# ACCI Business Tendency Survey Report

**June 2017**

**2nd Quarter**

With the cooperation of GIZ

## ACCI Business Tendency Survey Report[1]

### Major findings

- The overall business climate has slightly improved during last two surveys, but no tangible change is reported compared to the same periods of last year. Companies remain optimistic about the coming six months, but the level of their optimism has decreased compared to the previous survey.
- Regional differences are considerable. Business condition has sharply improved in Nangarhar and Herat region has also a positive indicator; while Kabul, Kandahar and Balkh reported no significant change in their deteriorating businesses conditions.
- Agriculture is the only sector with positive business climate indicator in this survey while manufacturing and construction are the two most suffered sectors.
- Businesses have reported that their order books keep shrinking, but they are in a better position compared to the same season in 2016.
- Security, market and demand, and infrastructure are major desired improvements for business developments.
- Construction, Trade, Manufacturing and Service have fired more people than those that they have hired during last three months. Only Agriculture's employment indicator is positive.
- According to this survey companies are optimistic about their employment prospects (9.5), but the level of their optimism has decreased compared to the previous survey. Agriculture expects the highest rate of employment (33.1) and manufacturing the lowest (-0.6).

[1] The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The current survey was conducted in five regions (Kabul, Balkh, Kandahar, Herat and Nangarhar) and 705 companies were interviewed through phone during first week of June 2017.

## 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).

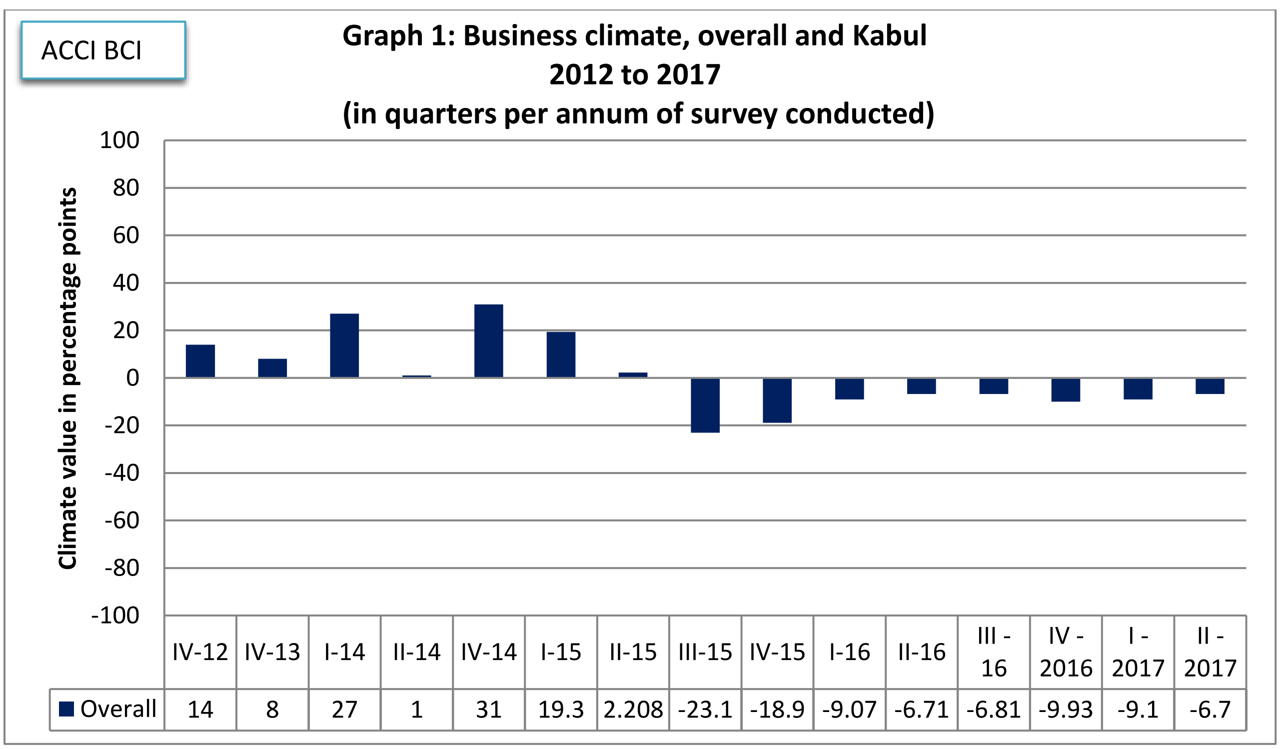
The Business Climate indicator is constructed from the judgments of managers on their present business situation and their business expectations for the next six months by a standardized and internationally used formula (for methodology see at the end of the report).

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

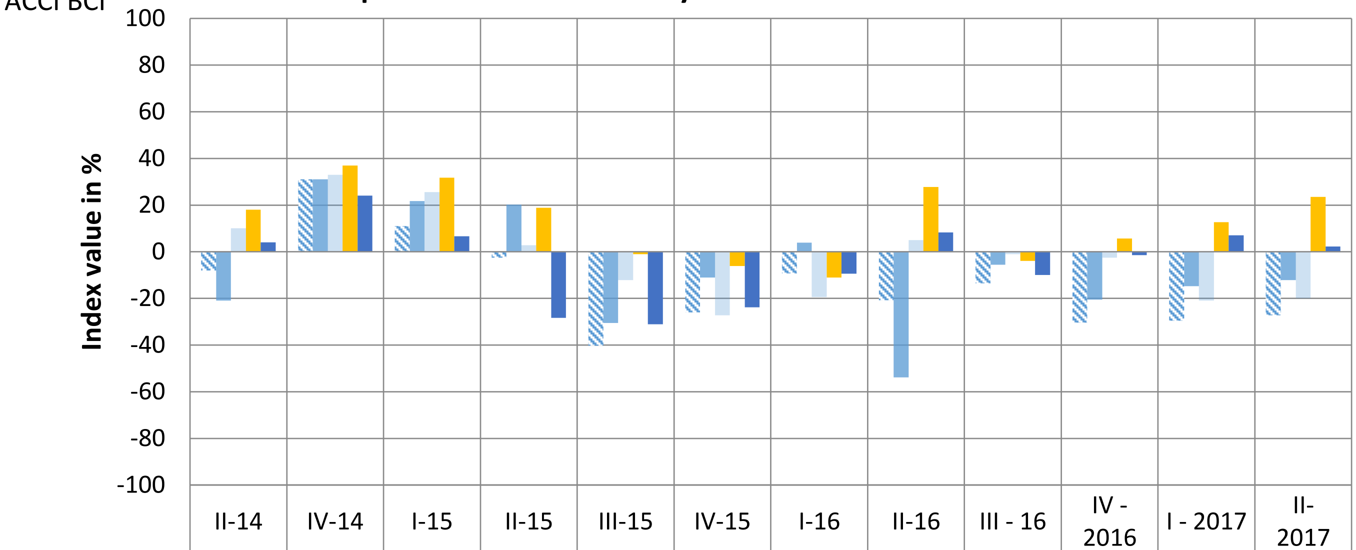
The overall Business Climate indicator in June 2017 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued (-6.7) points while in last survey it was (-9.1) points.

As shown in Graph 1. the overall business climate has slightly improved during last two surveys, while compared to the same periods of 2016, no tangible change happened. The surveyed businesses' level of confidence regarding their current condition has also slightly improved compared to the previous survey (-37.5→ -30.5) but their expectations regarding the coming six months (11.6 →9.5) have decreased. As usual, surveyed businesses maintain their optimism as far as their business plans and prospects are concerned, but they are not contended with what they have achieved during last three months.



Like first quarter 2017, only Nangarhar and Herat regions maintain positive business climate indicators, although this time Herat has experienced a downturn and Nangarhar businesses have reported a sharp improvement. Kabul, despite showing a very small sign of improvement sets at the bottom of regional ranking, while Kandahar and Balkh, both having negative business climate indicators remained unchanged.

**Graph 2: Business climate by Province 2014 to 2017**



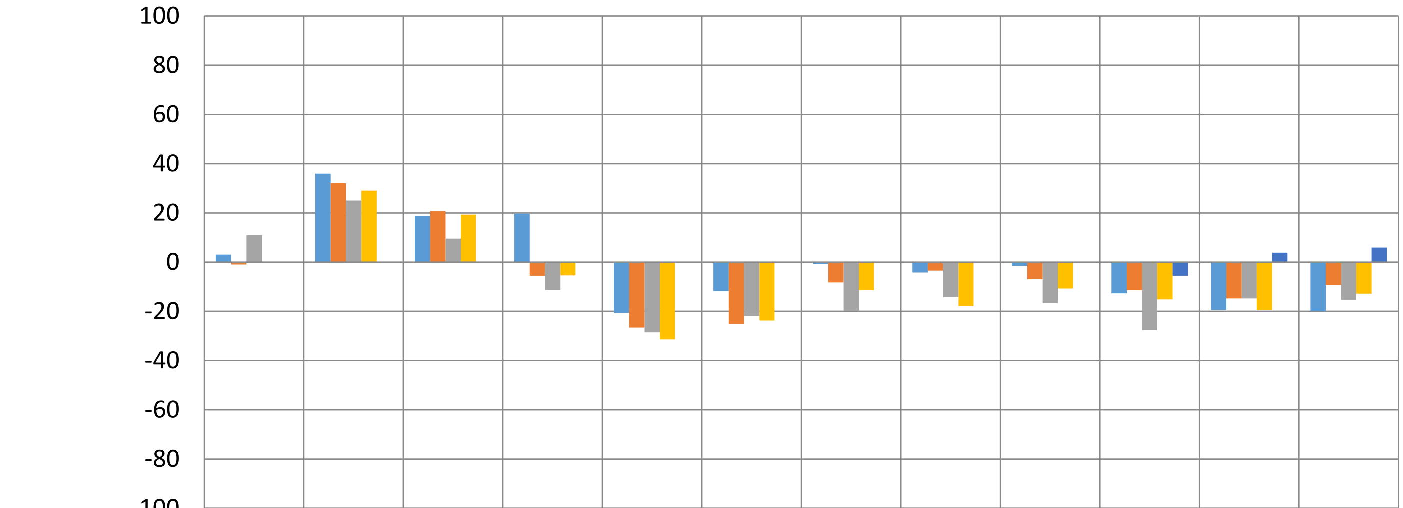

| | II-14 | IV-14 | I-15 | II-15 | III-15 | IV-15 | I-16 | II-16 | III - 16 | IV - 2016 | I - 2017 | II-2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Kabul | -8 | 31 | 11 | -2.5 | -40.25 | -26 | -9.25 | -20.75 | -13.5 | -30.405 | -29.6 | -27.2 |
| Balkh | -21 | 31 | 21.7 | 20.225 | -30.56 | -11.11 | 3.89 | -53.885 | -5.555 | -20.565 | -14.7 | -12.2 |
| Kandahar | 10 | 33 | 25.55 | 2.75 | -12.22 | -27.22 | -19.44 | 4.995 | -1.11 | -2.61 | -20.9 | -20 |
| Nangarhar | 18 | 37 | 31.7 | 18.89 | -1.11 | -6.11 | -11.115 | 27.78 | -3.89 | 5.65 | 12.6 | 23.5 |
| Herat | 4 | 24 | 6.7 | -28.325 | -31.11 | -23.885 | -9.445 | 8.33 | -10 | -1.47 | 7 | 2.2 |

## A.2- Business Climate by Sectors

Manufacturing (-20) and construction (-15.3) are the two most suffered sectors reporting the lowest business indicators and slightly worsened conditions. Services and trades have shown a minor positive change in their business conditions but both maintain negative indicators (-12.8 and -9.3 respectively).

Agriculture, which was added to the survey in last quarter of 2016, is the only sector with a positive business climate indicator (6).

**Graph 3: Business climate by sectors overall, 2014 to 2017**

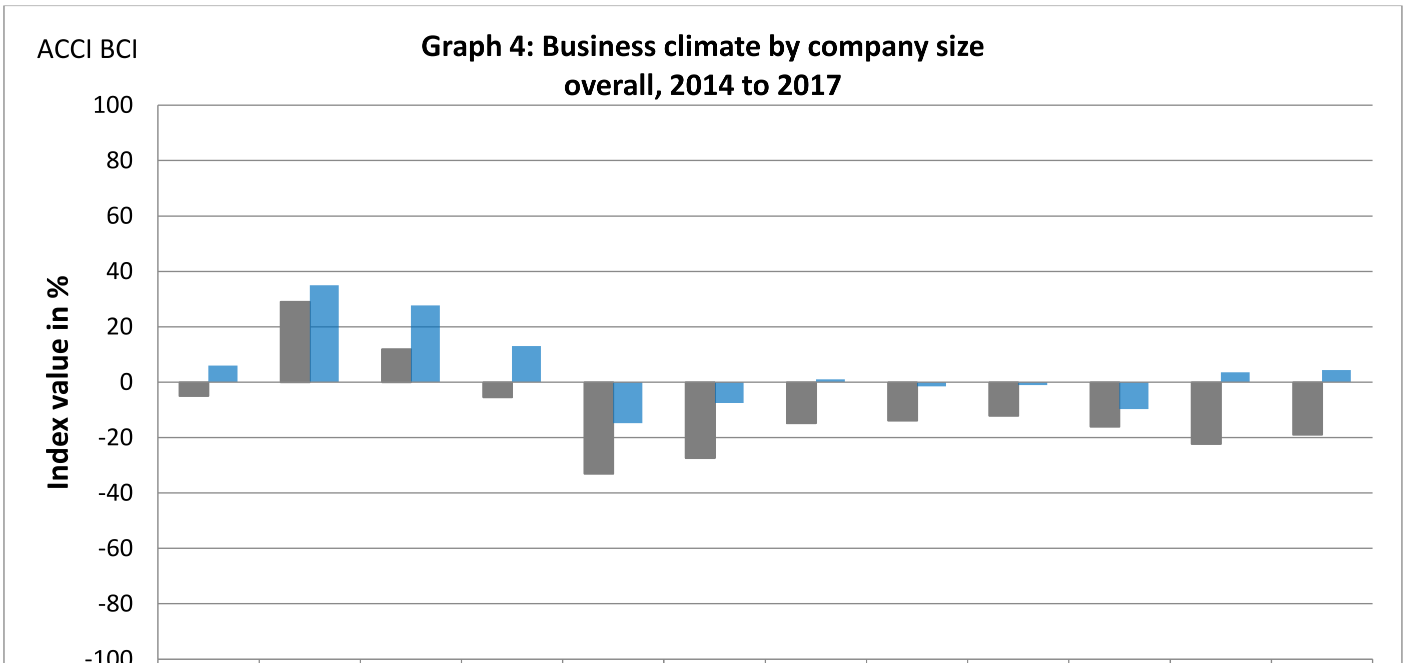



| | II-14 | IV-14 | I-15 | II-15 | III-15 | IV-15 | I-16 | II-16 | III - 16 | IV - 2016 | I-2017 | II-2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Manufacturing | 3 | 36 | 18.7 | 19.695 | -20.605 | -11.82 | -0.905 | -4.24 | -1.515 | -12.73 | -19.4 | -20 |
| Trade | -1 | 32 | 20.7 | -5.515 | -26.555 | -25.17 | -8.275 | -3.45 | -6.9 | -11.38 | -14.8 | -9.3 |
| Construction | 11 | 25 | 9.5 | -11.425 | -28.575 | -21.9 | -20 | -14.29 | -16.67 | -27.615 | -14.8 | -15.3 |
| Service | 0 | 29 | 19.3 | -5.4 | -31.38 | -23.79 | -11.38 | -17.93 | -10.69 | -15.17 | -19.4 | -12.8 |
| Agriculture | | | | | | | | | | -5.515 | 3.8 | 5.9 |

### A.3- Business Climate by Company Size

This Business Climate Survey, like the pervious one, shows that there is a meaningful difference between the perception of large companies and SMEs about the business condition. SME's have reported a negative business climate indicator (-19) which is slightly better than the first quarter (-22.3) but worse than that of the same season in last year (-13.88). In contrast, large companies have reported a positive business climate indicator, which is higher than the same season of last year and thereafter.

Although, both SMEs and large companies' optimism about the coming six months have decreased, large companies are more optimistic (9.5) compared to SME (1.2).

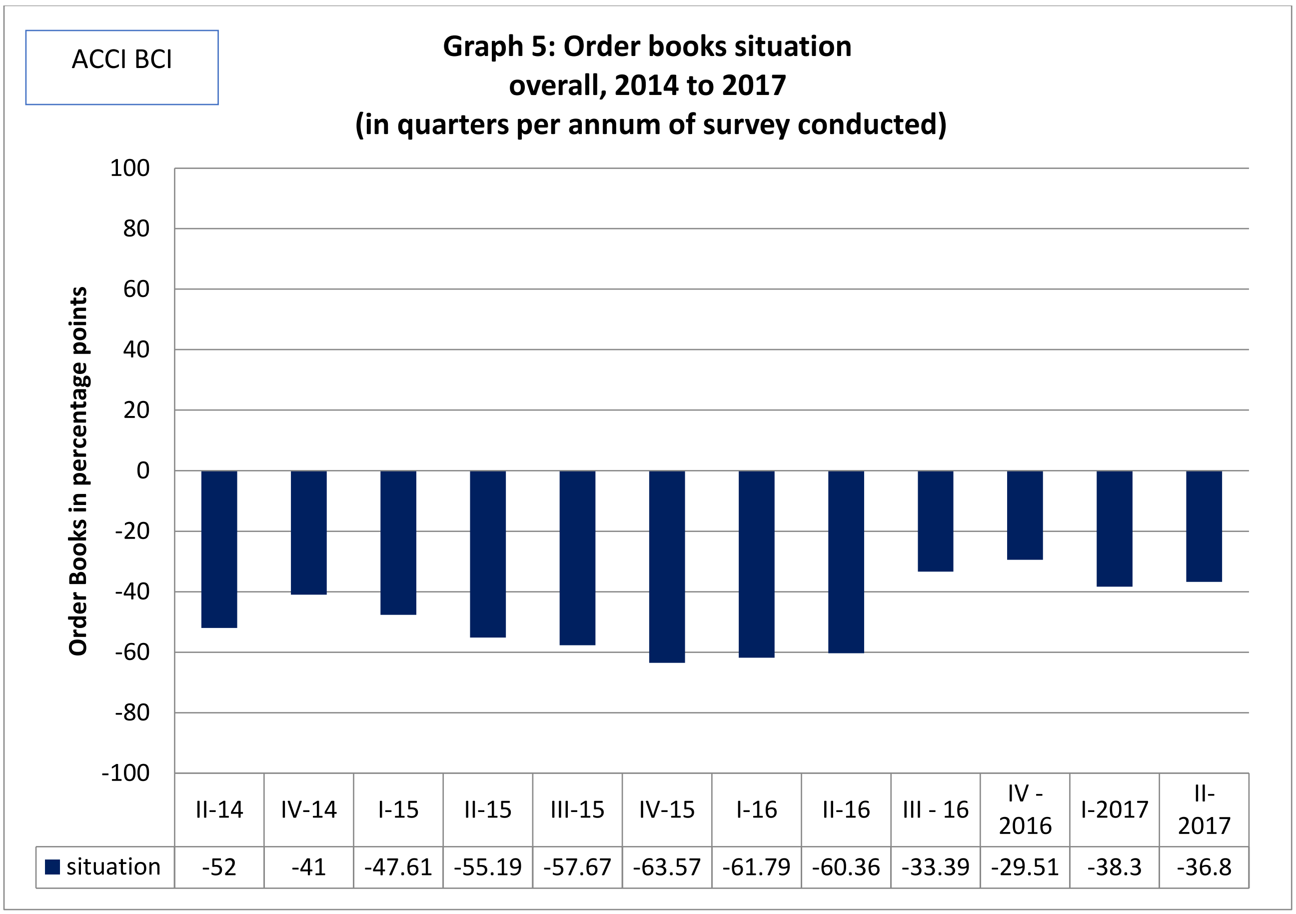



| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-16 | III - 16 | IV - 2016 | I-2017 | II-2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SME | -5 | 29 | 11.9 | -5.415 | -33.05 | -27.415 | -14.74 | -13.883 | -12.12 | -16.035 | -22.3 | -19 |
| Large | 6 | 35 | 27.7 | 13 | -14.8 | -7.5 | 1 | -1.5 | -1 | -9.73 | 3.6 | 4.4 |

## 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).

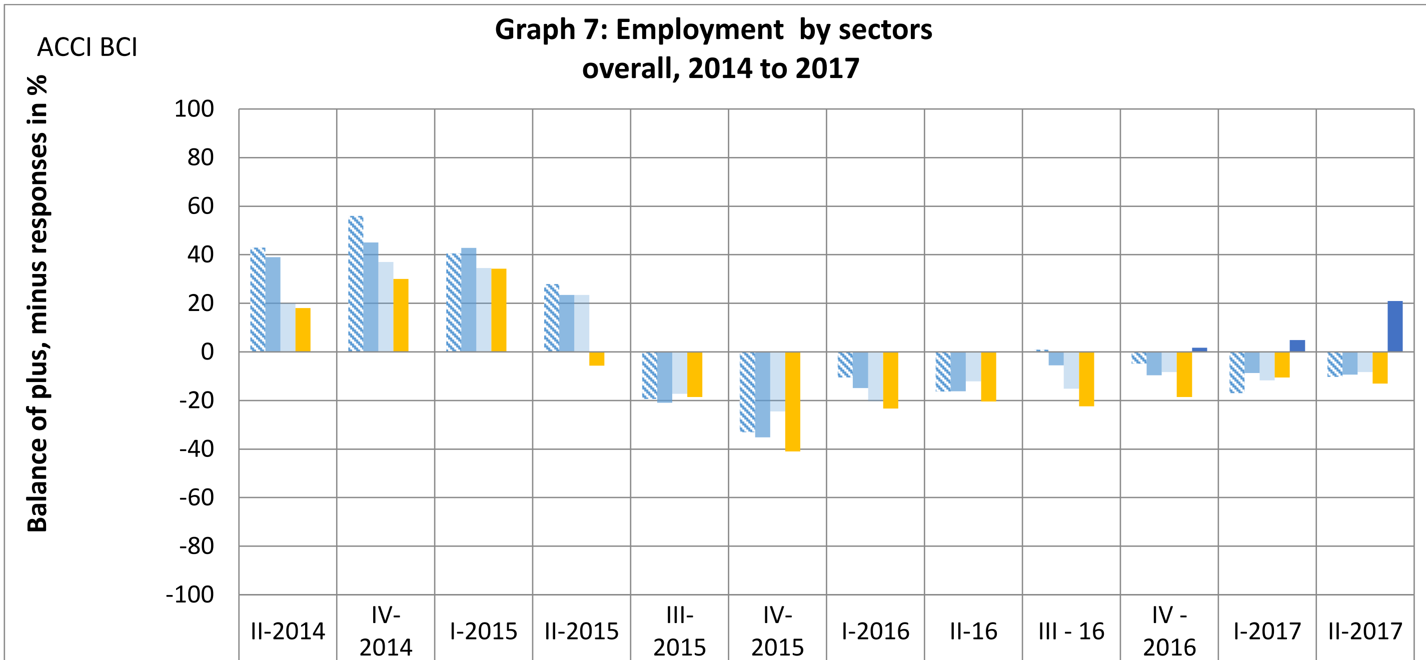
Businesses have reported that the situation has not improved significantly for their order books and their order books keep shrinking (38-8). It is worth mentioning that this figure is much higher than the border books indicator of the same season in 2016 (-60.36). Like previous survey Nangarhar is the only province with a positive order books' indicator (5.2) while Balk (-54) and Kabul (-50) have the two poorest indicators.



## C. Employment Expectation

Graph No. 7 shows the employment climate which is the arithmetic mean of the situation (balance value) and the expectations (balance value). According to this table the employment climate indicators of all sectors, except Agriculture, are negative.

According to this survey companies are optimistic about their employment prospects (9.5), but the level of their optimism has decreased compared to the previous survey. Agriculture expects the highest rate of employment (33.1) and manufacturing the lowest (-0.6).




| | II-2014 | IV-2014 | I-2015 | II-2015 | III-2015 | IV-2015 | I-2016 | II-16 | III - 16 | IV - 2016 | I-2017 | II-2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Manufacture | 43 | 56 | 40.61 | 27.88 | -19.39 | -33.035 | -10.605 | -16.365 | 0.91 | -4.85 | -17 | -10.3 |
| Services | 39 | 45 | 42.75 | 23.45 | -20.95 | -35.17 | -14.83 | -16.21 | -5.52 | -9.66 | -8.7 | -9.4 |
| Trade | 20 | 37 | 34.48 | 23.45 | -17.24 | -24.475 | -20.345 | -12.07 | -15.18 | -8.275 | -11.7 | -8.3 |
| Construction | 18 | 30 | 34.29 | -5.72 | -18.62 | -40.95 | -23.335 | -20.475 | -22.385 | -18.57 | -10.5 | -13 |
| Agriculture | | | | | | | | | | 1.752 | 4.9 | 21 |

It is worth mentioning that the real employment situation was different to what the businesses expected in previous survey. In March, the surveyed companies expected about 11 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 16.8 percent more than those who say they have employed more people during last three months.

Construction (-31.5), trade (-25.6), Manufacturing (-20) and Service (-19.4) have lost jobs while Agriculture has created jobs (8.9).

## D. Security Situation

The average indicator for security situation has considerably worsened (-36.4) compared to the previous survey (-26.2), and regional differences are high.

None of the regions have reported a positive security indicator, but Kandahar (-5.2), Nangarhar (-13.9) and Balkh (-14) regions are reported to be less insecure than Kabul (-64) and Herat (-53).

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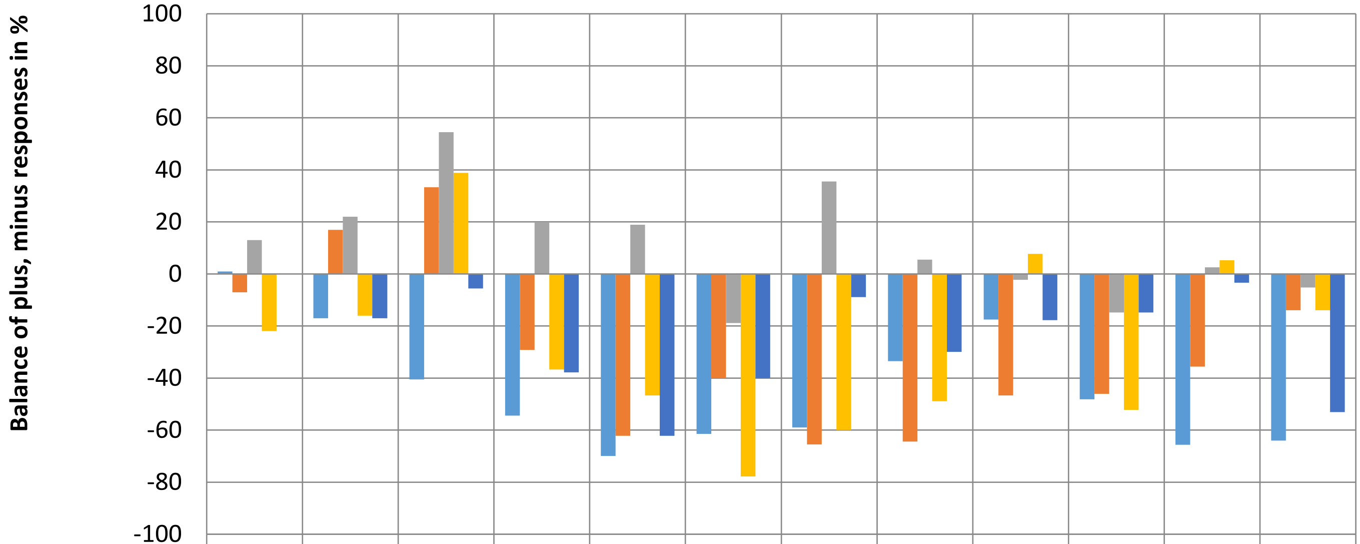
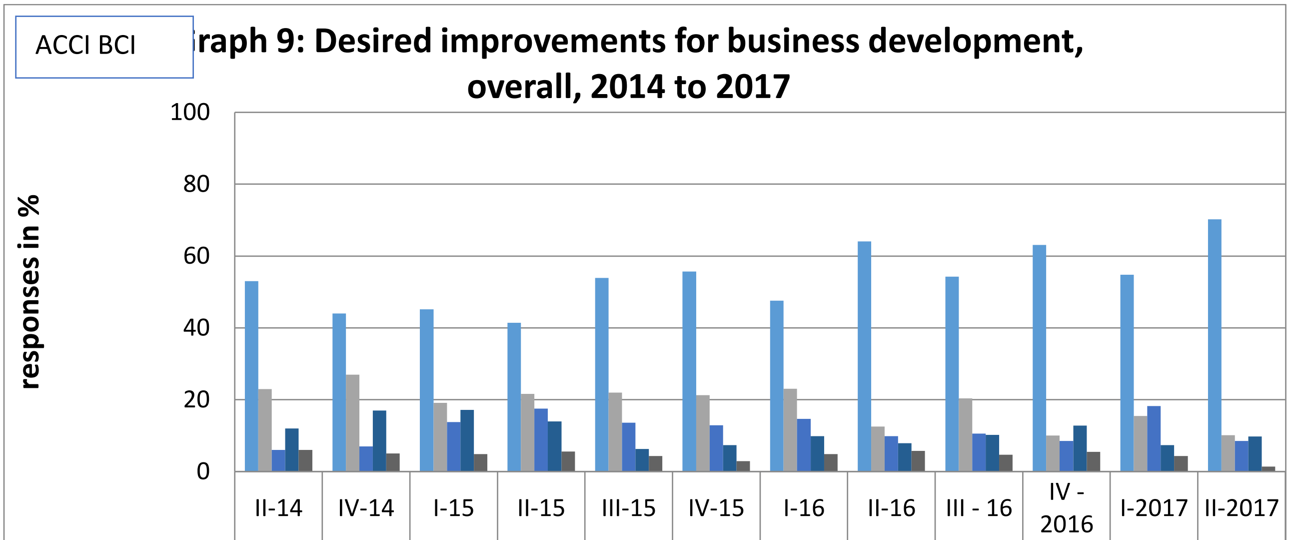
**Graph 08:**
**Perceived security situation by Province, 2014 to 2017**




| | II-14 | IV-14 | I-15 | II-15 | III-15 | IV-15 | I-16 | II-16 | III - 16 | IV - 2016 | I-2017 | II-2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Kabul | 1 | -17 | -40.5 | -54.5 | -70 | -61.5 | -59 | -33.5 | -17.5 | -48.17 | -65.7 | -64.1 |
| Balkh | -7 | 17 | 33.33 | -29.22 | -62.22 | -40 | -65.56 | -64.45 | -46.67 | -46.09 | -35.6 | -14 |
| Kandahar | 13 | 22 | 54.45 | 19.78 | 18.89 | -18.89 | 35.56 | 5.55 | -2.22 | -14.78 | 2.5 | -5.2 |
| Nangarhar | -22 | -16 | 38.88 | -36.67 | -46.67 | -77.78 | -60 | -48.89 | 7.77 | -52.18 | 5.2 | -13.9 |
| Herat | 0 | -17 | -5.55 | -37.78 | -62.22 | -40 | -8.89 | -30 | -17.78 | -14.78 | -3.3 | -53.1 |

## E. Desired Improvements for Business Development

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




| | II-14 | IV-14 | I-15 | II-15 | III-15 | IV-15 | I-16 | II-16 | III - 16 | IV - 2016 | I-2017 | II-2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Security | 53 | 44 | 45.18 | 41.43 | 53.93 | 55.71 | 47.58 | 64.11 | 54.29 | 63.12 | 54.8 | 70.2 |
| Market | 23 | 27 | 19.11 | 21.61 | 21.96 | 21.25 | 23.08 | 12.5 | 20.36 | 10.07 | 15.5 | 10.1 |
| Administration | 6 | 7 | 13.75 | 17.5 | 13.57 | 12.86 | 14.67 | 9.82 | 10.54 | 8.51 | 18.2 | 8.5 |
| Infrastructure | 12 | 17 | 17.14 | 13.93 | 6.25 | 7.32 | 9.84 | 7.86 | 10.18 | 12.77 | 7.4 | 9.8 |
| Finance | 6 | 5 | 4.82 | 5.54 | 4.29 | 2.86 | 4.83 | 5.71 | 4.64 | 5.53 | 4.3 | 1.4 |

## 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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