7) enjoys the best climate, followed by Kandahar (33.3) and Kabul (31). Herat (24.4) stands at the lowest point of the regional ranking followed by Balkh (30.6)

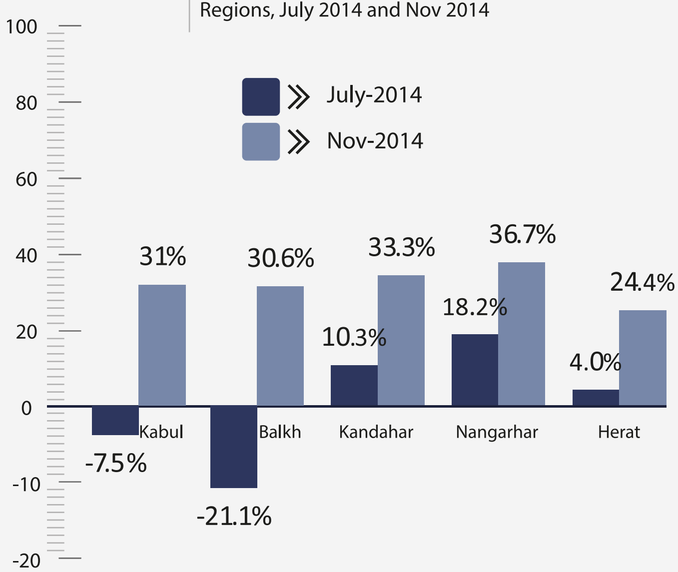
The integrated business climate in Kabul, Balkh, Kandahar, Nangarhar and Herat shows higher value compared to the last survey in July 2014. This positive inclination can be interpreted as a manifestation of general optimism prompted by the establishment of the national unity government.

It is worth mentioning that the surveyed companies are optimistic about their businesses in coming six months compared to the current condition.

Graph 1a. Overall Business Climate, July 2014 and Nov 2014



Graph 1b- Business Climate by Regions, July 2014 and Nov 2014

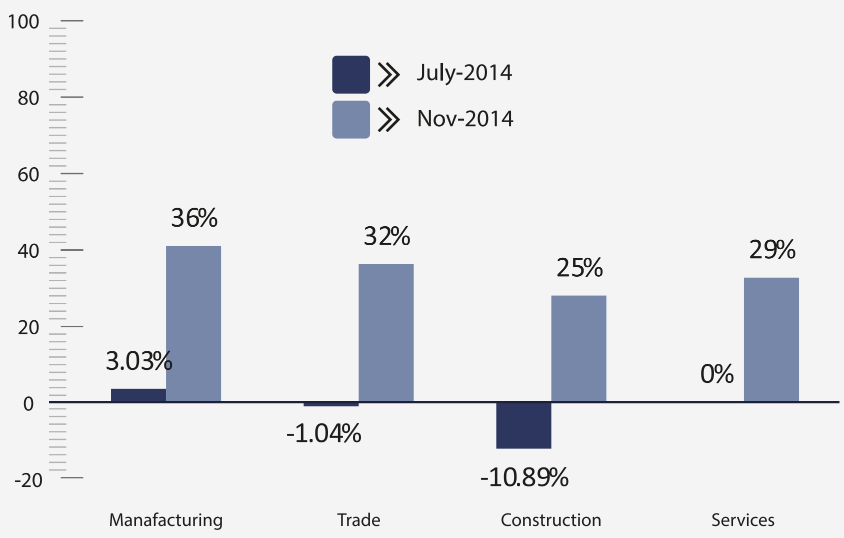


A.2- Business Climate by Sectors

This survey shows a sharp increase in all four sectors. Manufacturing tops in sectoral ranking while Construction is in the lowest position.

As illustrated in graph 2a, the trade (32) and service (29) sectors in Kabul, Balkh, Kandahar, Nangarhar and Herat provinces have also reported highly improved business conditions, compared to the last survey which were (-1.04) and (0) respectively.

Graph 2- Business Climate by Sector, July 2014 and Nov 20

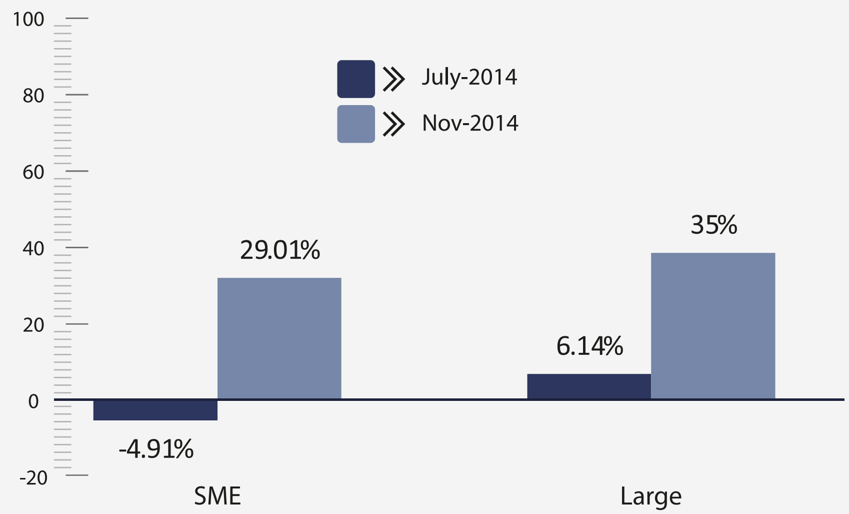


A.3- Business Climate by Company Size

According to this Business Tendency Survey the business climates for SMEs and Large companies in Kabul, Balkh, Kandahar, Nangarhar and Herat have improved. The integrated Business Climate Indicators for SMEs in Kabul, Balkh, Kandahar, Nangarhar and Herat were (-4.91) and (29.01) in Nov 2014.

The Business Climate for larger companies in those five regions also shows a sharp increase. This indicator has increased from 6.14 points in July to 35 points in Nov this year.
The surveyed companies are expecting an improvement in their business climates in coming six months.

Graph 3. Overall Business Climate by Company Size, July 2014 and Nov 2014



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).

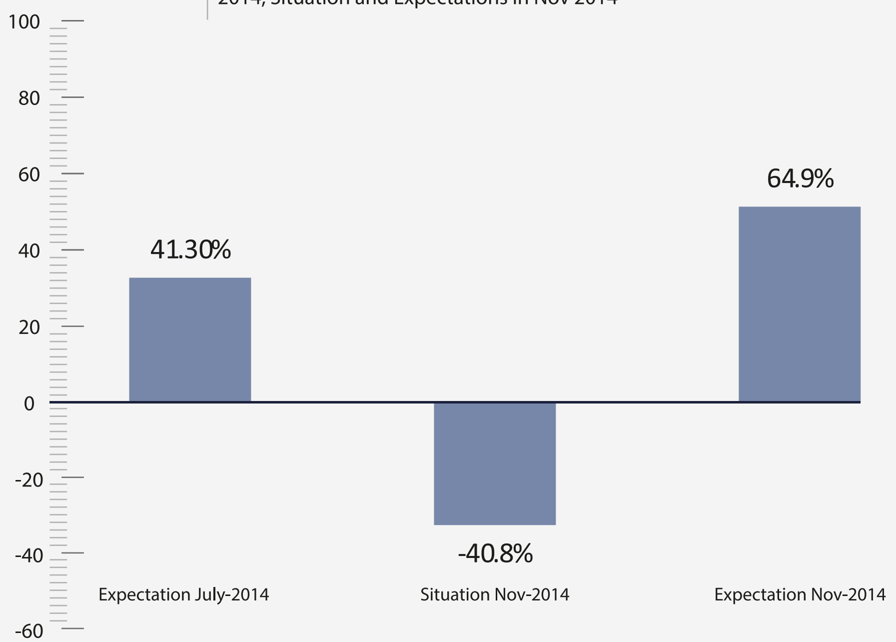
In last Survey Kabul, Balkh, Kandahar, Nangarhar and Herat companies' expectation for the increase of their order books valued 41.3 (percent balance of positive minus negative expectations), but this November they expressed a higher expectation (64.9) for next three months.

The comparison of the current situation (-40.8) of the order books with what the companies expected (41.30) in previous survey shows an extreme difference, and that the real situation of the companies' book orders was much worse than what they expected three months back.

The regional differences in analyzing the current situation of the order books were considerable with Nangarhar (-34.44), Balkh (-36.66), Kandahar (-37.78), Herat (-40) and Kabul (-55).

The companies in general had a too optimistic outlook in July 2014 compared with their judgment on the real situation in Nov 2014.

Graph 4. Order Books 'Expectations in July 2014, Situation and Expectations in Nov 2014



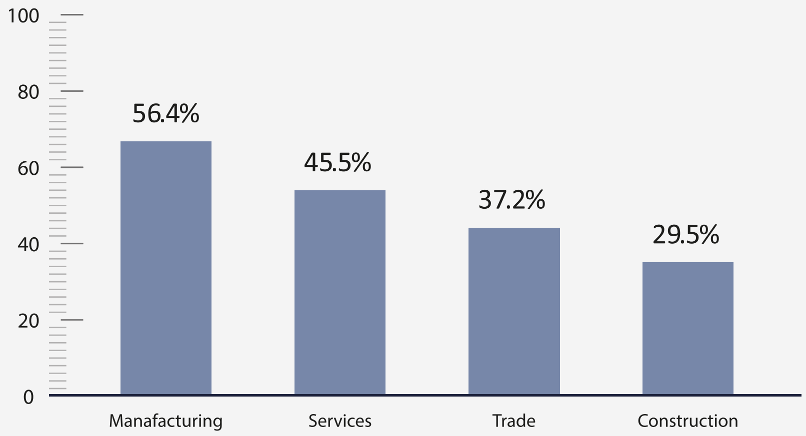
C. Employment Expectation

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

The balance of the employment plans is 56.4 points in Manufacturing, 45.5 points in Services followed by Trade 37.2 points and in Construction 29.5 points.

Manufacturing and Services are the most promising sectors in terms of employment planning.

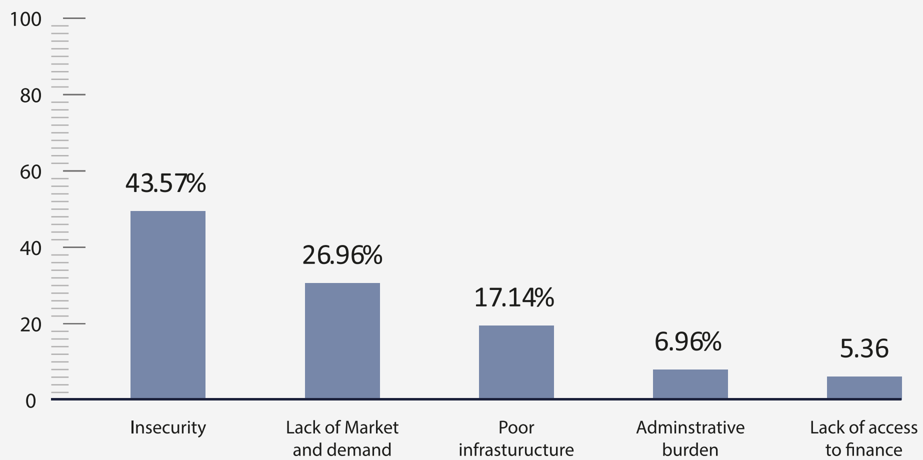
Graph 5. Employment Expectations by Sectors, Nov 2014



E. Constraints to be removed

The evaluation of major business constraints shows that the biggest obstacle for business development is insecurity; it is followed by lack of market and demand, poor infrastructure, administrative burdens and lack of access to finance.

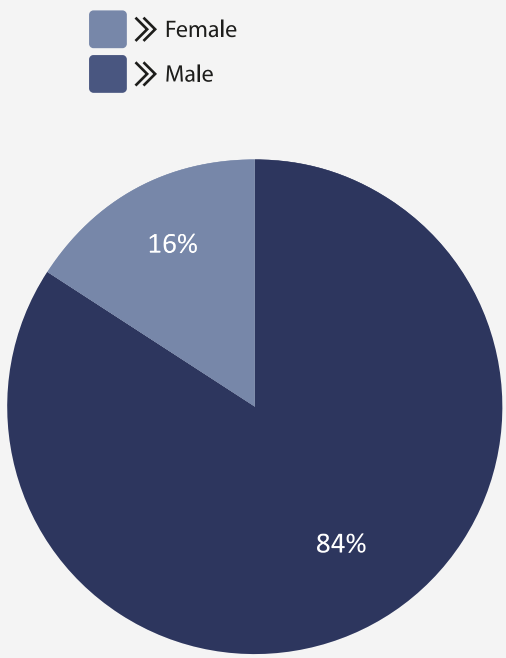
Graph 6. Overall rank order for constraints to be removed for better business development, Nov 2014



F. Female business shares

Since the gender balance is an important indicator to gauge and predict the economic development trends, ACCI asks business managers about the gender of their business owners.
During the survey, 16 percent of the respondents said that their businesses are owned by female or there are female shareholders in their companies, and 84 percent of the businesses are owned by male.

Graph 7. Gender of Business Owners Nov 2014



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).

ACCI Northeastern Business Bottleneck Survey Report

November 2014

Introduction

This pilot Business Monitor provides political and economic decision-makers as well as the business community and the interested public with data collected directly from the companies. The survey identifies the impediments for doing business in the country and it is monitoring the change over time.

For this pilot survey representative samples are drawn from companies in Kunduz, Takhar, Badakhshan, Baghlan and Samangan provinces. Since the economies of the mentioned provinces are not as big and diversified as the five regional hubs (Kabul, Balkh, Nangarhar, Herat and Kandahar) it was hard to meet the introduced sampling requirements set for the national business surveys, therefore we merged the samples of Takhar with Badakhshan and Baghlan with Samangan provinces to reach reasonable sample sizes. This survey is structured by economic sector and size. It is worth mentioning that the company size is only considered in overall Northeastern analysis, and due to the lack of required size balances in each individual province we have ignored the size analysis in provincial level. The following samples sizes are applied for each province:

	Kunduz	Badakhshan Takhar	Baghlan Samangan	Total
Tendency	90	79	78	247
Bottleneck	40	40	34	114

The interviews for this survey were conducted by phone in December 2014. The ACCI assures that all individual data obtained from the survey are treated as confidential and the privacy rules are applied to the publication of the results as well. The collected data was compiled and analyzed in-house.

Results of the Business Bottleneck Survey

The Business Bottleneck Survey identifies the barriers for doing business by capturing the perceptions of entrepreneurs in Kunduz, Badakhshan-Takhar, Baghlan-Samangan regions. The questionnaire focuses on problem areas raised as important in the "National Business Agenda".

The major findings of the survey can be summarized as bellow:

- This pilot Bottleneck survey reveals that the security condition in Northeastern provinces, except Kunduz, has improved in last three months. In Kunduz, the security condition has worsened.

- This survey shows that electricity is the largest infrastructural concern in North-eastern provinces, but a considerable number of companies also believe that the lack of a proper water supply system is their utmost limiting infrastructural problem.

- In Kunduz and Badakhshan-Takhar majority of businesses who deal with the customs are complaining about the custom conditions. They say tariffs are not transparent and the system is too sophisticated.

- The support for more engagement of women in businesses is high, especially in Baghlan-Samangan.

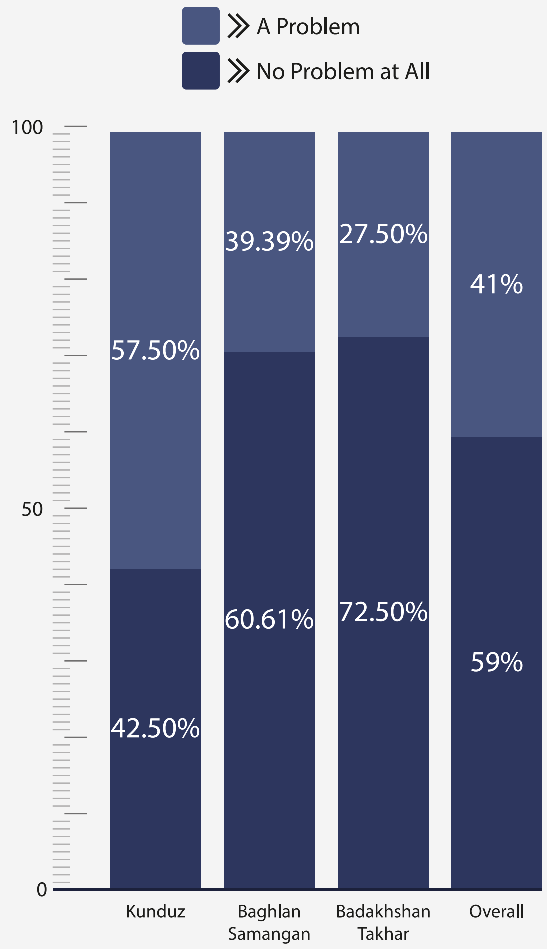
a) Getting Land

This Bottleneck Survey shows that 41 percent (compared to 44 percent in national survey) of the respondents in Northeastern provinces regard getting land as a problem. Among the different economic sectors, traders say they suffer most (52%) from the problems in getting land. About 50% of manufacturing companies, 43% of services and 23% of construction companies also complain about their problems in access to land.

Problems in obtaining or renting lands for business purposes in Badakhshan-Takhar are much higher than Kunduz (42.5%) and Baghlan-Samangan (60.6%) regions.

The surveyed companies marked the high prices and rents for real estate as a reason for their negative assessment. A considerable number of companies (34%) said that the unavailability of industrial land is a major problem for their businesses. For about 12.8% of the companies, political interference is also a major problem.

Getting Land



b) Availability of Finance

Under the current financial system many businesses are unable to obtain capital due to the punitive interest rates and collateral requirements imposed by the vast majority of banks. However, even if the rates were made more favorable, many businesspeople would still refuse to consider obtaining a loan because, as they believe, interest violates Islamic principles.

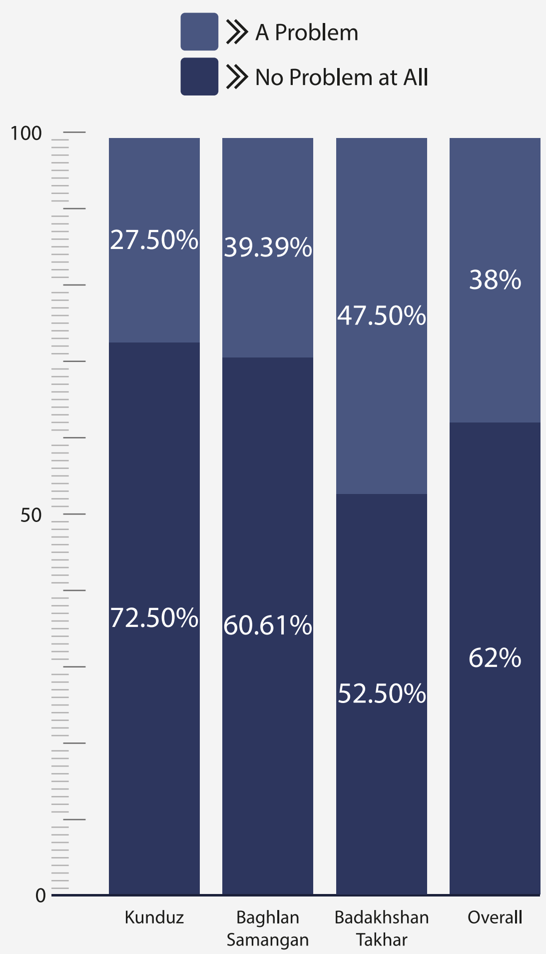
Overall, 38 percent of the respondents say that they have problems in access to finance, whereas 68 percent say they have no problem. In Badakhshan-Takhar47.5 percent of the surveyed companies reported problems which are 20% more than Kunduz and 8% higher than Baghlan-Samangan.

Medium and large companies reported more problem than small enterprises.

The construction sector (46.6%) reports more problems than Services (40%), Manufacturing (33.3%) and trade (30.4%) sectors.

Like the national bottleneck survey, the majority of companies facing the problem in obtaining finance marked high interest rates as the main reason. The excessive collateral requirements, difficult business plan or project plan requirements and need of political connections are also the main reasons for small number of companies.

Availability of Finance



c) Tax System

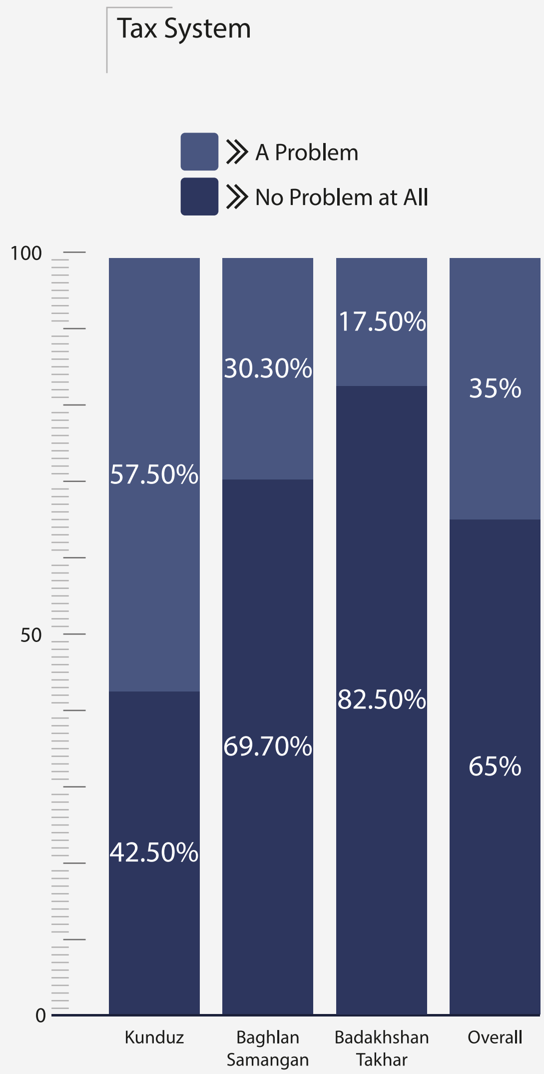
Enterprises in Afghanistan are confronted with a convoluted taxation system consisting of a wide range of different taxes. The system is regarded by the private sector as complex, confusing and unpredictable opening the door for bad practices.

The average of the complaints about the tax system in Northeastern provinces is very close to that of the national survey findings. More than one third of the survey companies in this part of the country complain about the tax system, whereas the comparison between the provinces shows a very big difference between Kunduz (57.5%), Baghlan-Samangan (30.3%) and Badakhshan-Takhar (17.5).

Like access to finance, the construction sector (50%) records more complaints compared to services (33.3%), trade (30%) and Manufacturing (26.7%).

Like other regions, this pilot survey shows that SMEs in Northeastern region (38%) have more problems than large companies (29%) in paying their taxes.

There is a notable difference between the findings of this pilot survey and the Bottleneck Survey implemented in five regional hubs, in terms of defining the reasons behind the problem. In national survey 80.87% of respondents stated that "the tax system is unjust and arbitrary" or "taxes are too sophisticated and therefore not transparent"; while in Northeastern provinces 77.5% of respondents say the "taxes are too sophisticated and therefore not transparent" or "in additional illegal taxes are raised". Only 12.5% of respondents believed the current tax system is unjust and arbitrary.



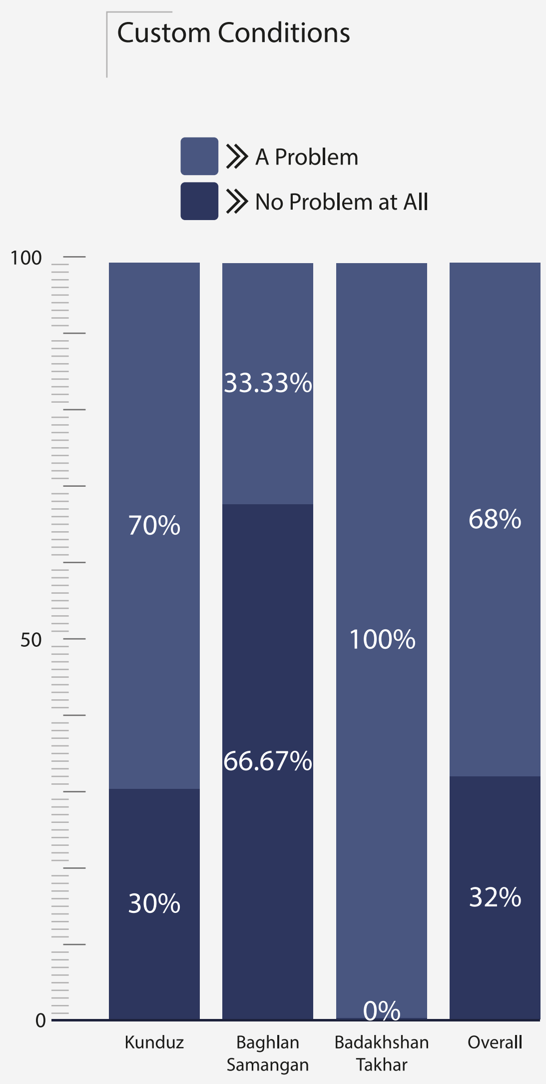
d) Custom Conditions

This part of the survey focuses on the regulatory environment for exports and imports. First we ask the companies if they deal with customs, and then those who answer "yes" are asked about their problems. Around 20% of the respondents in this pilot survey deal with customs and majority of them (68%) complain about the conditions applied. The regional difference is considerable: In Badakhshan-Takhar, all businesses who deal with the custom say they have problems, while in Kunduz 70% of the same group of companies have complaints. In Baghlan-Samangan a comparatively lower percentage of companies (33.3%) confirm that they have problems in processing their custom documents.

The complaints on custom conditions are cross sector, but the complaints in Services and Manufacturing sectors are higher than that of trades and constructions.

Meanwhile the feedbacks of different size companies show that medium (80%) and large (66.7%) companies have more problems than small businesses (27%).

These companies believe that the biggest reason behind the problem is "too sophisticated and None-transparent Tariffs" (57%). 14.3 percent of companies say "officers do not follow the rules" and the same number of respondents believe that the major reasons behind this problem is "illegal fees". A small number of the participants of this survey say it is the "unjust and arbitrary tax system".

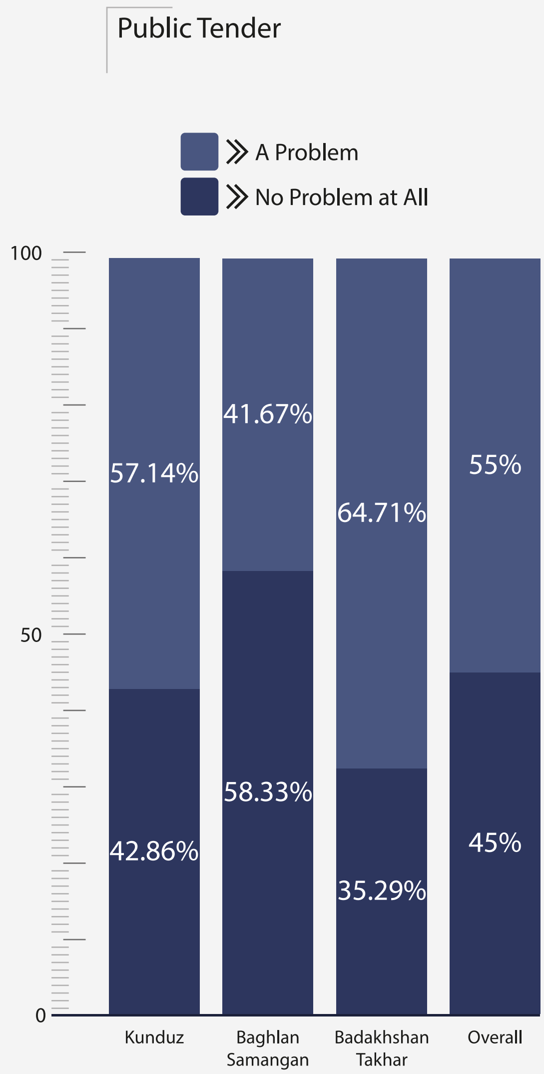


e) Public Tender

There is a lack of transparency and competition in bidding processes. Like other ACCI surveys, this pilot bottleneck survey also confirm that majority of companies complain about the political interference, lack of transparency, bribery and excessive bank guarantee requirements in public tenders.

In Badakhshan-Takhar and Kunduz the problems are more compared to Baghlan-Samangan. Medium and large companies report more problems than the small businesses.

The provision of information on procurement opportunities in a timely manner is one of the basic requirements of a transparent and competitive tendering. The ACCI responds to this request and publishes public invitation to tender on the website of the tender distribution center (http://www.kabultenders.org) on a regular basis.



f) Business Registration and Extension

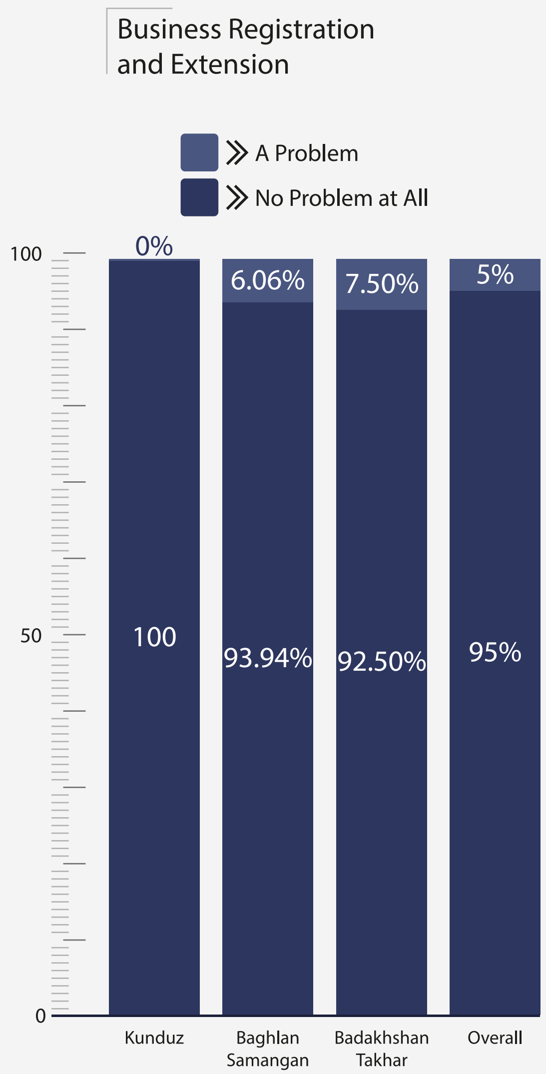
Starting a business in Afghanistan is not a concern of the private sector. To establish a limited liability company, the applicant must provide four documents and it takes seven days to register at the Afghanistan Investment Support Agency. No minimum capital is required to register at AISA.

Although starting a business is not regarded as a serious problem in Afghanistan, more companies report challenges in extending their business licenses. Last year the Ministry of Commerce and Industries extended the validity period of the business licenses from one year to three years, which has positively affected the perception of our respondents. This reform is also implemented in AISA. While in other agencies such as the Ministry of Transport and Aviation, and the municipalities businesses need to renew their licenses every year.

In this survey Kunduz shows no problem and as illustrated in the graph, the percentage of problems stated in other two regions is also negligible.

There is no noticeable contrast between the different sizes of surveyed companies, but sectoral differences are obvious: Nearly all of the complaints come from manufacturing sector. More than 13 percent of manufacturers complained about the problems they face in registering or renewing their businesses, while no trader and no constructor registered any problem. Only 3.3 percent of services also stated that they have problems.

“Bribery and high additional costs” are stated as the major reason behind the problem by 60% of the respondents and 40% of them have complained that registration or extension offices are far from their business locations.



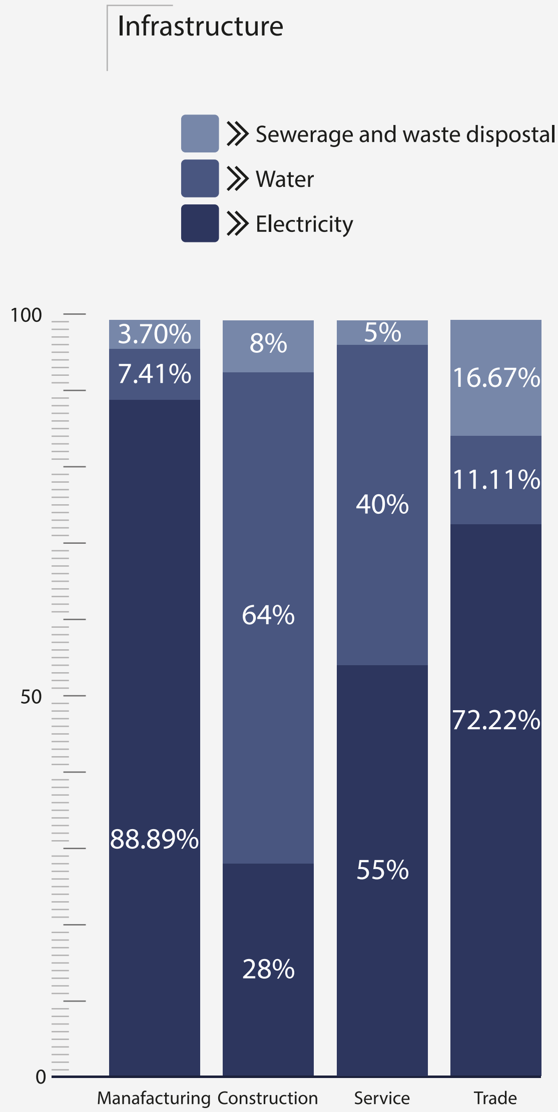
g) Infrastructure

Afghanistan lacks a good infrastructural basis for private sector development. Efforts are made to improve this situation. However, the business community often complains about lack of electricity, water, sewage, transport and telecommunication services The Business Bottleneck Survey reveals that infrastructure is a cross-sectroal and country-wide problem as 79.65% of all surveyed businesses say they have infrastructural problems. Kunduz (87.5%) has more problem than Baghlan-Samangan (75.76%) and Badakhshan-Takhar (75%).

As other regions, the Northeastern provinces also say that the lack of electricity power is their utmost limiting infrastructural problem.

Manufacturing (88.89%) and trade (72.2%) say that electricity is their highest infrastructural shortage. In services (55%) of companies consider the lack of electricity as their main infrastructural problem and they also give a substantial weight (40%) to needs for improvements in water supply. It is worth mentioning that Construction companies are more concerned about the lack of water (64%) compared to the electricity shortages (28%).

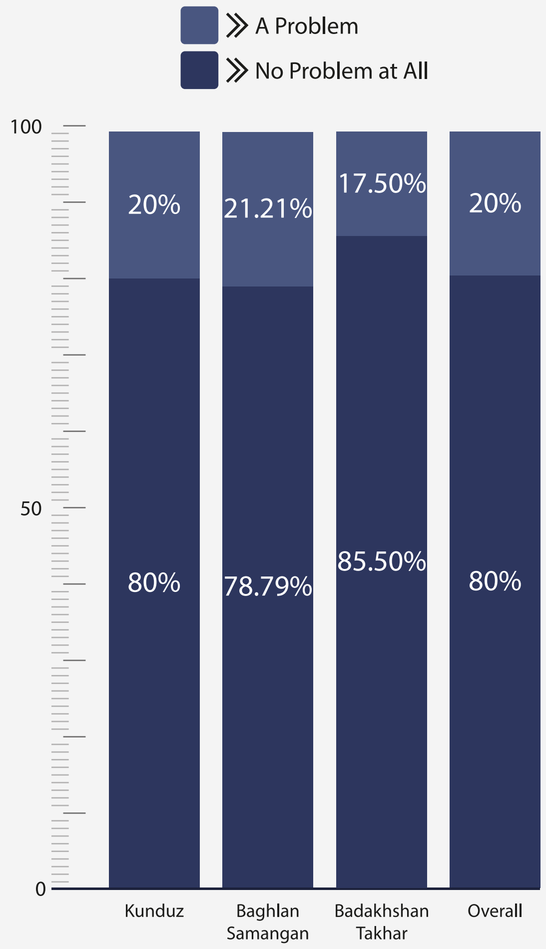
In trades, 16.7% of companies say that lack of proper sewerage system is in obstacle for their businesses. Large and Medium companies have slightly more problems than small businesses.



h) Qualified Labor Force

Due to outmigration and lack of training facilities Afghanistan is in short of qualified labor. The pilot Business Bottleneck Survey reveals that the lack of qualified labor force is conceived as a business obstacle by 20% of the companies in Northeastern provinces. The regional and sectoral differences are not considerable.

Qualified Labor Force



i) Security

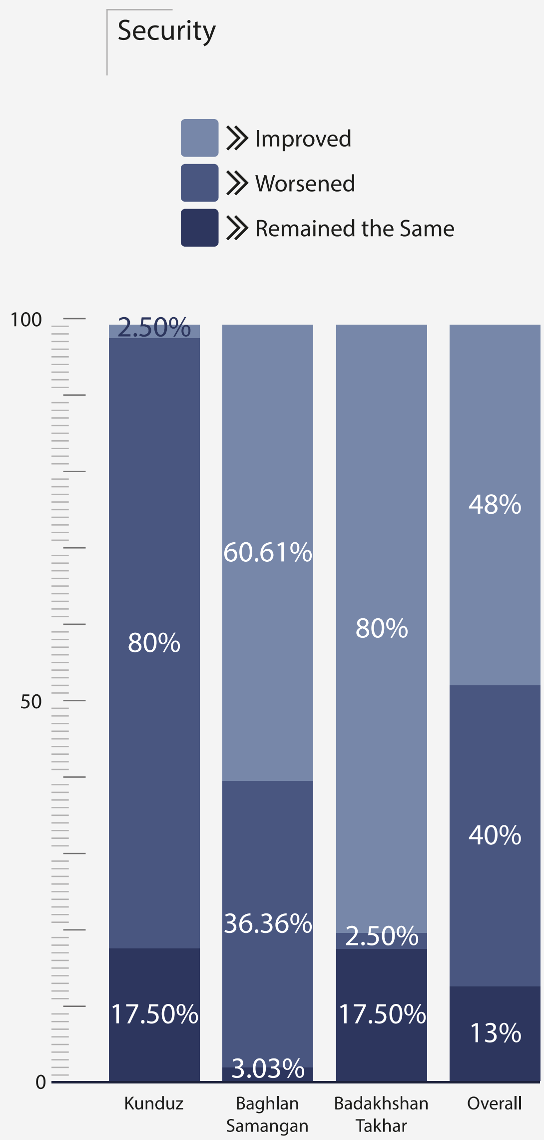
Insecurity is a chief concern throughout all sectors of the Afghan business community. Transportation of goods and construction material is extremely difficult and risky in some regions of the country.

The pilot survey reveals that security condition is extremely deteriorated in Kunduz province where 80% of surveyed businesses say that the security condition had worsened during last three months.

Badakhshan-Takhar region reports an opposite condition and 80% of respondents believe that their security had improved in last three months. In Baghlan-Samangan also a positive security attitude prevails; and only 36.46% of companies in this region say they have witnessed a worsening security condition while the rest reports security improvements.

The perceptions of different sector companies are not much different, but in total Manufacturing and Services are more positive compared to constructions and trades.

More medium (46%) and small (39%) companies say that their security conditions have worsened compared to large companies (30.8%).



k) Attitude towards Women

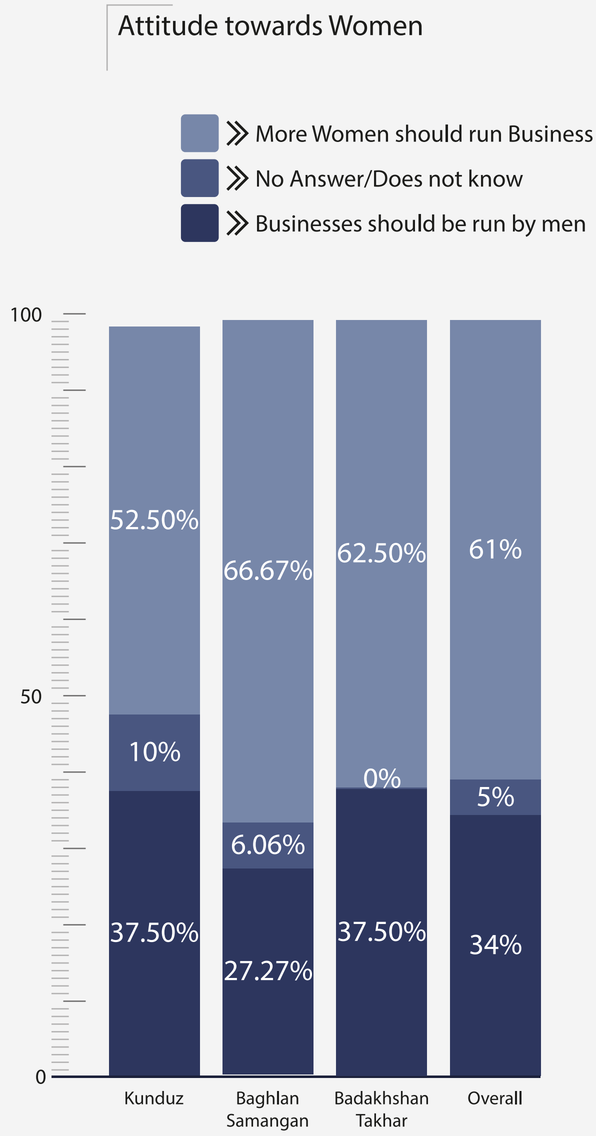
In Afghanistan the range of economic activities available to women is severely limited by a complex set of cultural and other factors which is a loss of productive human resources for the country.

According to this pilot survey, majority of business owners/managers support believe that more women should women operate in the private sector. In overall, 61% of participants of this survey support this notion which is higher than the national survey average (54%).

Baghlan-Samangan (66.7%) and Badakhshan-Takhar (62.5%) companies are more supportive of the women's engagement in business and economic activities compared to Kunduz where 52.5% of respondents agree that more women should run businesses.

Women entrepreneurship is more encouraged by manufacturers (58.8%) and service company managers (61.4%). In trades and constructions half of the survey companies say they believe more women should run businesses.

Sectorial differences are negligible, but large companies are more supportive (69%) compared to SMEs (57%).



ACCI Northeastern Business Tendency Survey Report

November 2014

Introduction

According to this pilot survey, the business situation in Northeastern provinces is poor (-11) and the majority of respondents (more than ninety percent) say they did not witness any improvement or their business situations were worsened during last three months.

Business expectations are high. 86 percent of the surveyed companies expect that their businesses will improve in next six months. Their more positive outlook is possibly driven by expectations about the administrative and economic reforms promised by the new government and as will as the outlook of a favorable business season (spring).

Kunduz and Badakhshan-Takhar regions reported a more favorable business climates compared to Baghlan-Samangan region. The service sector topped in sectoral ranking and the construction companies reported the least favorable business climate. Large companies enjoy a comparatively better business climate than SMEs.

Business managers in Northeastern provinces also confirmed that the two major business obstacles are insecurity and the lack of market & demand.
The employment plans for next three months are promising, especially in manufacturing and construction.

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.

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* 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. This is pilot survey in Kunduz, Baghlan-Samangan & Badakhshan-Takhar.

A.1- Business Climate overall and by Region

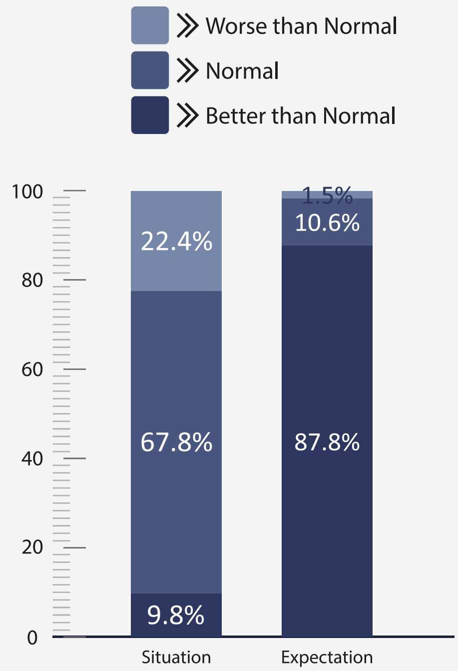
The overall business climate indicator in November 2014 for Kunduz, Badakhshan-Takhar and Baghlan-Samangan regions altogether was (36.85) points which is relatively high, taking into consider the autumn season and also the lower indicator values for national business tendency survey (31.2) in the same season.

As illustrated in graph 1a, Kunduz and Badakhshan-Takhar regions report better business climates compared to Baghlan-Samangan region.

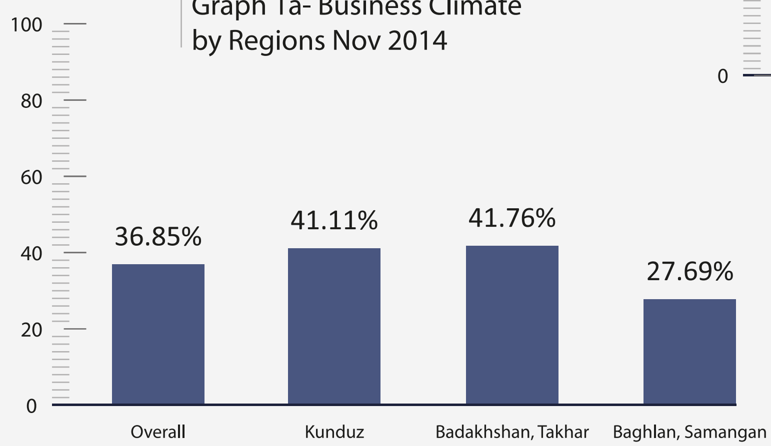
The majority of surveyed companies consider the current situation of their businesses normal (67.78) or worse than normal (22.39). Only 9.8 percent of them say that their business situation is better than normal. Expectations are high: Only 1.54 percent of them believe their businesses will be worse than normal in six coming months, while the rest say it will be better than normal (87.8%) or normal (10.65%)

The regional differences regarding business situation are considerable. The business indicator for Kunduz is -11 and for Baghlan-Samangan -27.7. Badakhshan-Takhar region has a positive business indicator (1).

Graph 1b- Business Climate by Regions Nov 2014



Graph 1a- Business Climate by Regions Nov 2014

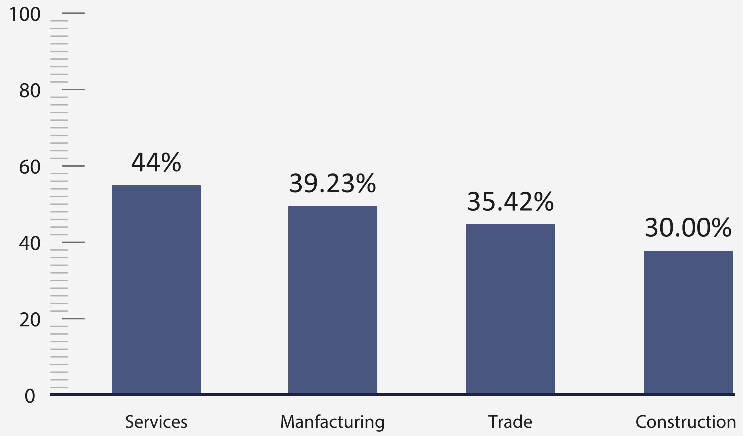


A.2- Business Climate by Sectors

Manufacturing and trade are in the middle. In this survey, the service sector tops in sectoral ranking while the construction sets in the lowest position. About 38% of surveyed construction companies evaluate the current condition of their businesses worse than normal but except a small number of them the rest (96.39%) expect a better than normal business condition for next six months. In services also the expectations are high and none of them has said that they will expect a worse than normal condition.

As shown in the figure, the two other sectors (manufacturing and trade) are in the middle.

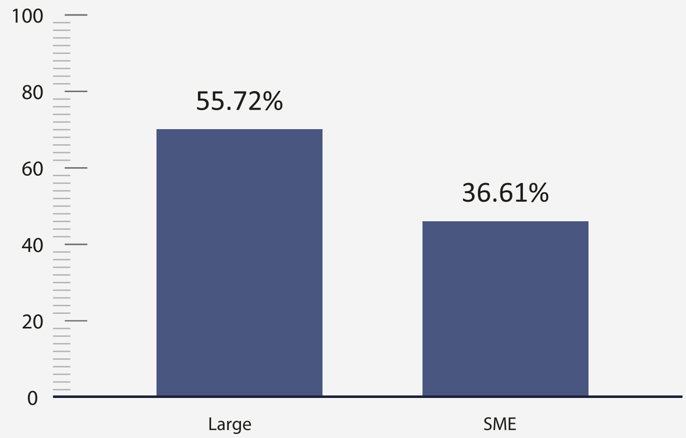
Graph 2- Business Climate by Regions, Nov 2014



A.3- Business Climate by Company Size

A.3- Business Climate by Company Size
This survey reveals that SMEs in Northeastern provinces have a poorer business climate compared to large companies. The indicator for the current business situation is -24 for small business, (0) for medium and 17 for large companies. Small and medium companies maintain the same level of expectations (85) but large companies have higher expectations (94). It is worth mentioning that the company size is only considered in overall Northeastern analysis, and due to the lack of required size balances in each individual province we have ignored the size analysis in provincial level.

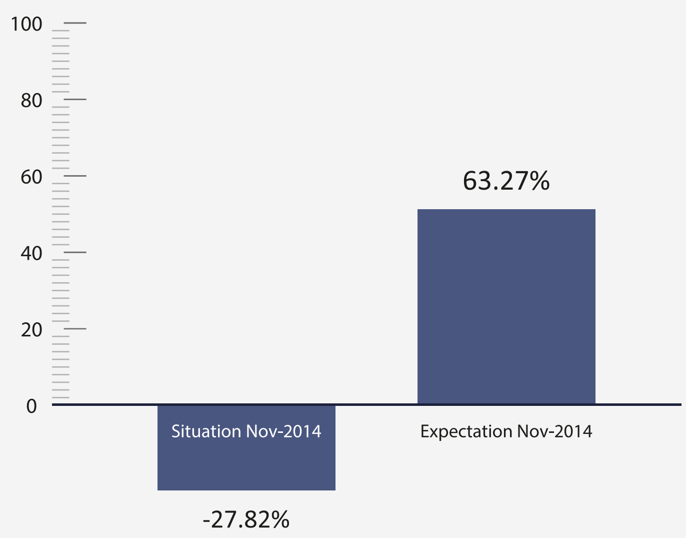
Graph 3. Overall Business Climate by Company Size, Nov 2014



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).
Businesses in Northeastern provinces say their book orders are in a very poor condition (-27.8) but meanwhile they expect a very optimistic outlook for their next six months (63.27).

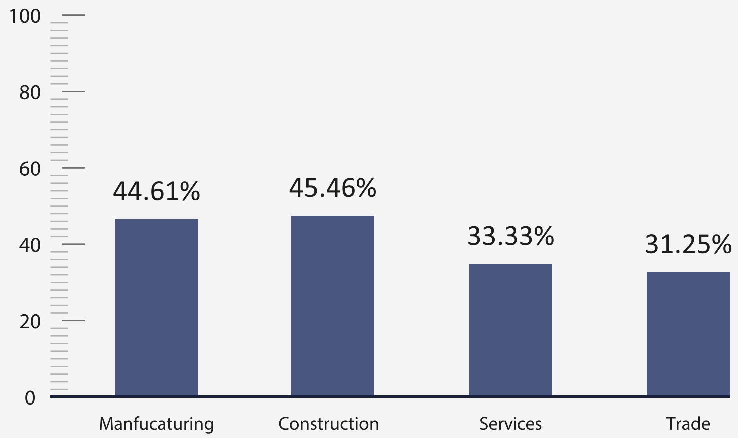
Graph 4. Order Books Situation and Expectations in Nov 2014



C. Employment Expectation

In general, the managers and owners of surveyed companies had an optimistic outlook in terms of employment in coming three months.
The balance of the employment plans is 44.61 points in Manufacturing, 45.46 points in Construction followed by Services 33.3 points and in Trade 31.25 points.
Manufacturing and Construction are the most promising sectors in terms of employment planning.

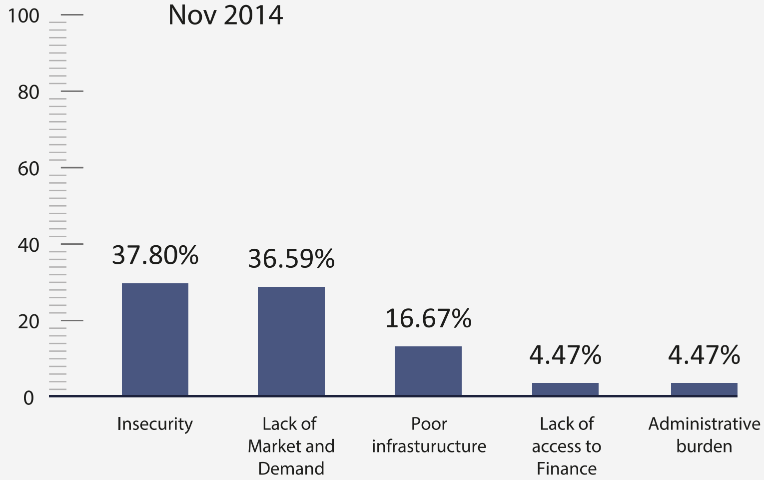
Graph 5. Employment Expectations by Sectors, Nov 2014



E. Constraints to be removed

The evaluation of major business constraints shows that the biggest obstacle for business development is insecurity; it is followed by lack of market and demand, poor infrastructure, lack of access to finance and administrative burdens.

Graph 6. Overall rank order for constraints to be removed for better business development, Nov 2014

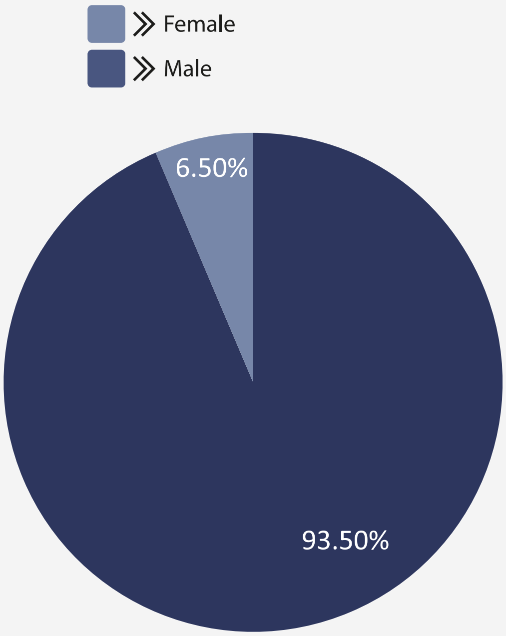


F. Female Business shares

Since the gender balance is an important indicator to gauge and predict the economic development trends, ACCI asks business managers about the gender of their business owners.

During the survey, 6.5 percent of the respondents said that their businesses are owned by female or there are female shareholders in their companies, and 93.5 percent of the businesses are owned by male. In national survey 16% of companies said that their businesses are owned by female or there are female shareholders in their companies.

Graph 7. Gender of Business Owners Nov 2014



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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