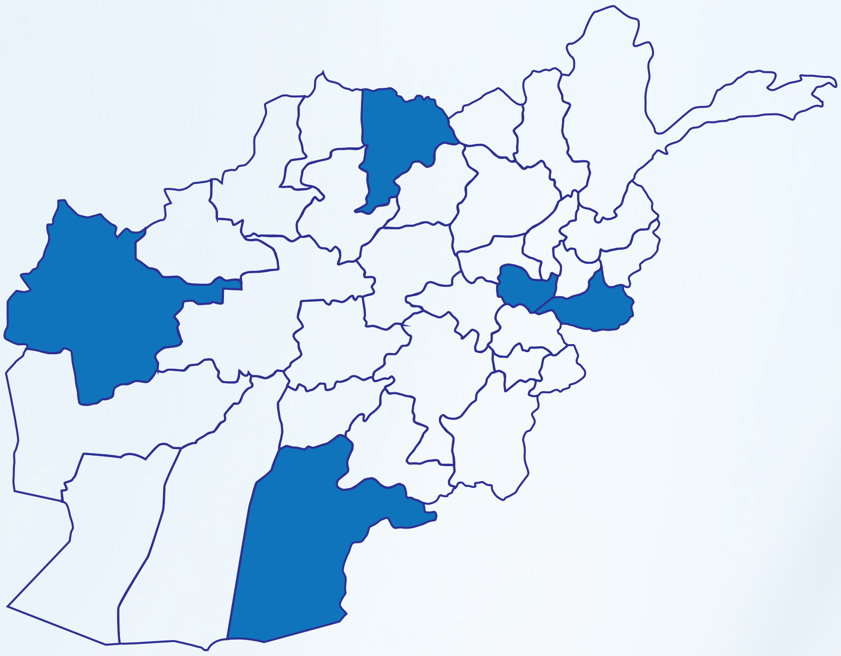
ACCI Business Monitor

Afghanistan Chamber Of Commerce & Industries
اتاق تجارت و صنایع افغانستان
دافغانستان د سوداگری او صنایعو اتاق

# BUSINESS MONITOR 2016



The result of 2016 business surveys indicate a positive development in the business climate compared to the last year. Companies are more optimistic regarding their future business outlooks.

## Business Bottleneck Survey

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.

## Business Tendency Survey

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.


# ACCI Business Monitor 2016


# Bottleneck Survey

# Tendency Survey

# Foreword

Since 2012, Afghanistan Chamber of Commerce and Industries has systematically studied the business tendencies by conducting quarterly surveys and as well as annual bottleneck surveys in five major regions. These studies provide political and economic decision-makers as well as the business community and the interested public with data collected directly from the companies. Fortunately, the result of 2016 business surveys indicate a positive development in the business climate compared to the last year. Companies are more optimistic regarding their future business outlooks, which we believe is the outcome of the government's efforts to prioritize and support the private sector recommendations on reforms.
A new public-private dialog mechanism is shaped. The private sector is given a significant role in the policymaking process through membership at the High Economic Council, Economic Committee of the Council of Ministers, High Council of Land and Water, etc. The private sector also works with the line ministries and government agencies to coordinate the implementation of those private sector reforms.

In recent years, we have witnessed some practical steps towards the improvement of business environment. For instance:

• Now Afghanistan is a full member of the WTO - the accession process is completed and the relevant laws and regulations are amended as required. The WTO membership provides us with a prestigious platform for productive multilateral dialogues to remove trade barriers.

• An Open Access Policy, a key reform priority of the private sector, is approved by the High Economic Council. This new policy will allow telecom companies to build and operate fiber optics, which will generate up to $500 million in direct investment by the private sector over several years.

• Afghanistan has restarted the implementation of the TIR system. This, when fully implemented, is expected to boost Afghanistan's trade by removing transport and custom barriers and simplifying goods transportation.

• Recommended by the private sector, the government approved a mechanism to issue visas on arrival for investors and businesspeople. The initial list of countries will be expanded to include key trading partners of Afghanistan.

• An Alternative Dispute Resolution Center that follows the best international practices, is established in Kabul.

• A one stop shop is established for business registration, and AISA's business registration department is merged with the ministry of commerce and industry, which is expected to decrease the registration cost and time significantly.

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 hope that the relevant stakeholders will rely on the data while drafting laws and regulations to improve the condition for doing business.

Looking forward to see an improved business environment.

Atiqullah Nusrat

Chief Executive Officer

ACCI

# 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 50 companies. The interviews for this survey were conducted by phone in November 2016. 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 fifth bottleneck survey were conducted in November 2016. The sample size was 360 companies which were interviewed by telephone.

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

1) The lack of proper infrastructure is a cross-sectoral and countrywide problem and 71.7% of all surveyed businesses say they have infrastructural problems. 82% of them say that the lack of access to electricity is their utmost limiting infrastructural problem.

2) Business perception has slightly improved regarding the security condition in Kabul, Balkh, Herat, and Nangarhar regions compared to last year.

3) In total surveyed businesses' perceptions regarding the public tendering conditions have improved compared to last year; but still the majority of surveyed companies say they have problems in access to public tenders mainly because of "unclear and arbitrary procedures" and "political interferences".

4) Complaints regarding the tax system has increased compared to last year and about 63% of the surveyed businesses say they have problems in paying their taxes mainly because "taxes are too sophisticated and therefore not transparent".

5) Custom conditions, especially in Herat and Balkh are reported very poor and businesses say that tariffs are "too sophisticated and non-transparent".

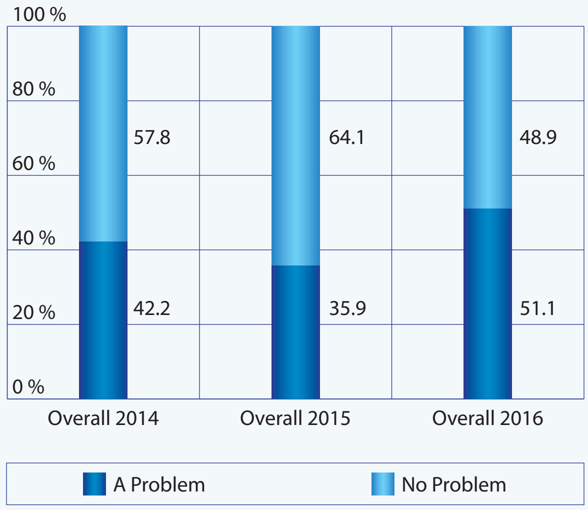
6) Despite the challenges faced by women in businesses, the Business Bottleneck Survey shows a considerable support for women operating in the private sector.

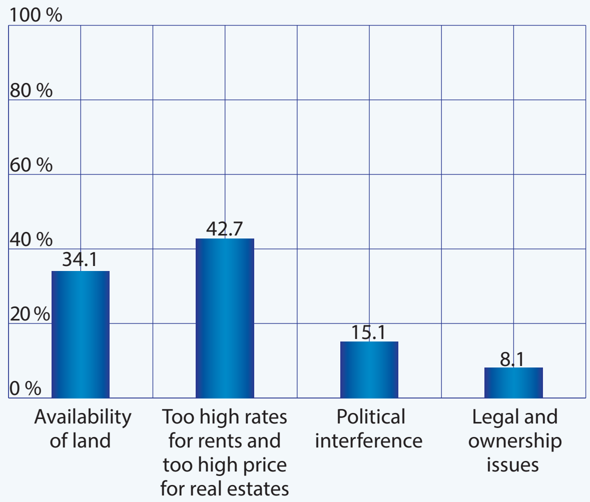
# Business Bottleneck Survey

## a) Getting Land

The Business Bottleneck Survey shows that 51.1 percent (compared to 35.86 percent one year ago,) of the respondents across the country regard getting land as a problem, and 48.9 percent (64.14 percent in 2015) say it is no problem to obtain or rent land. The survey reveals that getting land is a crosscutting concern but large size enterprises say it is slightly harder to get land for economic use compared to Small and Medium companies. Among the different economic sectors, Manufacturers (66.25%) say they suffer most from the problems in getting land. About 51.43 percent of Construction companies, 51.43% of traders and 47.14% of Services and 37.17% of agriculture companies also complain about their problems in access to land. All sectors reported that their problems in getting land have worsened compared to last year.

Most of companies (42.70%) have 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 for real estate is a major problem for their businesses. For 15.14% of the companies, political interference is a major problem. Legal and ownership issues are also noted by a small number of respondents (8%) as obstacles in obtaining land.




Graph -1 Getting Land

## b) Availability of Finance

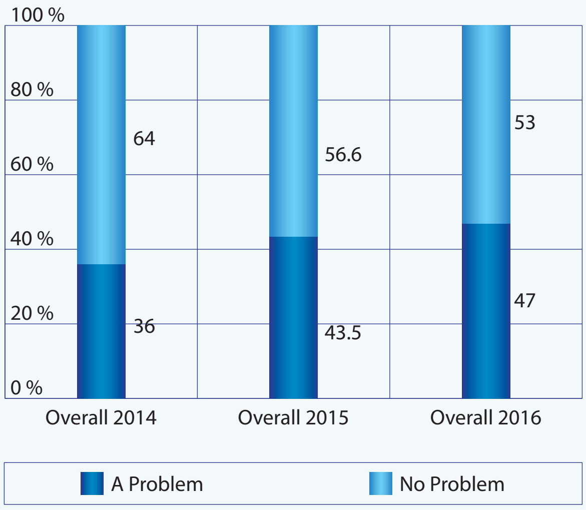
Although the financial system grew quickly during last one and half decade, it is still under-developed and its role in economic activities remains very limited. While exact numbers are not available, only a small segment of the private sector has access to formal financial services. Many businesses 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 business people would still refuse to consider obtaining a loan because, as they believe, interest violates Islamic principles.

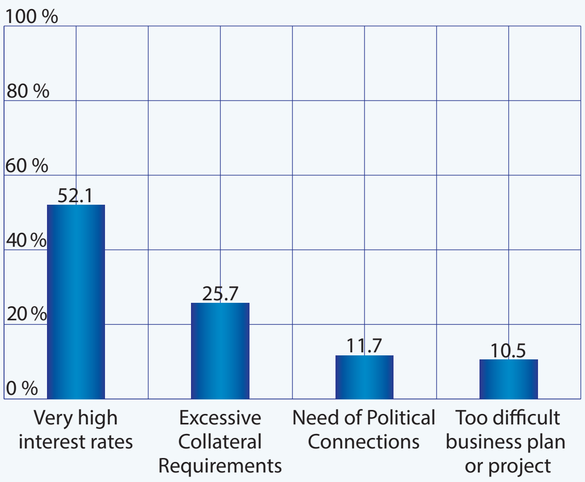
About 47 percent of the respondents say that they have problems in access to finance, whereas 53 percent say they have no problem. Regional differences are considerable. In Kabul 40.63 percent of the surveyed companies reported problems that show a little increase in their problems compared to last year (36.15 %) while majority of Kandahar (70%) Nangarhar (64%) and Balkh (56%) companies reported that they had a problem in access to finance. Herat companies have reported the lowest percentage of problems (18%). Last year 37.5% of Herat companies reported that they had problems in access to finance.

Last year large companies had reported more problems than SMEs, but this year there is no considerable difference between SMEs (47%) and large companies (46.6%).

Manufacturing and agriculture companies report the highest (more than 62% each) and services report the lowest (22.8%) problems. Around 42% of trading and construction companies say they have problems in obtaining loans.

Like previous years the majority of companies (52%) who face problems in obtaining finance have marked high interest rates as the main reason. 25.73% of the respondents said that excessive collateral requirements were the main reason and for the rest of companies the need of political connections & too difficult business plan or project plan requirements were main reasons.




Graph -2 Availability of Finance

## c) Tax System

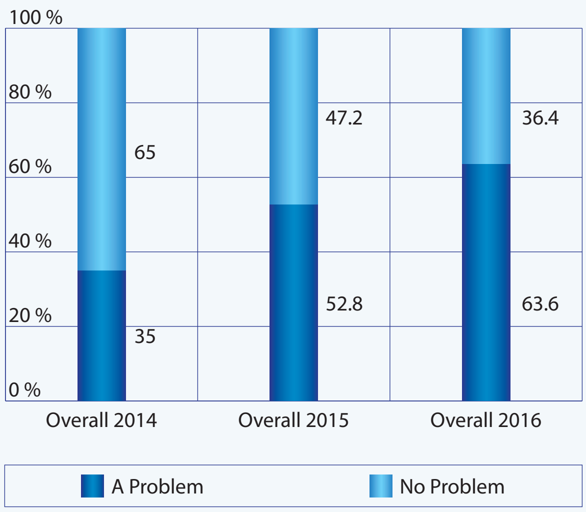
Enterprises in Afghanistan are confronted with a complex taxation system consisting of a wide range of different taxes. The system is regarded by the private sector as complex, confusing and unpredictable opening the door for bad practices. In addition to that, businesses are unhappy with the introduction of a new taxing procedure that obliged companies to submit their taxes statements and balances on monthly, quarterly and annual bases.

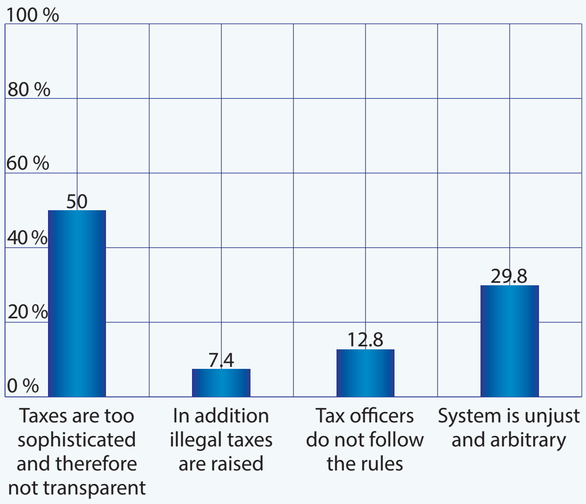
Like last year the perception of surveyed businesses regarding the tax system has deteriorated and 63.6% of companies across the regions say that they have problems in tax system, compared to 52.76 % for last year.

In all five regions manufacturing (67.5%) and trading (67.14%) companies complain more about the tax procedures; but this figure is also high among services (62.86%) and construction (57.14%) respondents.

Small (66.4%) and medium (64.14%) companies have reported more problems than large companies (58.9%).

Half of companies who have problems in tax system stated that "taxes are too sophisticated and therefore not transparent". About 30% of the surveyed companies said that the current tax system is unjust and arbitrary and about 20% of the remaining companies said that tax officers do not follow the rules and illegal taxes are raised.




Graph -3 Tax System

## d) Custom Conditions

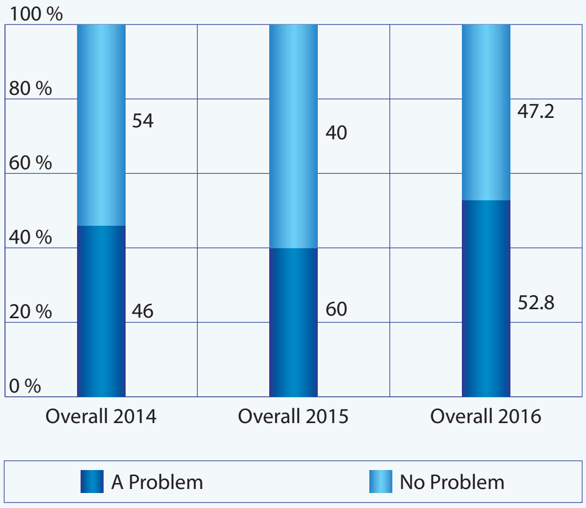
The business community often complains that border posts lack modern infrastructure, such as storage facilities and technical laboratories. Furthermore, the custom procedures in place are regarded as complicated and arbitrary opening the door for duplicative charges and duties at border posts and inside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

The Business Bottleneck Survey focuses on the regulatory environment for exports and imports. It reveals the custom condition has slightly improved since last annual survey. In last survey 60% of the businesses, who dealt with customs, were not happy with the custom condition while this year 52.8% of the businesses in the same regions complained so. The regional differences are high as before: About 66.67% of surveyed businesses who deal with the customs in Herat, 60% of the same category of companies in Balkh says they face problems in costumes. This figure is 50% for Kandahar, 42.3% for Nangarhar and 35% for Kabul.

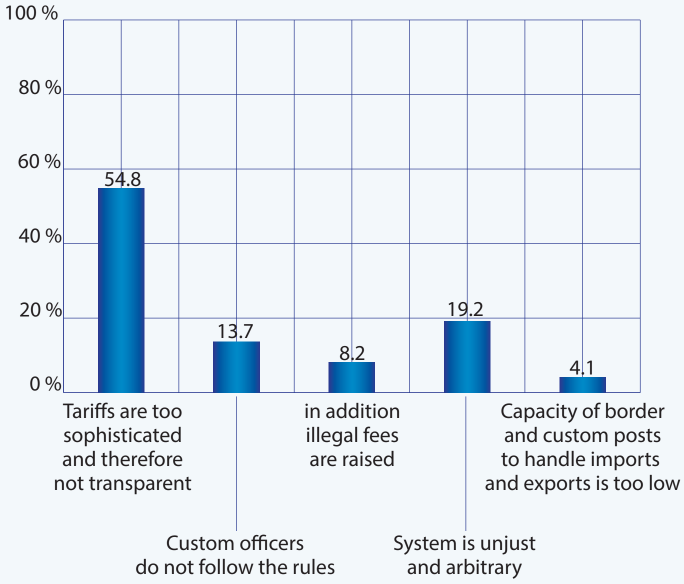
Different sectors have suggested that customs procedures and systems should be improved, and the level of confidence regarding the current status of customs procedures is very low in Manufacturing where 75% percent of those who deal with the customs believe that these procedures are problematic, while about (62%) of construction, (52%) of agriculture, (39%) trades and (36%) of service companies believe so.

The feedbacks of different size companies on custom conditions show that small companies have more problems (66%) than Medium (64%) and large (59%) companies.

The biggest reason behind the problem was mentioned "too sophisticated non-transparent Tariffs" and "an unjust and arbitrary System". About 14% said that "custom officers do not follow the rules"; 8% said that the collection of "illegal fees" is a problem; and 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.




Graph -4 Custom Conditions



## e) Public Tender

There is a lack of transparency and competition in bidding processes. Like earlier surveys, this bottleneck survey also confirms that majority of companies complain about the lack of transparency, political interferences, bribery and excessive bank guarantee requirements in public tender.

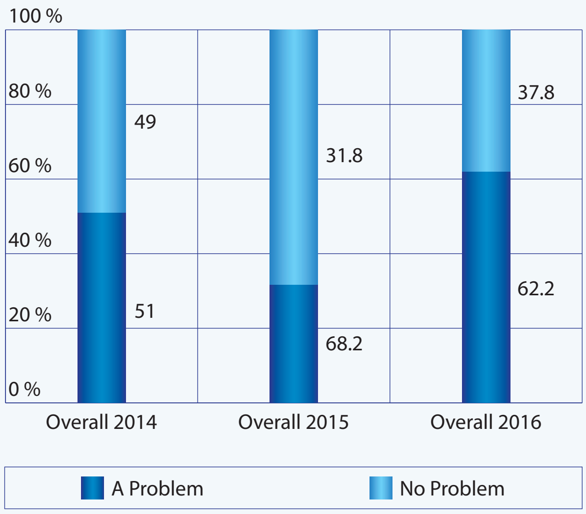
In total surveyed businesses' perceptions regarding the public tendering conditions have improved compared to last year, but companies in Herat (87.5%), Nangarhar (76.7%) and Kandahar (67.4%) are highly unhappy with the public tendering conditions. Kabul (55.8%) and Balkh (48.6%) companies have also called for reforms in current tendering procedures.

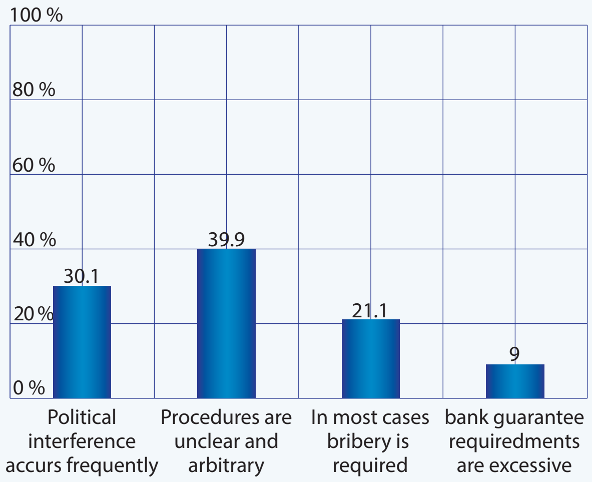
Construction companies (69.8%) report a slightly more problems than services, trades and agriculture. Manufacturing is the only sector where more than half of companies say they have no problem in public tenders.

Large size companies report more problems than small and medium size companies.

There is an important shift in noting the major reason behind the problem. Last year 54.46% said that the major reason behind the problem was "political interference", but this year only 30% of surveyed companies agree that political interference is the main reason. Instead, about 40% of them have mentioned "unclear and arbitrary procedures" and 21% have mentioned "bribery" as main reasons. Like last year, a small number of companies point to "excessive bank guarantee requirements" as their major problems.

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. ACCI has also recommended some realistic and practical reforms on public tenders in a policy recommendation paper called Private Sector Reform Priorities.




Graph -5 Public Tender

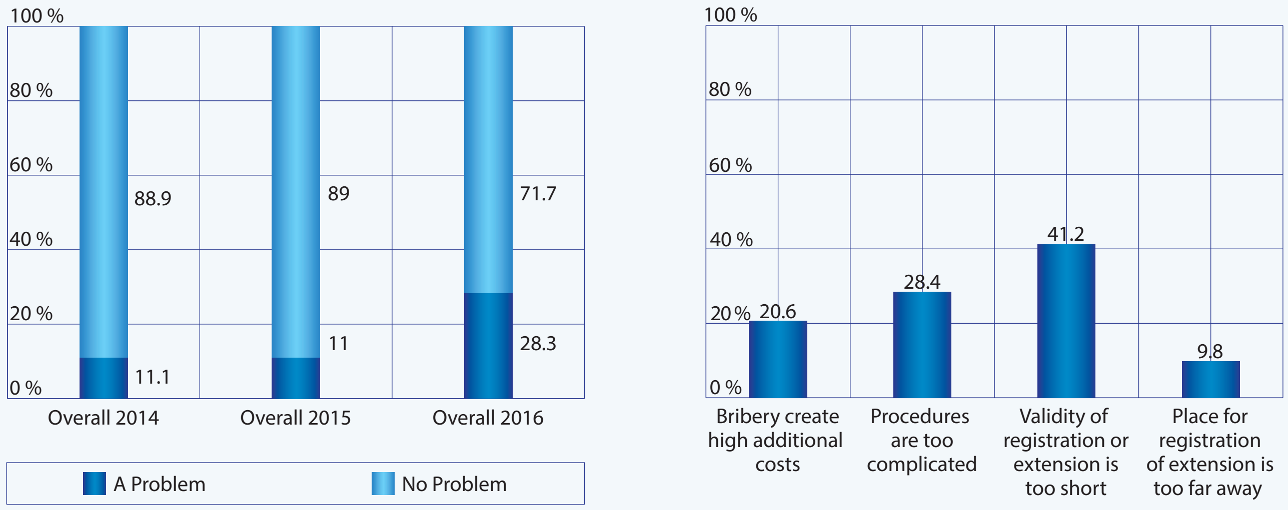
## f) Business Registration and Extension

Starting a business in Afghanistan is not a concern of the private sector. No minimum capital is required to register a business. To establish a limited liability company, it took seven days to register at the Afghanistan Investment Support Agency in the past. In 2016, a one stop shop was established for business registration and AISA's business registration department was merged with the ministry of commerce and industry, which is expected to decrease the registration cost and time significantly.

Despite the mentioned development, the conditions for registration and extension of business licenses have deteriorated compared to last year, and more than 28 percent of surveyed businesses have regarded starting a business as a serious problem. Businesses in Nangarhar (54%) and Kandahar (46%) are highly negative regarding business registration procedures, while Kabul (16%) and Herat (12%) businesses are comparatively happy with the current procedures. Balkh (40%) companies also believe that conditions for starting a businesses has deteriorated.

Medium companies reported lesser problems than small and large size companies. Meanwhile, Manufacturing, trade and construction reported more problems than agriculture and services.

"Too short validity of registration or extension" and complicated procedures" are mentioned as two major reasons behind the problems. About 20.6 percent of them believed that "bribery and high additional costs" were major problems. A small number of companies have also complained that registration or extension offices are far from their business locations.




Graph -6 Business Registration and Extension

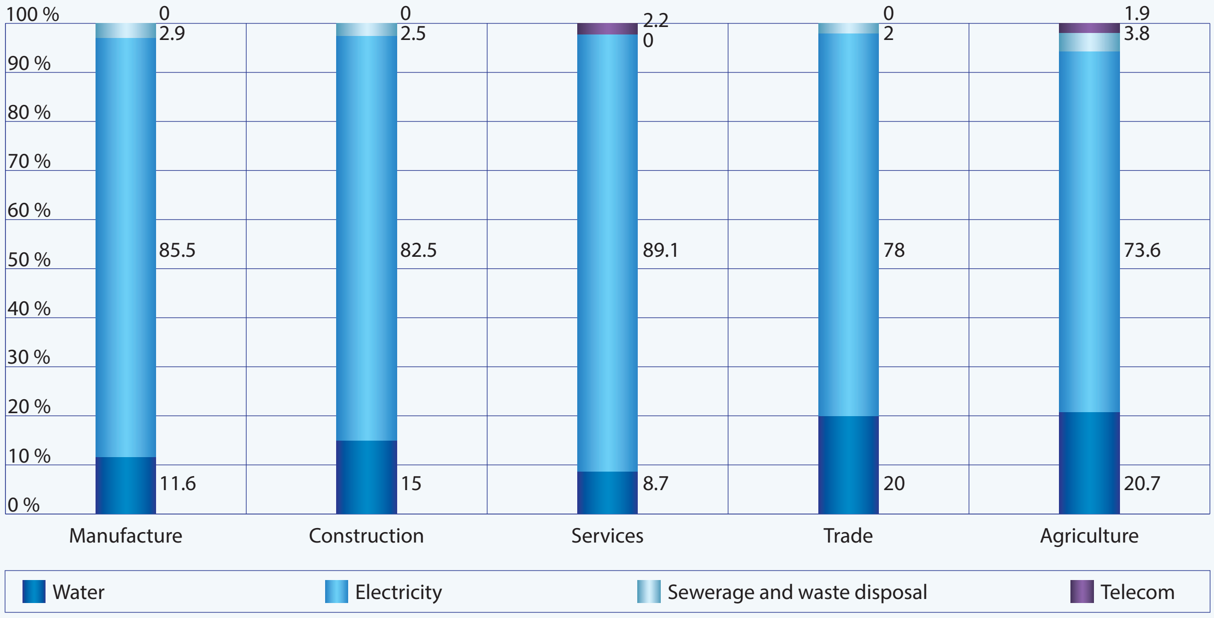
## g) Infrastructure

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-sector and countrywide problem. Like last year a large number of companies (71.7%) of all surveyed businesses say they have infrastructural problems. 88% of Nangarhar, 74% of Kandahar, 70.6% of Kabul, 70% of Balkh and 58% of Herat surveyed businesses say they have infrastructural problems.

About 82% of the companies who have infrastructure problems believe that electricity is their utmost limiting infrastructural problem. Manufacturing (86%), Agriculture (76%) and trade (71.4%) say they have more problems in infrastructure compared to services (65%) and construction (57%).

Large and medium companies have more infrastructure problems than small companies.

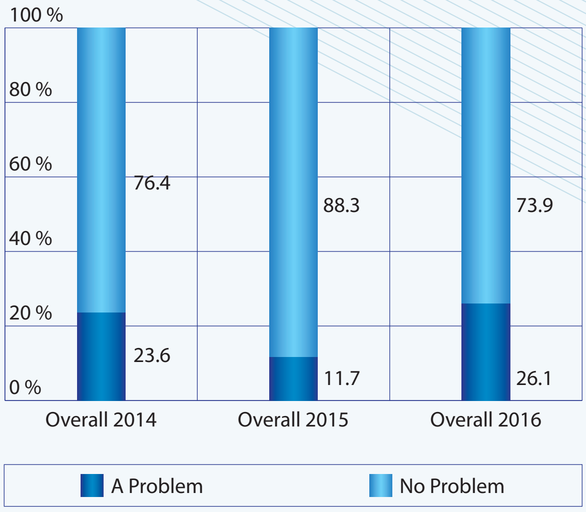



Graph 7 - Infrastructure

## h) Qualified Labor Force

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

Manufacture (35%) and agriculture (31.4%) report more problems than trade (24.3%) and construction (22.8%). Large companies report much more problems (74.4%) than SMEs (25%).




Graph -8 Qualified Labor Force

## i) Security

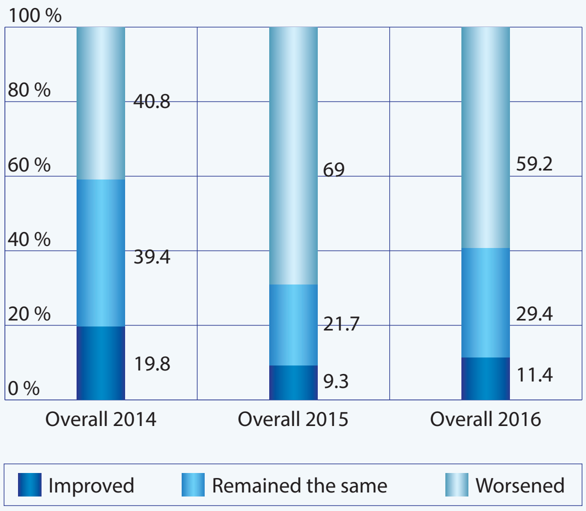
Insecurity is a chief concern throughout the Afghan business community. Transportation of goods and material is extremely difficult and risky in some regions of the country.

According to the current survey, the perception of surveyed businesses have slightly improved regarding the security condition in Kabul, Balkh , Herat and Nangarhar regions compared to last year. In total about 59.2% of surveyed companies have reported that the security condition has deteriorated. In comparison to last year, Kandahar is the only region that reports more problems than last year. Last year 52.5%.of Kandahar companies reported that the security had deteriorated but this year the number has increased to 54%.

80% of surveyed companies in Nangarhar, 70% in Balkh, more than 56% in Kabul and 42% in Herat have said that their security conditions have deteriorated.

There is no significant sectoral difference with manufacturing (63.7%) registering the highest and agriculture with about 53% registering the lowest complaints regarding the deterioration of their security conditions.

SMEs report more problems than large companies.




Graph -9 Security

## k) Attitude towards Women

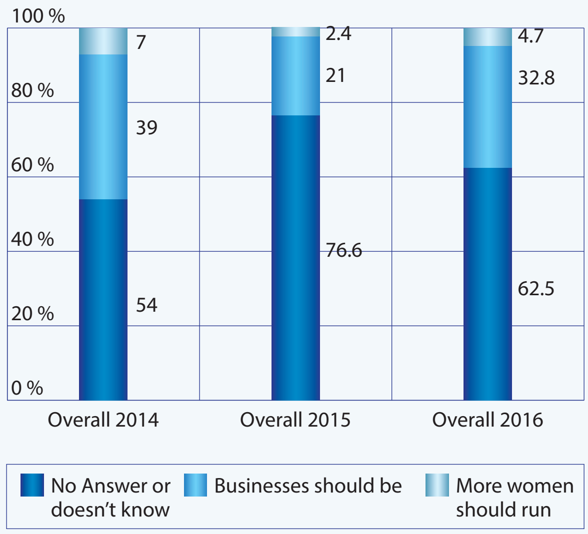
In Afghanistan the range of economic activities available to women is severely limited by a complex set of cultural and other factors which is a loss of productive human resources for the country.

Despite the challenges faced by women in businesses, survey shows a considerable support for women operating in the private sector.
In total 62.5% of surveyed companies say that more women should run businesses. Last year 76.5% supported the idea.

The supports for women engagements in business and economic activities are much higher in Balkh (88%), Herat (76%) and Kabul (74.4%) than Nangarhar (32%) and Kandahar (16%).

Women entrepreneurship is more encouraged all sectors. 77% of agriculture, 64.3% services, about 63.7% of manufacture and around 58.6% of trading companies support women's entrepreneurship.

There is no significant difference among different size groups of surveyed companied in supporting women's engagement in businesses.




Graph 10 - Attitude towards Women


# ACCI Business Tendency Survey

## Major findings

• In general, surveyed businesses' level of confidence regarding their current condition and as well as their expectations regarding the coming six months have slightly decreased.

• Regional differences are considerable, with Kabul and Balkh showing worsened conditions and Nangarhar reporting some improvements.

• Businesses have reported a minor improvement in their order books compared to previous survey but the overall balance of the surveyed companies' order books is still negative.

• Security, better infrastructure and market and demand are major desired improvements for business developments.

• In construction, trade, service and manufacturing sectors, companies employ fewer people compared to the previous survey. Agriculture sector, surveyed for the first time, is the only sector with positive employment indicator.

## 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).

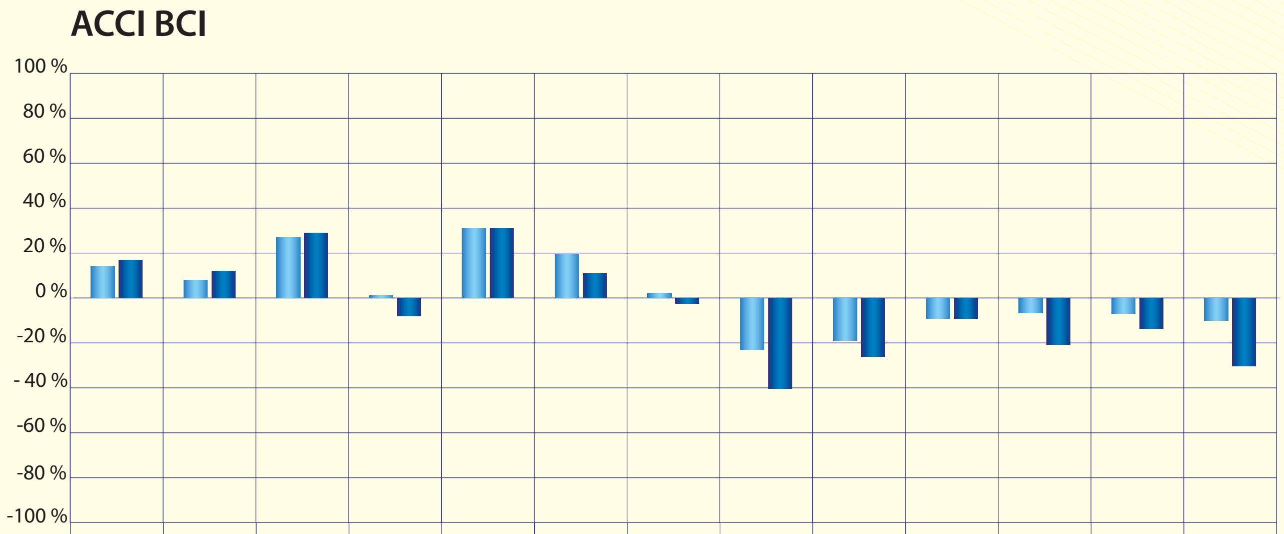
The indicator values range from 0 (meaning "normal") up to a possible maximum of plus 100 for a positive climate and from 0 to a possible minimum of minus 100 for a negative climate.

## A.1- Business Climate overall and by Region

The overall Business Climate indicator in November 2016 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued (-9.93) points while in last survey it was (-6.81) points.

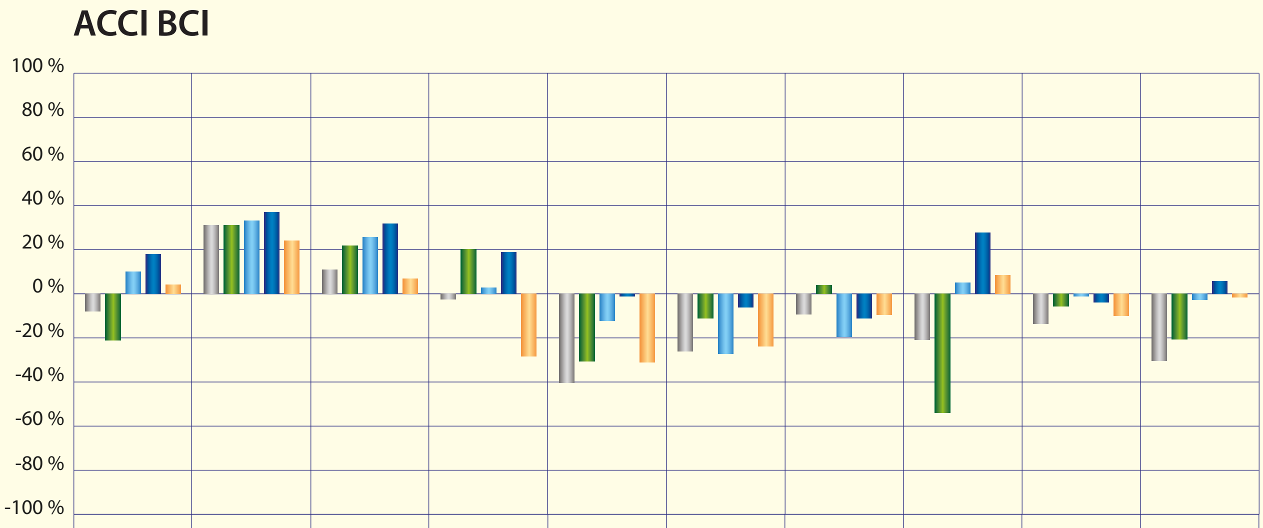
The overall condition has not changed significantly compared to previous survey but in general surveyed businesses' level of confidence regarding their current condition and as well as their expectations regarding the coming six months have slightly decreased. Meanwhile, the overall business condition has improved compared to the same season of last year.

*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 current survey was conducted in five regions (Kabul, Balkh, Kandahar, Herat and Nangarhar) and 560 companies were interviewed through phone during first and second week of June 2016.*




| | IV-2012 | IV-2013 | I-2014 | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Overall | 14 | 8 | 27 | 1 | 31 | 19.3 | 2.2 | -23.1 | -18.9 | -9.1 | -6.7 | -6.8 | -9.9 |
| Kabul | 17 | 12 | 29 | -8 | 31 | 11 | -2.5 | -40.3 | -26 | -9.3 | -20.8 | -13.5 | -30.4 |

Graph 1: Business climate, overall and Kabul 2012 to 2016 (in quarters per annum of survey conducted)




| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Kabul | -8 | 31 | 11 | -2.5 | -40.3 | -26 | -9.3 | -20.8 | -13.5 | -30.4 |
| Balkh | -21 | 31 | 21.7 | 20.2 | -30.6 | -11.1 | 3.9 | -53.9 | -5.6 | -20.6 |
| Kandahar | 10 | 33 | 25.5 | 2.8 | -12.2 | -27.2 | -19.4 | 5 | -1.1 | -2.6 |
| Nangarhar | 18 | 37 | 31.7 | 18.9 | -1.1 | -6.1 | -11.1 | 27.8 | -3.9 | 5.7 |
| Herat | 4 | 24 | 6.7 | -28.3 | -31.1 | -23.9 | -9.4 | 8.3 | -10 | -1.5 |

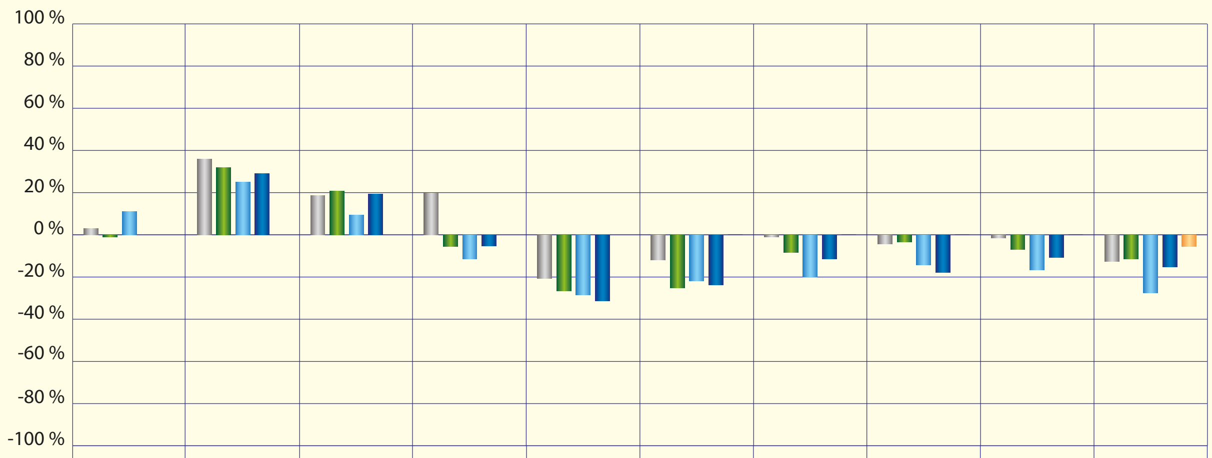
Graph 2: Business climate by Province 2014 to 2016

## A.2- Business Climate by Sectors

It is worth mentioning that we have added Agriculture as a new sector to this survey, because of the importance of agribusinesses and the demands from both public and private partners.

This time, in contrast to the previous survey, manufacturing sector has reported that their business climate has deteriorated. Services have not shown any significant change, but construction (-16.7 → -27.6) and traders (-7 → - 11.38) have reported deteriorated business conditions. Agriculture sector which is included for the first time, has also reported a negative business climate indicator (-5.5).

### ACCI BCI




| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 3 | 36 | 18.7 | 19.7 | -20.6 | -11.8 | -0.9 | -4.2 | -1.5 | -12.7 |
| Trade | -1 | 32 | 20.7 | -5.5 | -26.6 | -25.2 | -8.3 | -3.5 | -6.9 | -11.4 |
| Construction | 11 | 25 | 9.5 | -11.4 | -28.6 | -21.9 | -20 | -14.3 | -16.7 | -27.6 |
| Services | 0 | 29 | 19.3 | -5.4 | -31.4 | -23.8 | -11.4 | -17.9 | -10.7 | -15.2 |
| Agriculture | | | | | | | | | | -5.5 |

Graph 3: Business climate by sectors overall, 2014 to 2016

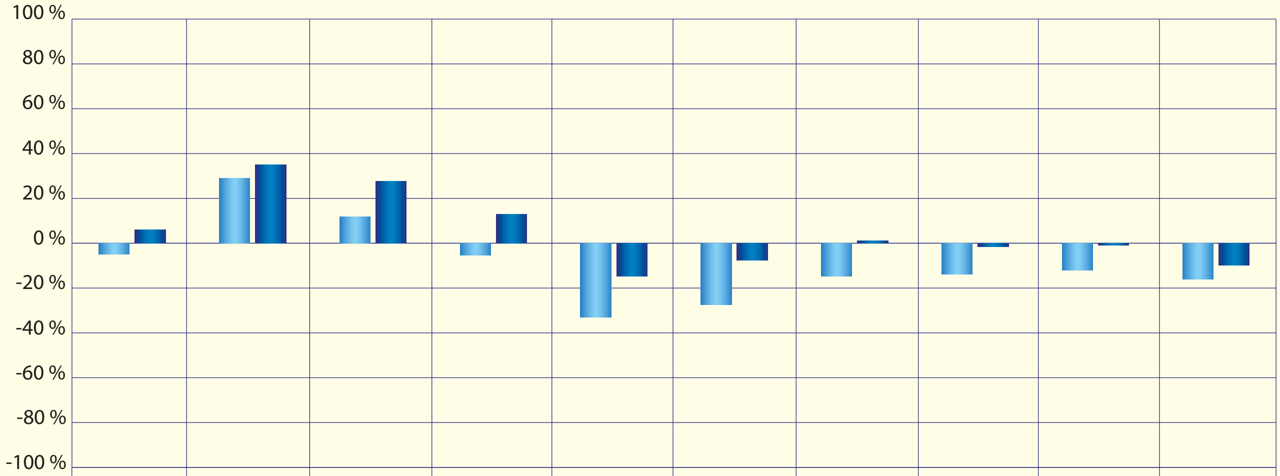
## A.3- Business Climate by Company Size

Both large or SME companies reported that their business conditions have worsened. Though as usual, larger companies report a comparatively better condition than SME, but the former showed a sharper deterioration this time.

The Business Climate Indicator value for SMEs was about (-12) last time when the third ACCI 2016 Business Tendency Survey was conducted, but now this indicator has slightly decreased to about (-16)

The Business Climate Indicator value for large companies is (-9.7). In last survey, it was (-1). It is worth mentioning that larger companies are more optimistic about coming six months (2.3) compared to SME (-3.1).

### ACCI BCI



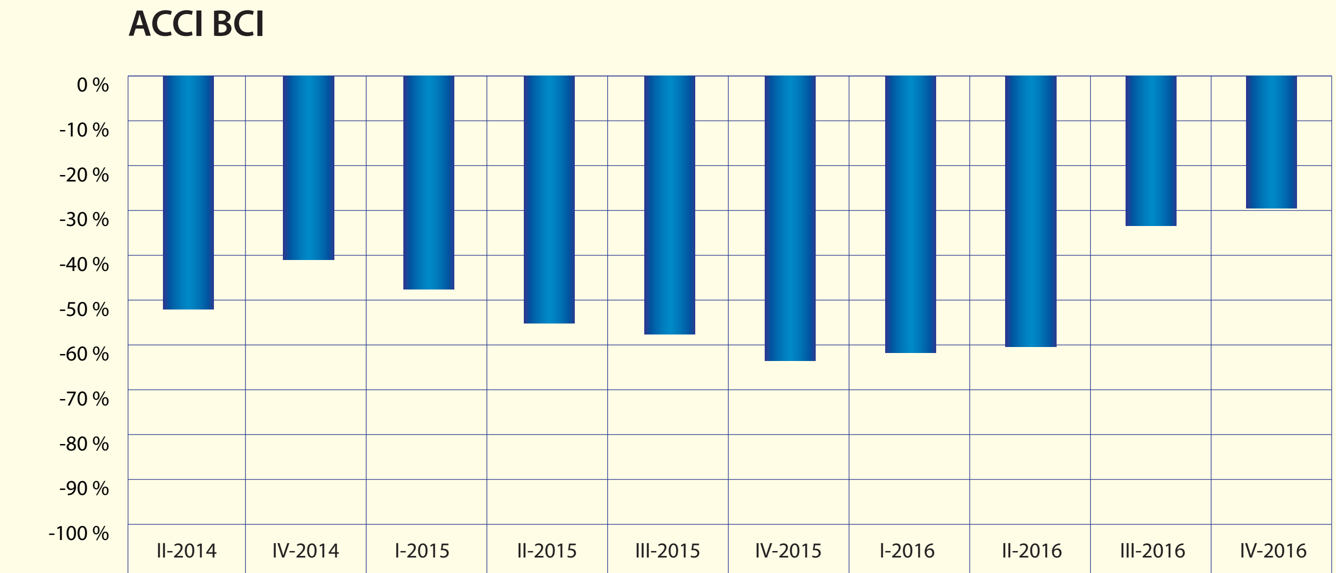

| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| SME | -5 | 29 | 11.9 | -5.4 | -33.1 | -27.4 | -14.8 | -13.9 | -12.1 | -16 |
| Large | 6 | 35 | 27.7 | 13 | -14.8 | -7.5 | 1 | -1.5 | -1 | -9.7 |

Graph 4: Business climate by company size overall, 2014 to 2016

## 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. The result figures are based on percentage balance values (positive minus negative answers).

Businesses have reported a minor improvement in their order books compared to previous survey. But, despite the improvement businesses are very far from reaching a positive order books indicator. In the last survey, the order books situation indicator was -33.39, while this time it is -29.51.




| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Situation | -52 | -41 | -47.6 | -55.2 | -57.7 | -63.6 | -61.8 | -60.4 | -33.4 | -29.5 |

Graph 5: Order books situation overall, 2014 to 2016 (in quarters per annum of survey conducted)

## C. Employment Expectation

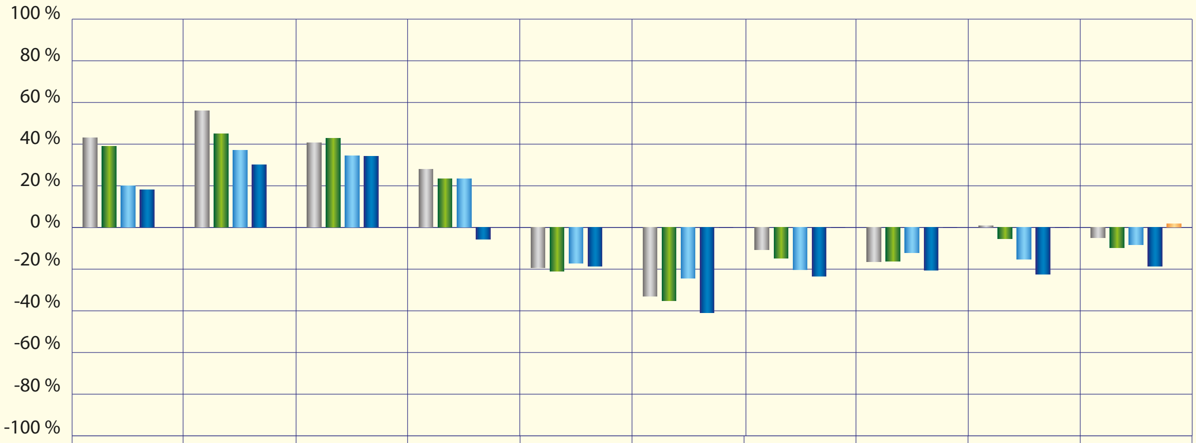
According to this survey companies are optimistic about the future of their employments, but during the last three months they have fired more employees than those they have hired.

The overall balance of future employment plans is (-1.13) points across the sectors which is lower than that of the previous survey (4.28).

It is worth mentioning that the real employment situation was different to what the businesses expected in previous survey. In October 2016, the surveyed companies expected about 4.28 points increase in their employments for the then coming three months, while this survey showed a more negative tendency in employment during last three months. The number of respondents who say they have decreased their employees is 13.34 percent more than those who say they have employed more people during last three months.

Construction (-18.57), Services (-9.66) and trades (-8.27) employees have lost more jobs compared to Manufacturing (-4.85). Agriculture is the only sector with positive employment balance (1.725)

### ACCI BCI




| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 43 | 56 | 40.6 | 27.9 | -19.4 | -33 | -10.6 | -16.4 | 0.9 | -4.8 |
| Services | 39 | 45 | 42.8 | 23.5 | -21 | -35.1 | -14.8 | -16.2 | -5.5 | -9.7 |
| Trade | 20 | 37 | 34.5 | 23.5 | -17.2 | -24.5 | -20.4 | -12.1 | -15.2 | -8.3 |
| Construction | 18 | 30 | 34.3 | -5.7 | -18.6 | -41 | -23.3 | -20.5 | -22.4 | -18.6 |
| Agriculture | | | | | | | | | | 1.7 |

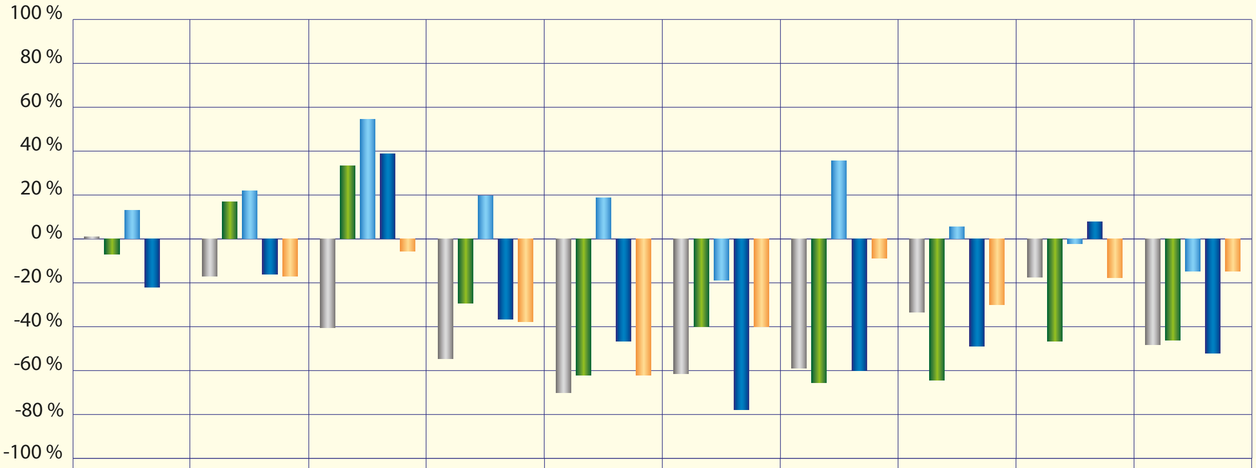
Graph 6: Employment expectations by sectors overall, 2014 to 2016

## D. Security Situation

In general businesses believe that security threats have increased for their businesses compared to last three months, and no province has a positive security condition indicator.

Nangarhar and Kabul reports the worst conditions. Kandahar with -14.78 points still sets on the top of all regions in terms of security but as indicated in the graph, this region has also witnessed worsening condition in recent surveys. Balkh businesses have not reported any significant change this time and Herat has shown a little improvement.

### ACCI BCI



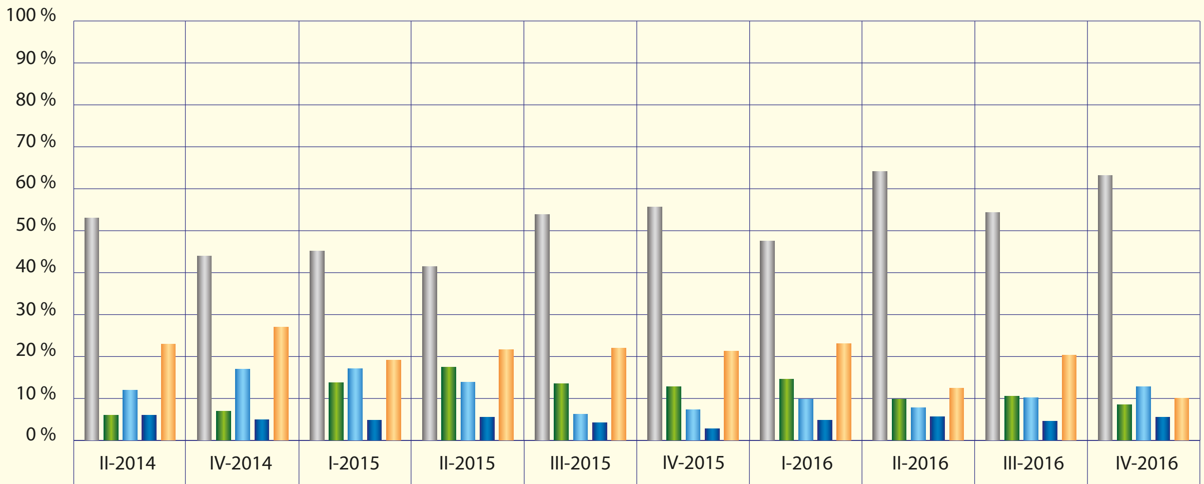

| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Kabul | 1 | -17 | -40.5 | -54.5 | -70 | -61.5 | -59 | -33.5 | -17.5 | -48.2 |
| Balkh | -7 | 17 | 33.3 | -29.2 | -62.2 | -40 | -65.6 | -64.5 | -46.7 | -46.1 |
| Kandahar | 13 | 22 | 54.5 | -19.8 | 18.9 | -18.9 | -35.6 | 5.6 | -2.2 | -14.8 |
| Nangarhar | -22 | -16 | 38.9 | -36.7 | -46.8 | -77.8 | -60 | -48.9 | -7.8 | -52.2 |
| Herat | 0 | 17 | -5.6 | -37.8 | -62.2 | -40 | -8.9 | -30 | -17.8 | -14.8 |

Graph 7: Perceived security situation by Province, 2014 to 2016 (Question: past 3 months)

## E. Desired Improvements for Business Development

Like most of previous surveys, the evaluation of major business constraints shows that the most important factor for business development is security; it is followed by better infrastructure, market and demand, administrative reforms and access to finance.

### ACCI BCI




| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-2016 | III-2016 | IV-2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Security | 53 | 44 | 45.2 | 41.4 | 53.9 | 55.7 | 47.6 | 64.1 | 54.3 | 63.1 |
| Administration | 6 | 7 | 13.8 | 17.5 | 13.6 | 12.8 | 14.7 | 9.8 | 10.5 | 8.5 |
| Infrastructure | 12 | 17 | 17.2 | 13.9 | 6.3 | 7.3 | 9.8 | 7.9 | 10.2 | 12.8 |
| Finance | 6 | 5 | 4.8 | 5.5 | 4.3 | 2.9 | 4.8 | 5.7 | 4.7 | 5.5 |
| Market | 23 | 27 | 19.1 | 21.6 | 22 | 21.3 | 23.1 | 12.5 | 20.4 | 10.1 |

Graph 8: Desired improvements for business development, overall, 2014 to 2016

## 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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Kabul, Dec 2016

## *Why Survey and Research*

- *To enhance a common understanding of business challenges*
- *To foster business intelligence*
- *To find hard facts and figures for PPD*
- *To draw proposals for improving the business climate*

## *Survey includes:*

- *Trained staff interviewers*
- *Standard methodologies and questionnaire*
- *Telephone interviews*
- *Nationwide*
- *All sectors of Economy*
- *ACCI Member/None Member companies*

## *Business Tendency Survey*

- *To monitor, analyze and forecast short term economic fluctuations*
- *Will be conducted with high frequency and by a very short questionnaire*
- *Larger and upper-medium sized firms (because they have a higher impact on economic fluctuation)*

## *Business Bottleneck Survey*

- *To identify longer term (more structural problems hindering business to develop (bottlenecks)*
- *Will be conducted with lower frequency and by a detailed questionnaire*
- *Bottleneck survey focus more on lower-medium and smaller sized firms, because they usually are faced with the bulk of problems and their much higher numbers are specifically important for employment and widespread income generation*

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