ACCI Business Tendency Survey Report

March 2014

With the cooperation of GIZ

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Business Tendency survey shows improvement in all four sectors, same to our last report manufacturing performance is the best among the four surveyed sectors. Kabul, Balkh and Kandahar business has improved compared to last survey (Oct 2013). The overall climate indicator shows a higher value because of better climate in Nangarhar.

According to this Business Tendency survey business climate for SMEs in Kabul, Balkh and Kandahar has sharply improved, whereas larger companies are even more positive compared to the last survey (October 2013).

The companies in general had a too optimistic outlook in 2013 compared to their judgment on the real situation in 2014 regarding the future book orders.

This survey reveals that the weather and climate changes effects the Construction and Services sectors more than trade and manufacturing. Meanwhile the survey reveals that SMEs highly suffer from the volatile and unstable business condition. They are more vulnerable to changes in business climate caused by weather, politics or security factors.

The comparison overtime shows that Balkh security has dramatically improved in perception of companies, followed by Kandahar, while Kabul security is deteriorated. Nangarhar companies reported the poorest security condition.

Female presence in businesses is very low but this time the number of respondents who said their businesses are owned by female or there are female shareholders in their companies is doubled compared to last survey, which does not necessary mean any increase in female business ownership and can be seen as higher presence of female owned businesses in this survey samples.

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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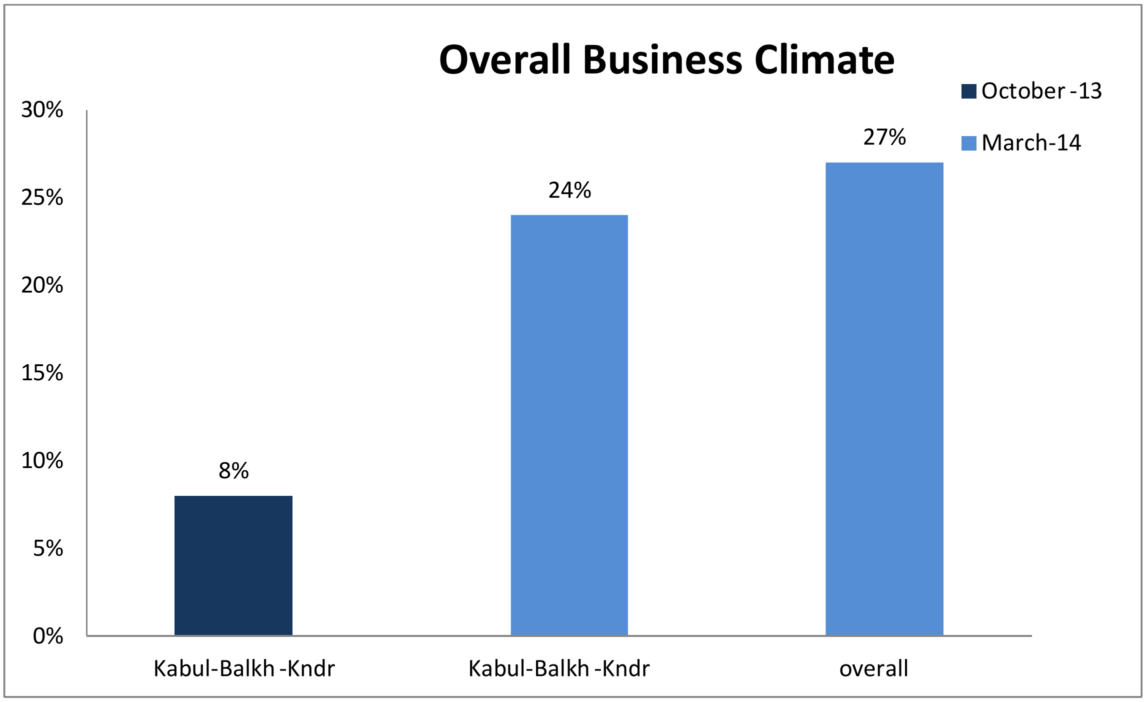
* The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The first survey was carried out in December 2012 in Kabul and Balkh regions and second survey in October 2013 covers Kabul, Balkh and Kandahar.

This time the survey is done in Kabul, Balkh, Kandahar and Nangarhar Therefore, comparison over time is made for Kabul, Balkh, and Kandahar regions, whereas for Nangarhar the present situation is evaluated.

A.1- Business Climate overall and by Region

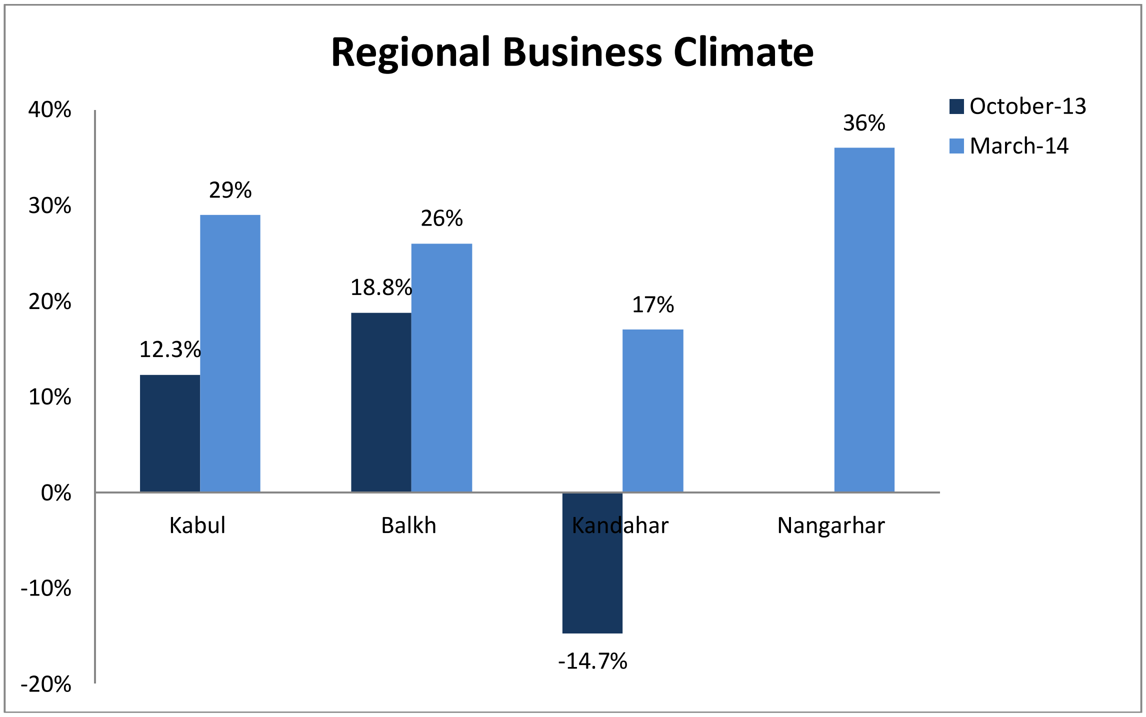
The overall business climate indicator in Oct 2013 for Kabul, Balkh and Kandahar regions altogether valued 8 points and in March 2014 it improved to 24. Nangarhar region shows better business climate and therefore the overall business climate indicator for all four regions together in March 2014 is 27 points. Since Nangarhar is included for the first time, no comparison of the four region business climate is possible.



Graph 1a. Overall Business Climate, October 2013 and March 2014

The regional business climate in March 2014 shows that Nangarhar (36) enjoys the best climate and Kandahar (17) stands at the lowest point of the regional ranking. Kabul (29) and Balkh (17) are in between.

The integrated business climate in Kabul, Balkh and Kandahar show higher value compared to the last survey in Oct 2013. The main reason behind this positive inclination can be seasonal affects and the more positive expectations for next six months, since this survey happened at a time when the winter had just ended and the most suitable seasons were to follow.



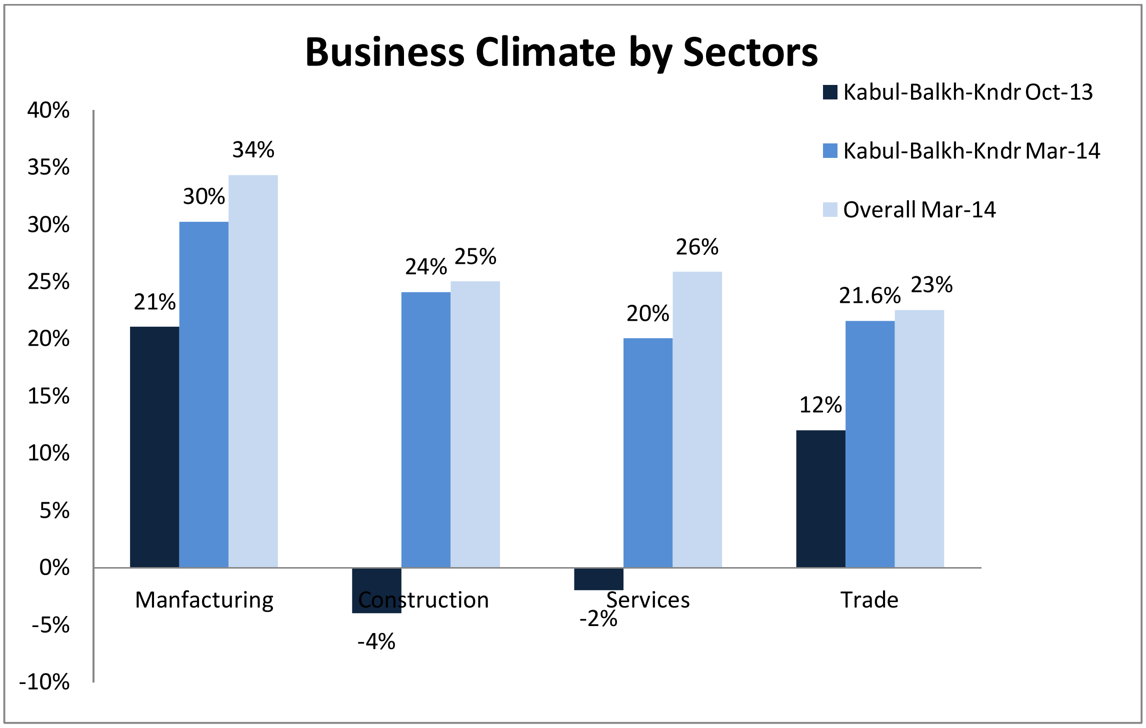
Graph 1b- Business Climate by Regions, Oct 2013 and March 2014

A.2- Business Climate by Sectors

This survey shows sharp improvements in all four sectors, and like our last survey in April 2013, manufacturing tops in sectoral ranking. The manufacturing climates in Kabul, Balkh and Kandahar show considerable improvements compared to last survey (Oct 2013). The overall climate indicator for manufacturing shows even higher value, because of a comparatively better climate in Nangarhar.

The most surprising outcome of this survey is an extreme change of climate in services and construction. In the last survey the business climate indicator for construction was (-4) and for services it was (-2); while in current survey those indicators have sharply increased to positive 24 and positive 20 respectively. This can only be explained by the huge impact of weather and climate changes, which also spotlights the lack of infrastructure and its adverse effect on construction and services businesses in Afghanistan.

In contrast, the trade and manufacturing sectors look more stable and less affected by the climate changes, with a more reasonable change of climate indicator.



Graph 2. Business Climate by Sectors, October 2013 and March 2014

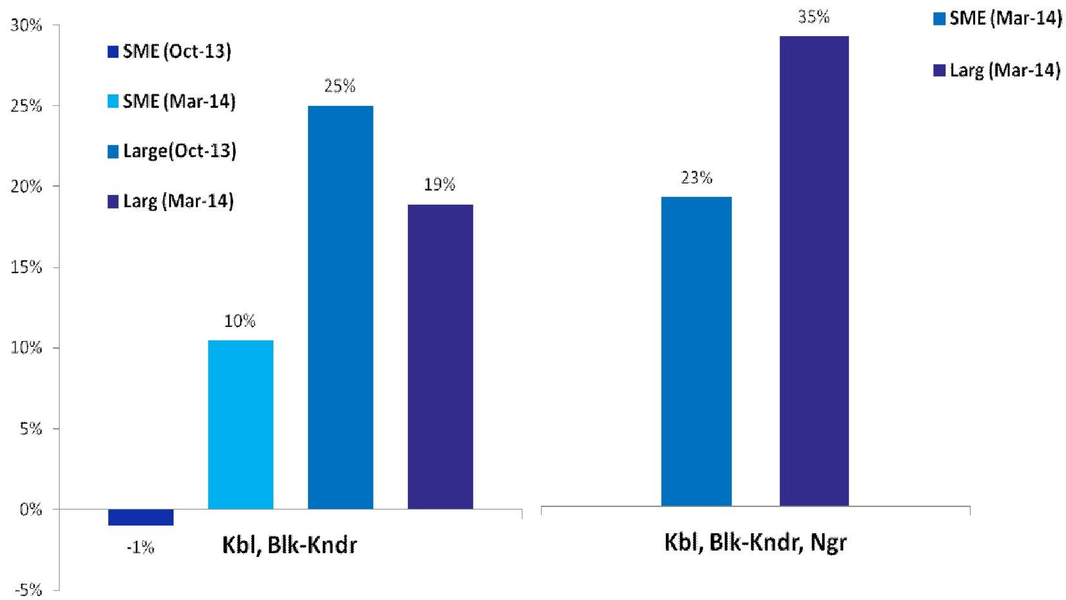
A.3- Business Climate by Company Size

According to this Business Tendency survey business climate for SMEs in Kabul, Balkh and Kandahar has sharply improved, whereas larger companies are even more positive compared to the last survey (October 2013). Business Climate Indicator values for SMEs in Kabul, Balkh and Kandahar were (-1) in October 2013, and (21) in March 2014.

The extraordinary inconsistency between the results of the last and current surveys for SMEs shows that this category of businesses highly suffers from a volatile and unstable business condition. They are more vulnerable to changes in business climate caused by weather, politics or security factors.

The Business Climate for larger companies in those three regions also shows an important but consistent increase. Due to the higher expectations for coming six months, the business climate indicator for large companies has moved up by 5 points from 25 in October 2013 to 30 in Mach 2014.

With Nangarhar results included, the business climate indicator for SMEs and large companies indicate even more favorable climate.



Graph 3. Overall Business Climate by Company Size, October 2013 and March 2014

B. Order Books

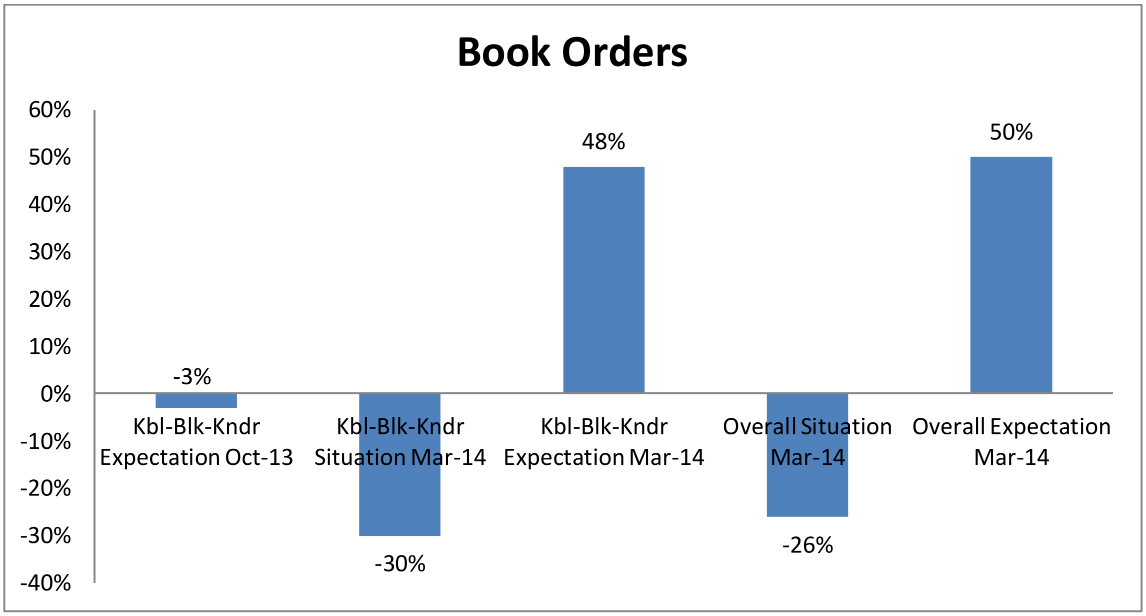
The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. However, the result figures are based on percentage balance values (positive minus negative answers).

In last Survey, Kabul, Balkh and Kandahar companies' expectation for the increase of their order books valued -3 (percent balance of positive minus negative expectations), but this March their expectations increased to 48.

Comparing the current situation (-30) of the order books with what the companies expected (-3) in previous survey show an extreme difference, and that the real situation of the companies' book orders was much worse than what they were expecting.

The regional differences in analyzing the current situation the book orders were considerable with Nangarhar (-9) and Balkh (-43) positioned in two extreme ends and Kandahar (-19) and Kabul (-29) in between.

The companies in general had a too optimistic outlook in October 2013 compared with their judgment on the real situation in March 2014.



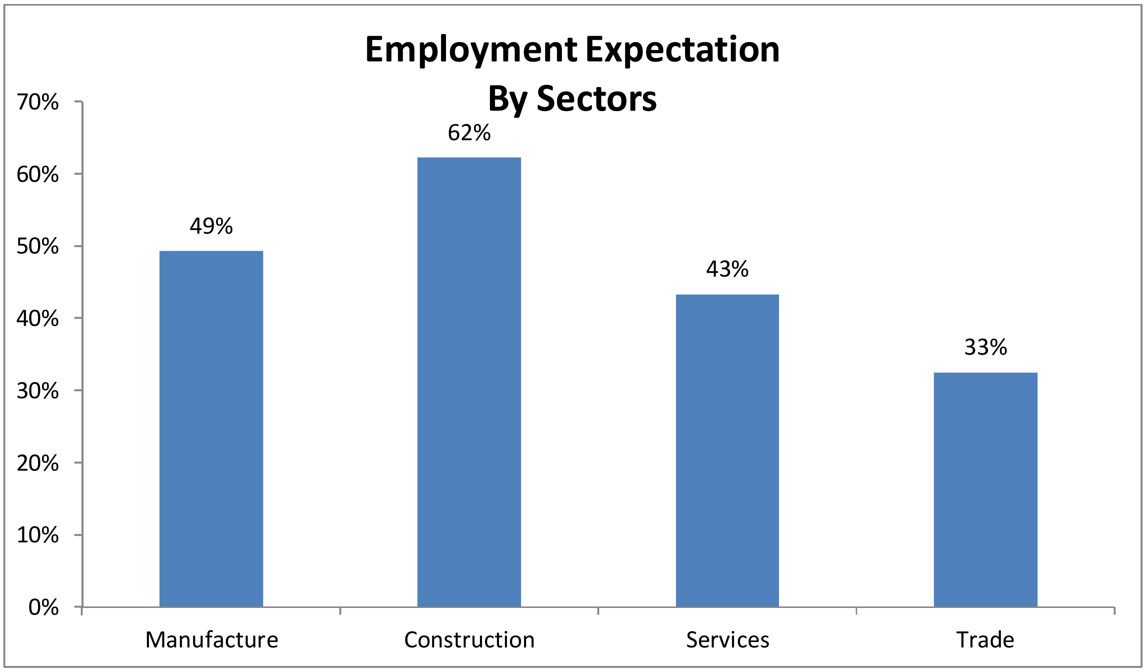
Graph 4. Overall Order Books' Expectations in October 2013, Situation and Expectations in March 2014

C. Employment Expectation

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

The balance of the employment plans is 62 points in Construction, 49 points in manufacturing followed by services 43 point and in Trade 33 points.

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

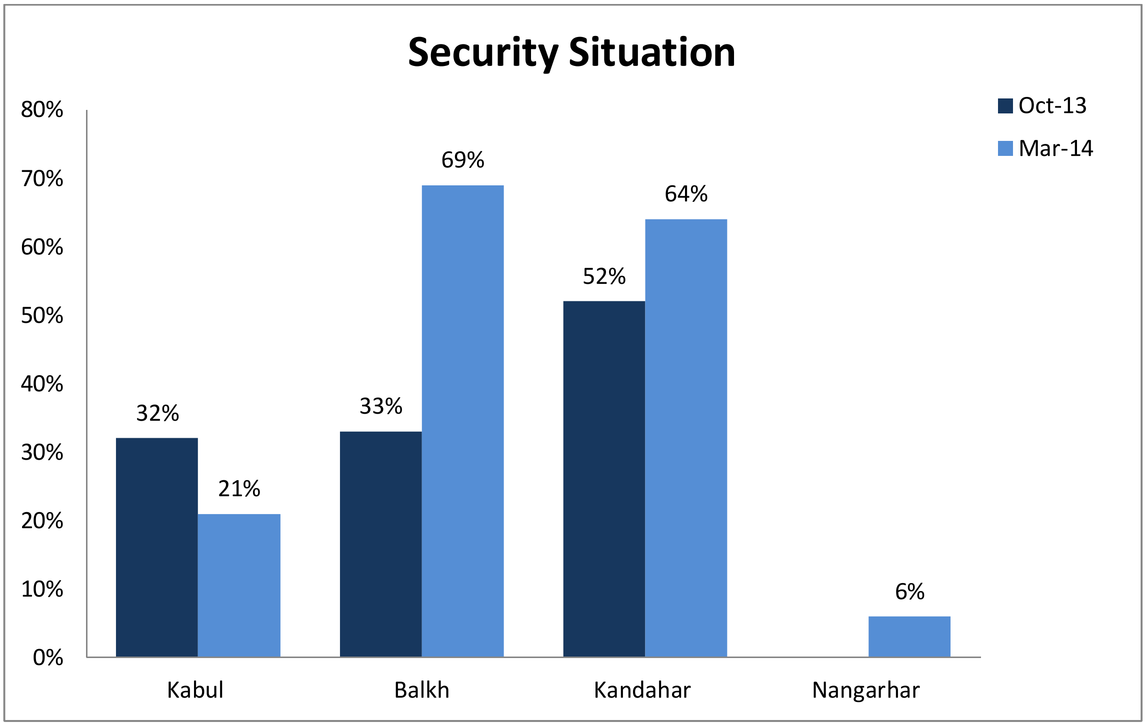


Graph 5. Employment Expectations by Sectors, March 2014

D. Security Situation

Business managers in Balkh and Kandahar regions reported clear improvements in their security situation during last three months while Kabul showed a decline from 32% to 21%.

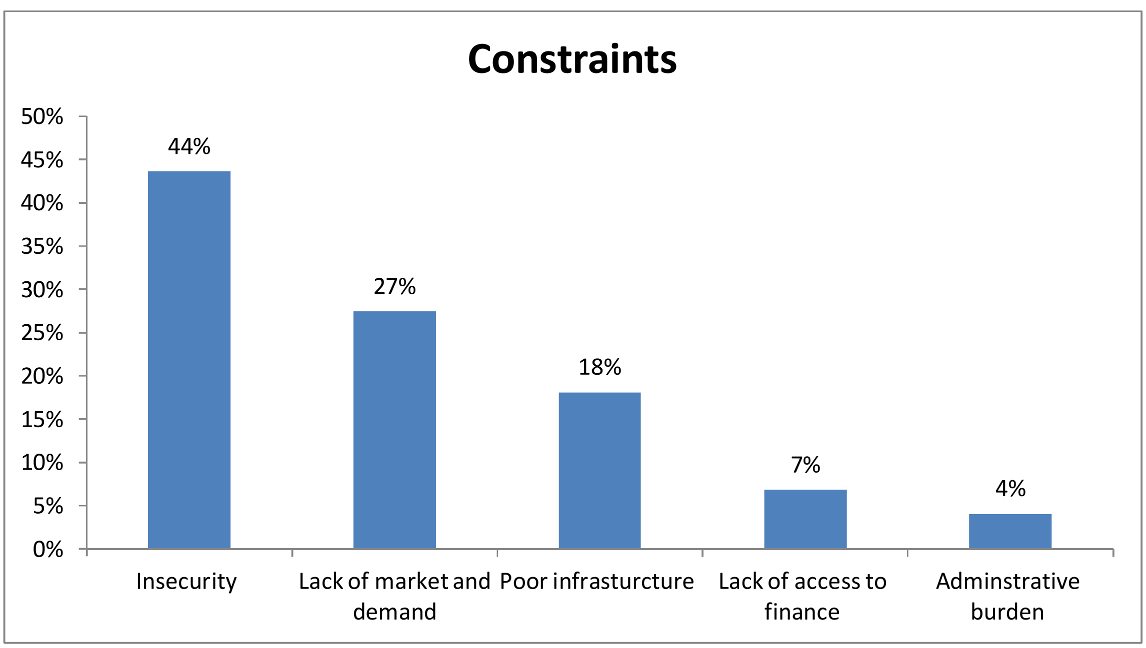
The comparison overtime shows that Balkh security has dramatically improved in perception of companies from 33% in October 2013 to 69% in March 2014. Also in Kandahar, businesses have reported a considerable improvement in their security (from 52% to 64%) during the last three months. In contrast, Kabul companies have reported that their security condition has deteriorated from 32% in October 2013 to 21% in March 2014.



Graph 6. Security Situation October 2013 and March 2014

E. Constraints to be removed

The evaluation of major business constraints shows that the most important factor for business development is considered to be security; it is followed by lack of market and demand, poor infrastructure, lack of access to finance and administrative burdens.



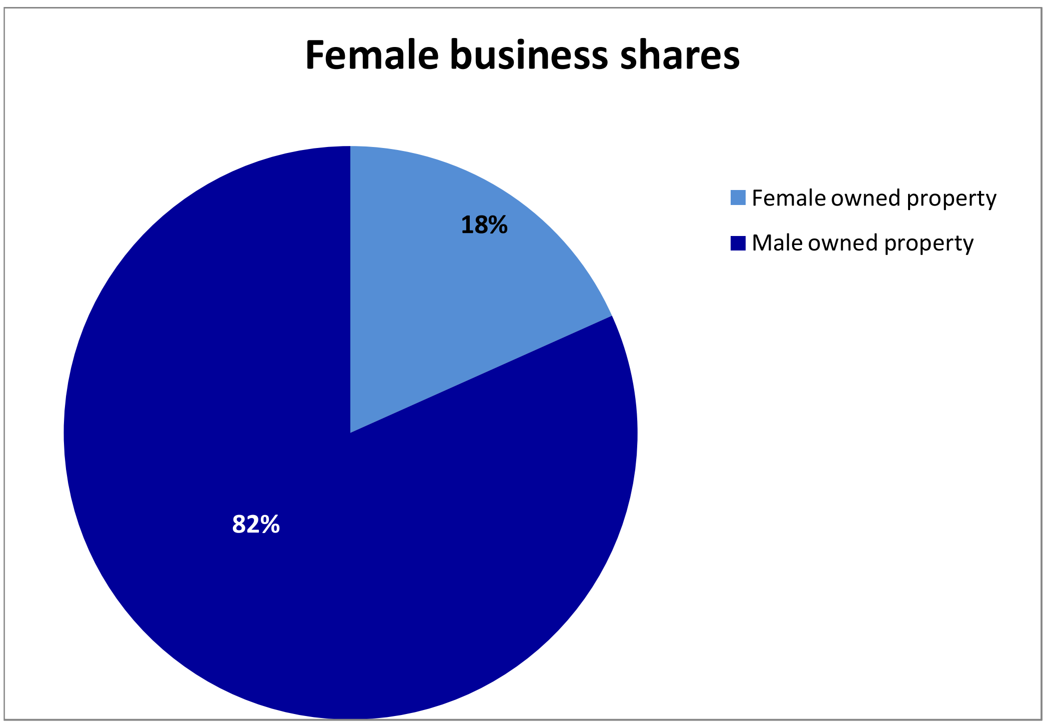
Graph 7. Overall rank order for constraints to be removed for better business development, March 2014

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, 18% of the respondents said that their businesses are owned by female or there are female shareholders in their companies.

Afghan businesses are highly male dominated, however this time the number of respondents who said their businesses are owned by female or there are female shareholders in their companies is doubled compared to last survey, which does not necessary mean any increase in female business ownership and can be seen as higher presence of female owned businesses in this survey samples.



Graph 8. Gender of Business Owners March 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).

Prepared by: Younus Negah, Tamana Nazar and Dr. Masood Parwanfar

Interviewed by: Nasartullah Wais, Parwiz Hameedy, Massiullah Noorzad and Massoma Bahar

Contacts: research1@acci.org.af

Mobile No: 0795383875