Afghanistan Chamber Of Commerce & Industries

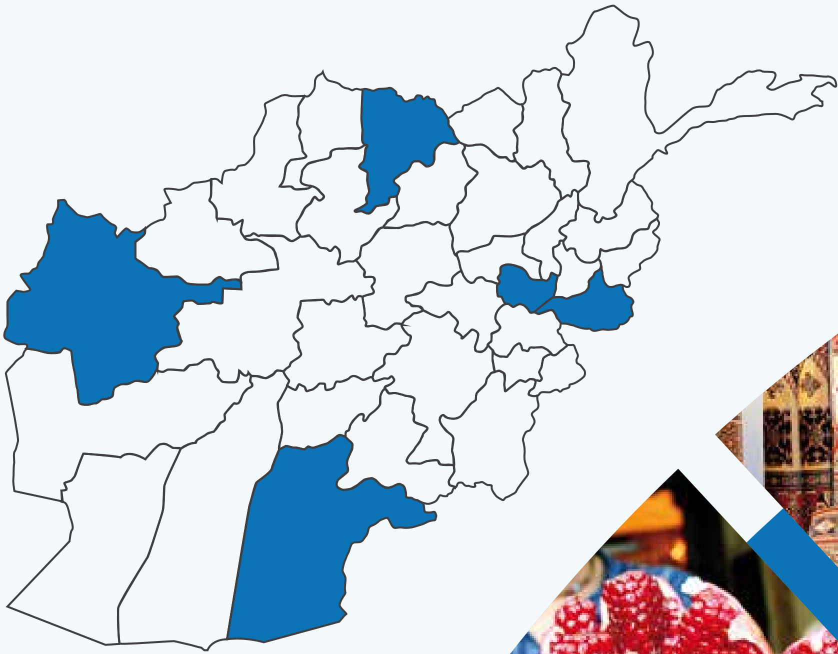
اتاق تجارت و صنایع افغانستان

دافغانستان د سوداګرۍ او صنایعو اتاق

ACCI Business Monitor

Business Monitor 2017

Business have reported that their order books keep shrinking



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 expectation for the next six months.

Bottleneck Survey

Tendency Survey

ACCI Business Monitor Survey

Foreword

I am glad that during last six year we have systematically studied business tendencies and bottlenecks by conducting quarterly annual 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. These surveys reveal that the Afghan private sector has suffered a lot in recent years due to the deteriorating business climate.

Meanwhile, the Afghan government seems committed in supporting the Afghan private sector and therefore we see some positive developments. For instance a number of measures prioritized by the private sector are realized, such as the completion of WTO accession process; the start of TIR system implementation; the establishment of one stop shop; the approval of a mechanism on easy visa facilitation for foreign investors and businesspeople; the establishment of an alternative dispute resolution mechanism; the approval of an Open Access Policy to build and operate fiber optics and broadband Internet and; the launch of Kabul-Delhi and Kabul-Mumbai air cargos.

I should add that these measures need proper follow ups and will yield real and tangible results when they are regularly monitored and supported to reach the targeted outcomes; which in some cases we fail to do so. For instance, it still takes days, not hours to renew a business license in the One Stop Shop because of unnecessary bureaucracy and complex tax clearance conditions. Meanwhile, the initiative was designed to be expanded to all seven regions, which has not taken place and the majority of businesses functioning outside the capital have no access to this facility.

The poor business condition indicates that these reforms are not big enough to cause real changes. According to our recent surveys, insecurity, lack of access to energy, lack of proper infrastructure, shrinking market demand and lack of access to skilled labor are major business obstacles and any business environment reform will only make real sense when those obstacles are targeted.

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 160 and for each province about 50 companies. The interviews for this survey were conducted by phone in November 2017. 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 2017. The sample size was 360 companies which were interviewed by telephone.

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

1. 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.

2. The Business Bottleneck Survey reveals that the lack of qualified labor force is problematic in all regions, but Nangarhar and Herat have reported comparatively more problems.

3. Infrastructure is a cross-sector and countrywide problem. Like previous years the majority surveyed businesses say they have infrastructural problems. The lack of access to electricity is their utmost limiting infrastructural problem.

4. The conditions for registration and extension of business licenses have improved compared to last year.

5. In total surveyed businesses' perceptions regarding the public tendering conditions have improved compared to last year, but companies in Nangarhar are highly unhappy with the public tendering conditions, while in Kabul, Balk and Kandahar also minority of the survey companies called for reforms in current tendering procedures.

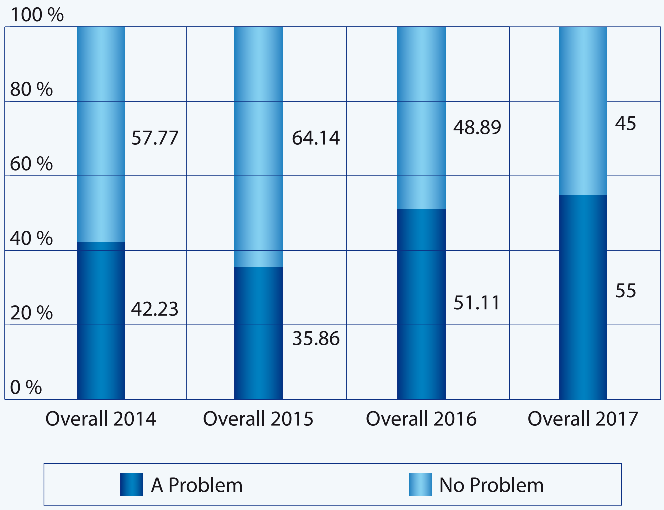
6. Businesses are unhappy about the existing tax system and more than %60 of companies in all regions say that they have problems with tax system. More than half of companies who have problems in tax system stated that “taxes are too sophisticated and therefore not transparent".

Business Buttleneck Survey

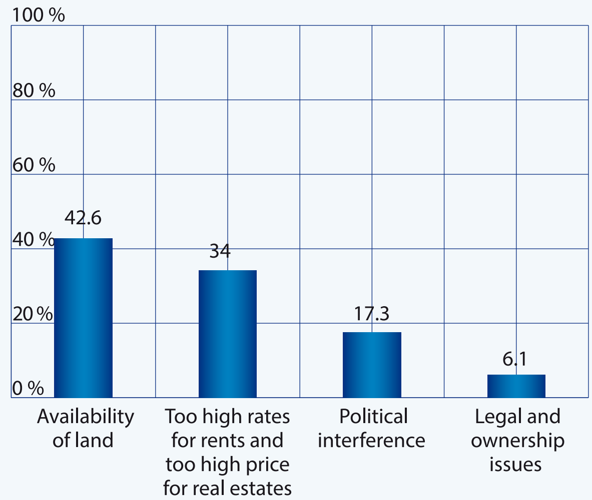
a) Getting Land

The Business Bottleneck Survey shows that 55 percent (compared to 51.1 percent one year ago,) of the respondents across the country regard getting land as a problem, and 45 percent (48.9 percent in 20156) say it is no problem to obtain or rent land. The survey reveals that getting land is a crosscutting concern but small size enterprises say it is slightly harder to get land for economic use compared to large and medium companies. Among the different economic sectors, Trades (%60), Manufacturing (%58.8) and Construction (%58.6) suffer more than Services (%44.3) and agriculture (%53) from the problems in getting land. Trades, Construction and Agriculture sectors reported that their problems in getting land have worsened compared to last year, while Services and Manufacturing have reported a slight improvement.

Most of companies (%42.60) have said that the unavailability of industrial land for real estate is a major problem for their businesses, and %34 of companies have marked the high prices and rents for real estate as a reason for their negative assessment. For a considerable number of companies (%17.3) of the companies, political interference is a major problem. Legal and ownership issues are also noted by a small number of respondents (%6.1) as obstacles in obtaining land.



Graph 1- Getting Land



Percent

b) Availability of Finance

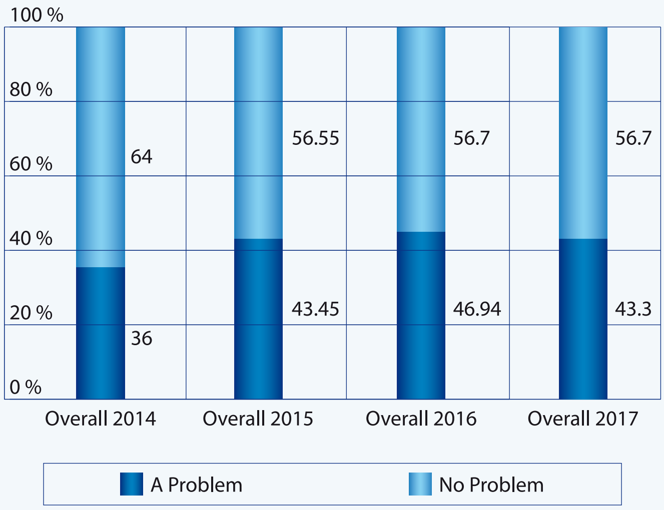
Although the financial system grew quickly during last one and half decade, it is still under-developed and its role in economic activities remains very limited. While exact numbers are not available, only a small segment of the private sector has access to formal financial services. Many businesses 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 43 percent of the respondents say that they have problems in access to finance, whereas 57 percent say they have no problem. Regional differences are considerable. In Kabul, like last year 41 percent of the surveyed companies reported problems. In Kandahar 56 percent of businesses complained about the lack of access to finance which is considerably lower than last year (%70). Nangarhar (38) and Herat (36) have reported the lowest problems, and half of Balkh surveyed companies believe that access to finance is a problem. It is worth mentioning that last year only %18 of Herat surveyed companies had 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). There is a considerable change in the perception of SME's in terms of access to finance. In 2015, large companies reported more problems than SMEs, but in 2016 both there was no meaningful difference between SMEs (%47) and large companies (%46.6); while this year the number of SME's who complained about the lack of access to finance (45.5) was about 10 percent higher than large companies (36.7)

Manufacturing and agriculture companies report the highest (more than %47 each) and trades report the lowest (%37) problems. It is worth mentioning that the number of Manufacture and Agriculture companies who complain about the lack of access to finance has considerably decreased compared to last year (%62). Around %41 of Services and %43 of construction companies say they have problems in obtaining loans.

Like previous years the majority of companies (%50.6) who face problems in obtaining finance have marked high interest rates as the main reason. %26 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 the need of political connections & were main reasons.



Graph 2- Availability of Finance

c) Tax System

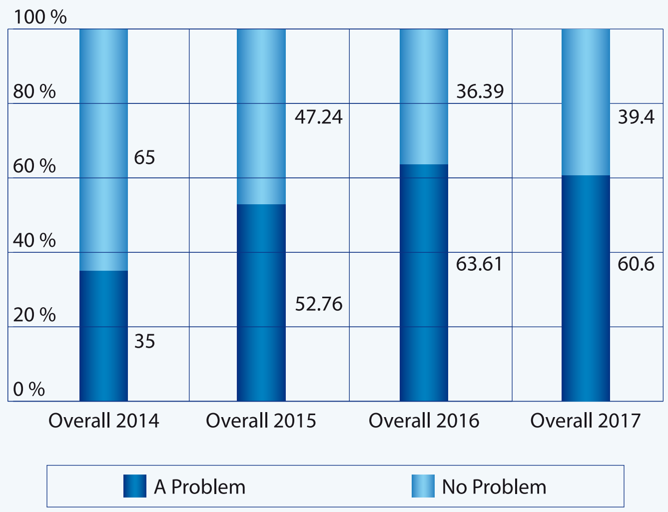
Enterprises in Afghanistan are confronted with a complex taxation system consisting of a wide range of different taxes. The system is regarded by the private sector as complex, confusing and unpredictable opening the door for bad practices. In addition to that, businesses are unhappy with the introduction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

Businesses are unhappy about the existing tax system and %60.6 of companies across the regions say that they have problems with tax system, compared to 63.6 % for last year.

In all sectors the number of companies who say they have problems with tax system is higher than those who say the opposite, but Construction companies (%67) are more pessimist than Services (54.3), Agriculture (58.6), Manufacturing (61.3) and trades (61.4).

Small (%61) and large (%64.4) companies have reported more problems than medium companies (%57.8).

More than half of companies who have problems in tax system stated that "taxes are too sophisticated and therefore not transparent". About %36 of the surveyed companies said that the current tax system is unjust and arbitrary and about %13 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

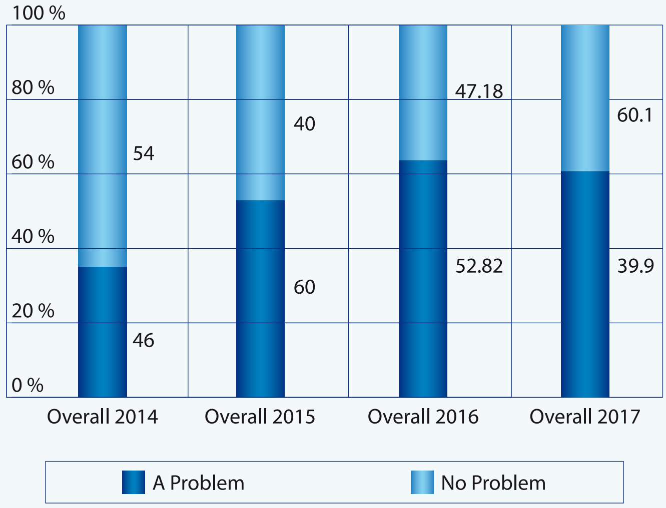
The business community often complains that border posts lack modern infrastructure, such as storage facilities and technical laboratories. Furthermore, the custom procedures in place are regarded as complicated and arbitrary opening the door for duplicative charges and duties at border posts and inside 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 %52.8 of the businesses, who dealt with customs, were not happy with the custom condition while this year 49.4 % of the businesses in the same regions complained so. The regional differences are high as before: About %55.6 of surveyed businesses who deal with the customs in Balkh, %41.5 of the same category of companies in Kabul says they face problems in costumes. This figure is %34.6 for Kandahar, %37.5 for Herat and %25 for Nangarhar. Herat and Nangarhar companies are more positive this year compared to last year.

Different sectors have suggested that customs procedures and systems should be improved, and the level of confidence regarding the current status of customs procedures has considerably improved among Manufacturing (44.2) and Construction (35.3) companies compared to last year. Agriculture companies' (%50) perceptions have not changed considerably, while like last year services (%44) and trades (%29.6) are more positive about the custom condition.

The feedbacks of different size companies on custom conditions show that small companies have more problems (%47) than large (%39.6) and medium (%35.5) companies.

The biggest reason behind the problem was mentioned "too sophisticated non-transparent Tariffs" and "an unjust and arbitrary System". About %10 said that "too low capacity of border and custom posts to handle imports and exports" is a major reason behind the problems. About %9 said that the collection of "illegal fees" is a problem; and a small number of companies also mentioned that "custom officers do not follow the rules".



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.

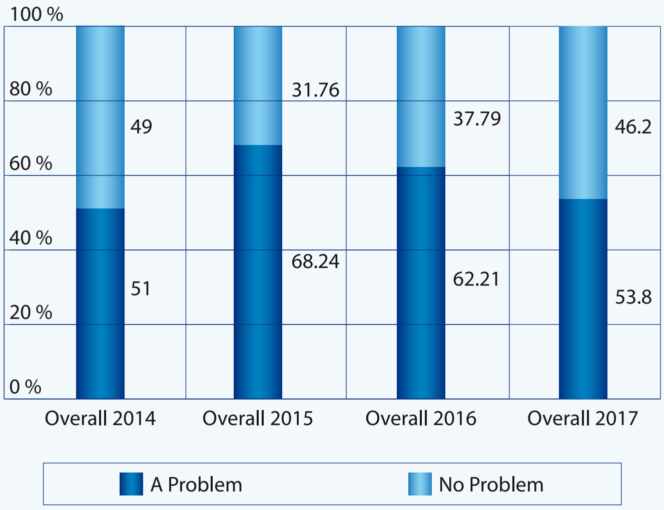
In total surveyed businesses' perceptions regarding the public tendering conditions have improved compared to last year, but companies in Nangarhar (%72.4) are highly unhappy with the public tendering conditions, while in Kabul (%54.6), Balk (%54.3) Kandahar (%52.9) also minority of the survey companies called for reforms in current tendering procedures. Herat (%39) registered the lowest level of complaints.

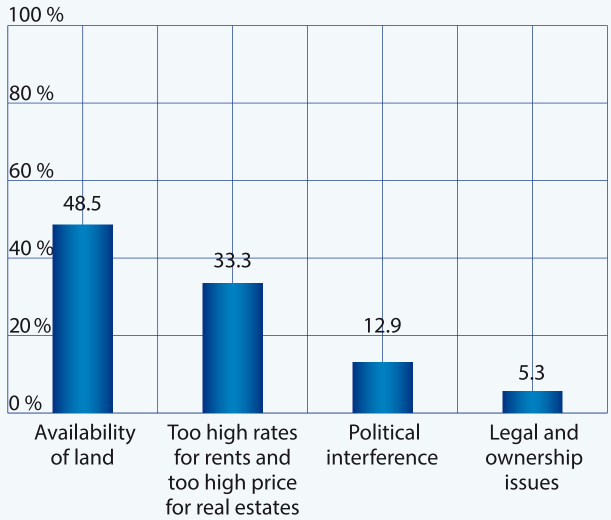
Agriculture (%68.6) and construction (%59.4) companies reported more problems than services (%42.2), Manufacturing (%42.5) and trades (%51.1).

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

Nearly half of the companies who say there are problems in public tenders believe that "unclear and arbitrary procedures" are major reasons behind the problem, while a large number of them (%33.3) blame political interferences, and about %13 say companies should pay bribes for public tenders. Only %5.3 mentioned "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

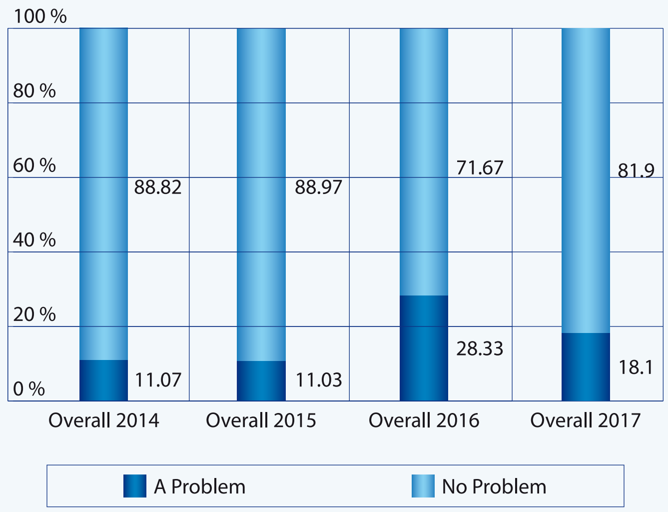
Starting a business in Afghanistan is not a concern of the private sector. No minimum capital is required to register a business. To establish a limited liability company, it took seven days to register at the Afghanistan Investment Support Agency in the past. In 2016, a one stop shop was established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

Considering the mentioned development, the conditions for registration and extension of business licenses have improved 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 business has deteriorated.

%18 of surveyed companies have regarded starting a business as a serious problem, but in Kandahar the problem is nearly as high as last year (%40). In Herat (%18), Kabul (%13) and Nangarhar (%4) the condition has highly improved. In Balkh, a considerable number of companies (%26) are unhappy with the current condition of business registration.

SMEs reported less problems than large size companies. Meanwhile, agriculture and manufacturing reported more problems than trades, construction and services.

"Complicated procedures" are mentioned as major reason behind the problems. About 33.8 percent of them believed that "bribery and high additional costs" were major problems. About 12 percent said that the validity of registration or extension is too short. A small number of companies have also complained that registration or extension offices are far from their business locations.



Graph 6- Business Registeration

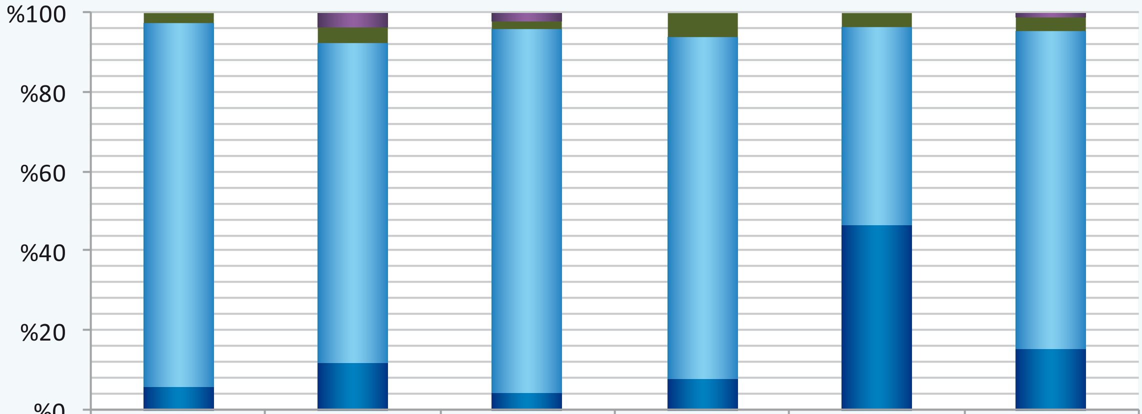
g) Infrastructure

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 (%76.7) of surveyed businesses say they have infrastructural problems. In Kandahar nearly all surveyed companies (%96) say the lack of necessary infrastructure is a major business constraint. Nangarhar (%82), Kabul (%75.6), Balkh (%68) and Herat (%64) say they have infrastructural problems.

About %80 of the companies who have infrastructure problems believe that electricity is their utmost limiting infrastructural problem. Services (%91.8), Manufacturing (%91), trade (%86) and construction (%80) are greatly concerned about the negative impacts of power shortages on their businesses. Agriculture companies believe that their two major constraints are lack of power (%50) and water (%46.4).

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



Manufacture	Construction	Services	Trade	Agriculture	Total
0	3.8	2	0	0	1.1
2.9	3.8	2	6	3.6	3.6
91.3	80.8	91.8	86	50	80.1
5.8	11.6	4.2	8	46.4	15.2

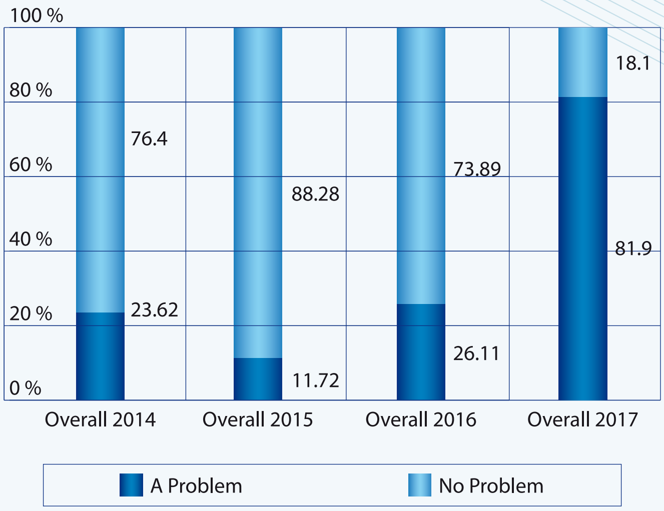
Water Electricity Sewerage and waste disposal Telecom

Graph 7- Infrasturcture

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 problematic in all regions, but Nangarhar and Herat have reported comparatively more problems.

This year all sectors reported that they have great problems in hiring qualified labors. Construction (%90), agriculture (%87) and trade (%80) report more problems than services (77.9 %) and manufacturing (76.3). There is not any big difference between small, medium and large companies in lack of access to qualified labor.



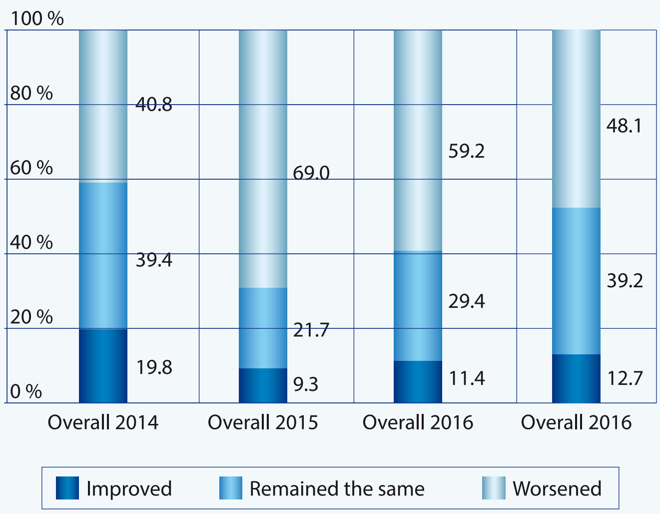
Graph 8- Qualified Labour

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 %48 of surveyed companies have reported that the security condition has deteriorated. Nangarhar (%80) and Kabul (%54.4) have reported considerably more problems than Herat (%38), Balkh (%32) and Kandahar (%22). Kandahar and Balkh regions have reported considerable improvements in their security conditions.

Construction (%55.8), Manufacturing (%55) and services (%53) are more negative about the security condition compared to agriculture (%34.3) and trade (%41.4).

There is no meaningful difference between SMEs and large companies' perception of security condition.



Graph 9- Security

k) Attitude towards Women

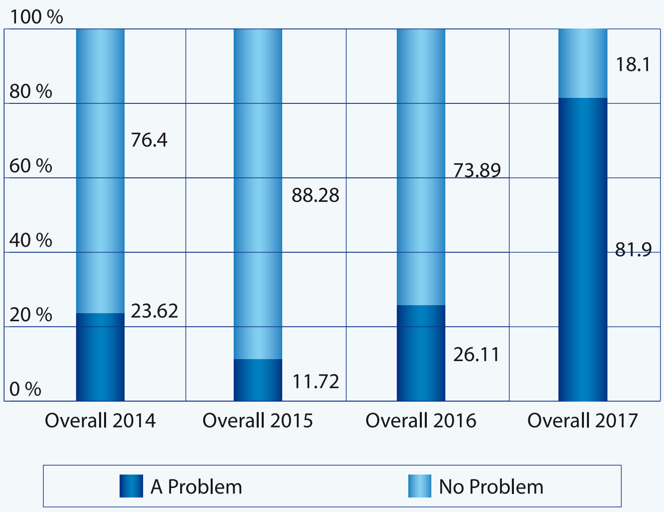
In Afghanistan, the range of economic activities available to women is severely limited by a complex set of cultural and other factors which is a loss of productive human resources for the country.

Despite the challenges faced by women in businesses, survey shows a considerable support for women operating in the private sector. In total about %82 of surveyed companies say that more women should run businesses. Last year %62.5 supported the idea.

The supports for women engagements in business and economic activities are high in all regions but Nangarhar (%98) and Balkh (%90) show more supports compared to Kabul (%78), Herat (%72) and Kandahar (%80).

Women entrepreneurship is encouraged in all sectors. This support is very high in Construction (%93) and comparatively low in Manufacturing (%72.5) and trade (%77.1). Services (%85) and agriculture (%83) are also highly supportive.

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

• The overall business climate was slightly improving during recent surveys, but this survey shows a deterioration compared to the same periods of 2016.

• The surveyed businesses' level of confidence regarding their current condition and as will as their expectations regarding the coming six months have deteriorated compared to the previous survey.
• In contrast to three previous surveys of 2017, no region has reported a positive business climate indicator.

• Agriculture expects the highest rate of employment (3.1) and Construction the lowest (25.7-).
• Since the last season of 2016 manufacturing has gradually dropped in sectoral ranking.
• Large companies keep improving, while SMEs suffer from a worsening business condition.
• Businesses have reported that their order books keep shrinking.

• The most important factor for business development is security; and none of the regions have reported a positive security 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 August 2017 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued points (-12.5) while in last survey it was (-5.8) points.

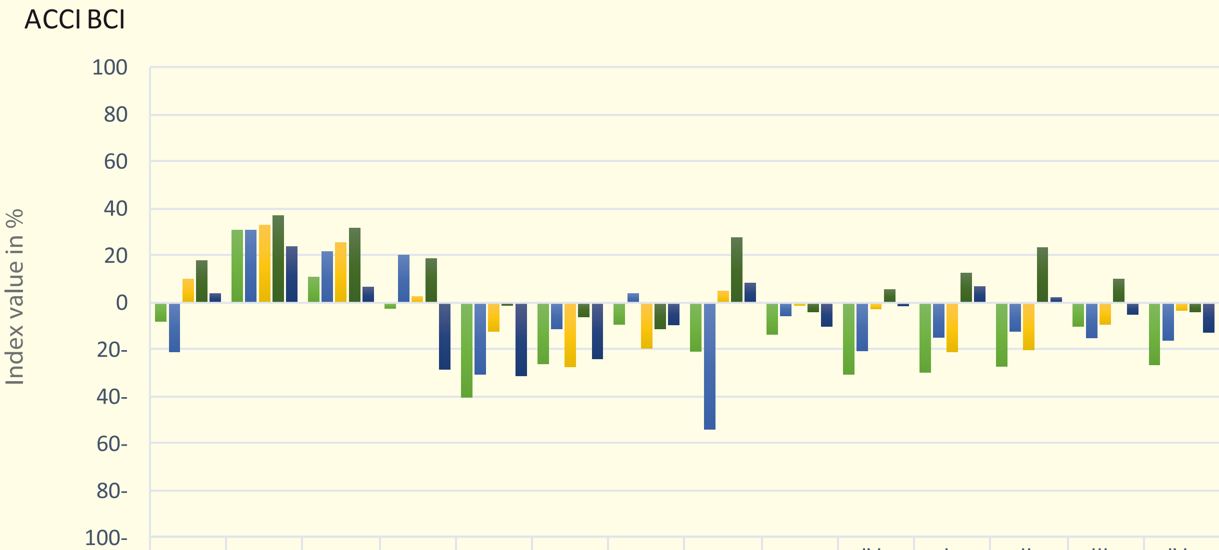
As shown in Graph 1. the overall business climate has worsened compared to the recent surveys. It is also worse than the last season of 2016. The surveyed businesses' level of confidence regarding their current condition has also slightly decreased compared to the last survey (-26.5 -23.2) while their expectations regarding the coming six months (-3.5 -9.5) has sharply declined. In contrast to most of previous surveys, this time surveyed businesses are not optimist about their business plans and prospects.

In three previous quarters of the year, Nangarhar was the only region with positive business climate indicators, but this time no province has a positive indicator. Kandahar with 3.4- is the least and Kabul with 26- is the most suffered regions. It is worth mentioning that Kandahar has reported a slight improvement compared to last survey, but it is still negative and lower than the same season of the previous 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 705 companies were interviewed through phone during firs and second week of November 2017.

	IV12-	IV13-	I14-	II14-	IV14-	I15-	II15-	III15-	IV15-	I16-	II16-	III - 16	IV - 2016	I - 2017	II - 2017	III - 2017	IV - 2017
Overall	14	8	27	1	31	19.3	2.208	23.1-	18.9-	9.07-	6.71-	6.81-	9.93-	9.1-	6.7-	5.8-	12.5-
Kabul	17	12	29	8-	31	11	2.5-	40.3-	26-	9.25-	20.8-	13.5-	30.4-	29.6-	27.2-	10.0-	26.4-

Graph 1: Business climate, overall and Kabul 2012 to 2017 (in quarters per annum of survey conducted)



	II14-	IV14-	I15-	II15-	III15-	IV15-	I16-	II16-	III - 16	IV - 2016	I - 2017	II- 2017	III - 2017	IV - 2017
Kabul	8-	31	11	2.5-	40.25-	26-	9.25-	20.75-	13.5-	30.41-	29.6-	27.2-	10-	26.4-
Balkh	21-	31	21.7	20.225	30.56-	11.11-	3.89	53.89-	5.555-	20.57-	14.7-	12.2-	14.9-	16.1-
Kandahar	10	33	25.55	2.75	12.22-	27.22-	19.44-	4.995	1.11-	2.61-	20.9-	20-	9.2-	3.4-
Nangarhar	18	37	31.7	18.89	1.11-	6.11-	11.12-	27.78	3.89-	5.65	12.6	23.5	10	4-
Herat	4	24	6.7	28.33-	31.11-	23.89-	9.445-	8.33	10-	1.47-	7	2.2	5.1-	12.6-

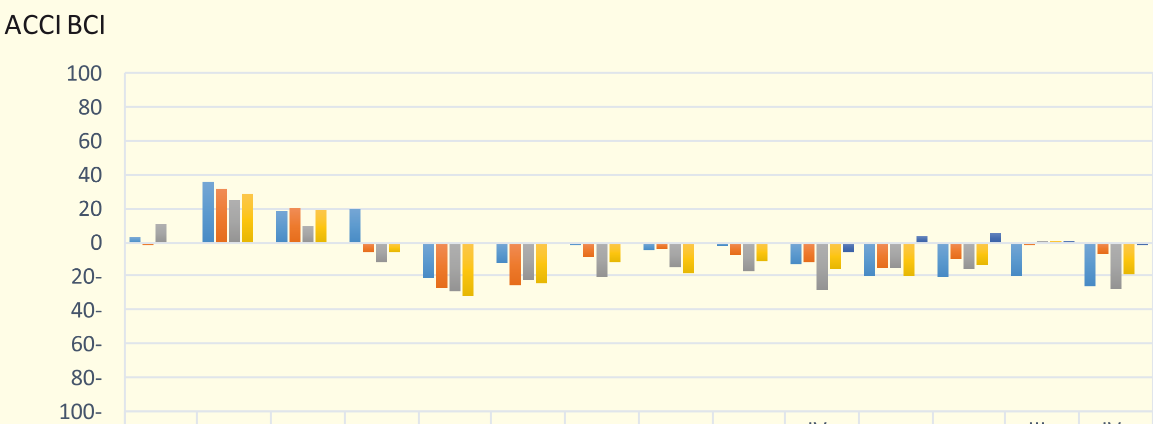
Graph 2: Business climate by Province 2014 to 2017

A.-2 Business Climate by Sectors

Construction (-27.2) and Manufacturing (-25.5) have reported the least favorable business climate, while Agriculture (-1) and trade (-6.3), despite their negative indicators, set on the top of sectoral climate comparison.

At the end of 2014, Manufacturing was functioning better than other sectors, and it showed more resilience against the general worsening business environment in 2015 and 2016 compared to trades, services and construction; but since the last season of 2016 manufacturing has gradually dropped.

Agriculture, which was added to the survey in last quarter of 2016, has also shown a worsened condition compared to last two surveys, but it still tops in sectoral ranking (-1).



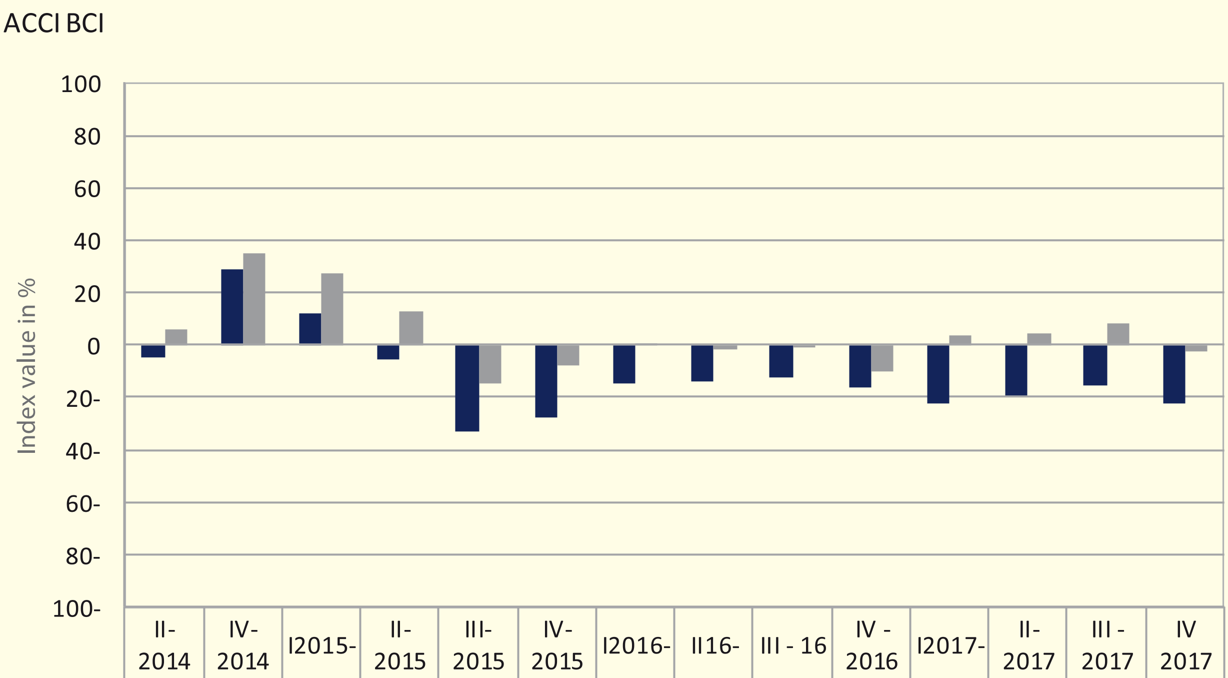
	II14-	IV14-	I15-	II15-	III15-	IV15-	I16-	II16-	III - 16	IV - 2016	I2017-	II2017-	III - 2017	IV - 2017
Manufacturing	3	36	18.7	19.695	20.61-	11.82-	0.905-	4.24-	1.515-	12.73-	19.4-	20-	19.4-	25.5-
Trade	1-	32	20.7	5.515-	26.56-	25.17-	8.275-	3.45-	6.9-	11.38-	14.8-	9.3-	1.3-	6.3-
Construction	11	25	9.5	11.43-	28.58-	21.9-	20-	14.29-	16.67-	27.62-	14.8-	15.3-	0.7	27.2-
Service	0	29	19.3	5.4-	31.38-	23.79-	11.38-	17.93-	10.69-	15.17-	19.4-	12.8-	0.1	18.6-
Agriculture										5.515-	3.8	5.9	1.1	1-

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

A.-3 Business Climate by Company Size

This Business Climate Survey, like the previous ones, shows that there is a meaningful difference between the perception of large companies and SMEs about the business condition. SME's report a negative business climate indicator (-22.3) which is worse than the last quarter (-15.3) and the same season in last year (-16). In contrast, large companies have reported an improved climate indicator compared to the same season of 2016, which is much lower than the third quarter of 2017.

Large (5.1) companies are optimistic about the coming six months while Medium (-5.1) and small (-11.9) companies forecast a worsening business condition.



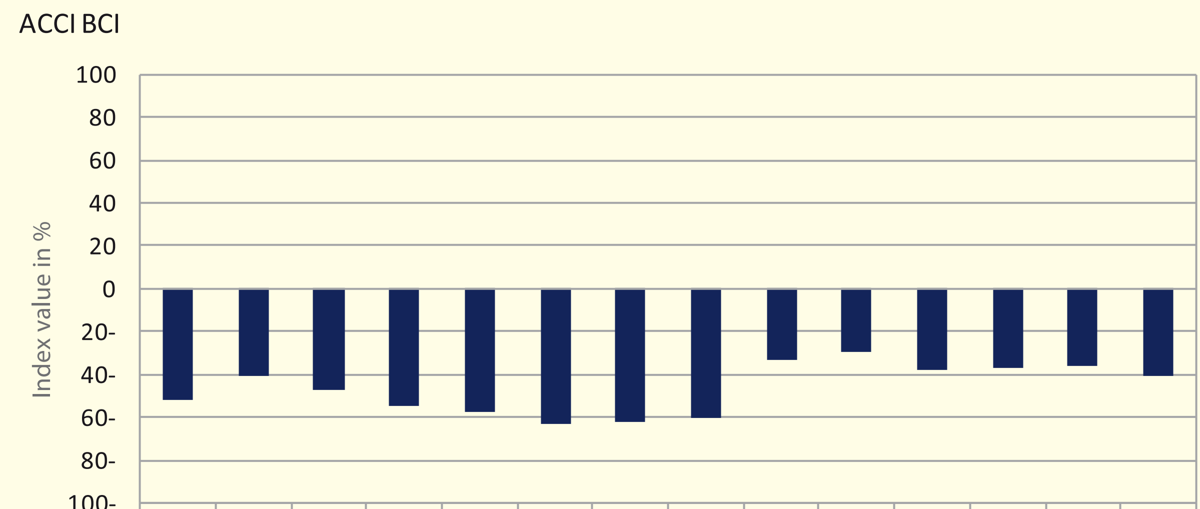
	II-2014	IV-2014	I2015-	II-2015	III-2015	IV-2015	I2016-	II16-	III - 16	IV - 2016	I2017-	II-2017	III - 2017	IV 2017
SME	5-	29	11.9	5.42-	33.1-	27.4-	14.7-	13.9-	12.1-	16-	22.3-	19-	15.3-	22.3-
Large	6	35	27.7	13	14.8-	7.5-	1	1.5-	1-	9.73-	3.6	4.4	8.6	2.6-

Graph 4: Business climate by company size overall, 2014 to 2017

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 their order books keep shrinking (-41.2). This figure is much lower than the border books indicator of the same season in(-29.5) (2016). No region reports a positive indicator, but Kandahar (-24.4), and Herat (-29.5) expect comparatively better conditions than other regions: Nangarhar (-42.6), Kabul (-48.5) and Balkh (-52.1).



	II- 2014	IV- 2014	I- 2015	II- 2015	III- 2015	IV- 2015	I- 2016	II - 2016	III - 2016	IV - 2016	I- 2017	II- 2017	III - 2017	IV 2017
situation	52-	41-	47.6-	55.2-	57.7-	63.6-	61.8-	60.4-	33.4-	29.5-	38.3-	36.8-	36.4-	41.2-

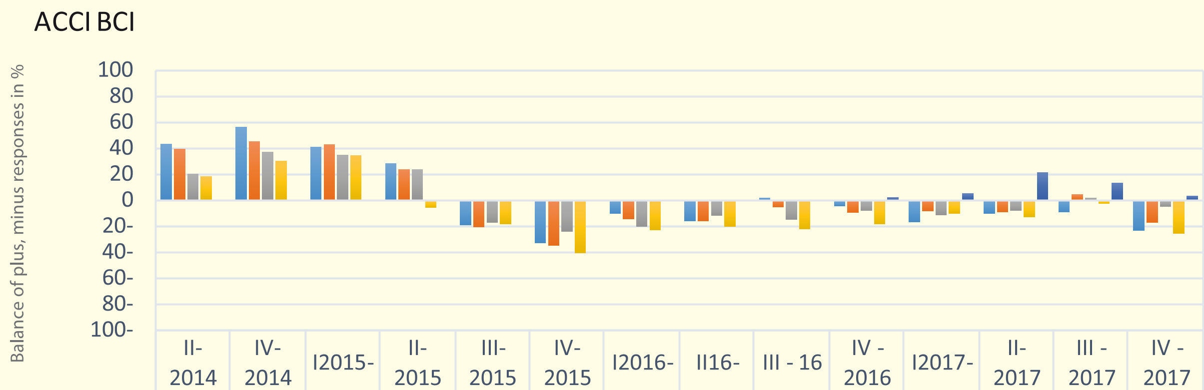
Graph 5: Order books situation overall, 2014 to 2017

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 survey companies are not optimistic about their employment prospects (-3.5), and the level of their optimism has decreased 9.5 points compared to the previous survey. Agriculture expects the highest rate of employment (3.1) and Construction the lowest (-25.7).

As usual, the real employment situation was different to what the businesses expected in previous survey. In September, the surveyed companies expected about 6 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 about 22.8 percent more than those who say they have employed more people during last three months.

Construction (-25.7), Manufacturing (-23.4), Service (-17.2) and Trade (4.9-) have lost jobs, while Agriculture (3.1) have reported an increase in their jobs.



	II-2014	IV-2014	I2015-	II-2015	III-2015	IV-2015	I2016-	II16-	III - 16	IV - 2016	I2017-	II-2017	III - 2017	IV - 2017
Manufacture	43	56	40.61	27.88	19.39-	33.04-	10.61-	16.37-	0.91	4.85-	17-	10.3-	9.4-	23.4-
Services	39	45	42.75	23.45	20.95-	35.17-	14.83-	16.21-	5.52-	9.66-	8.7-	9.4-	4.1	17.2-
Trade	20	37	34.48	23.45	17.24-	24.48-	20.35-	12.07-	15.18-	8.275-	11.7-	8.3-	1.1	4.9-
Construction	18	30	34.29	5.72-	18.62-	40.95-	23.34-	20.48-	22.39-	18.57-	10.5-	13-	2.9-	25.7-
Agriculture										1.752	4.9	21	13.1	3.1

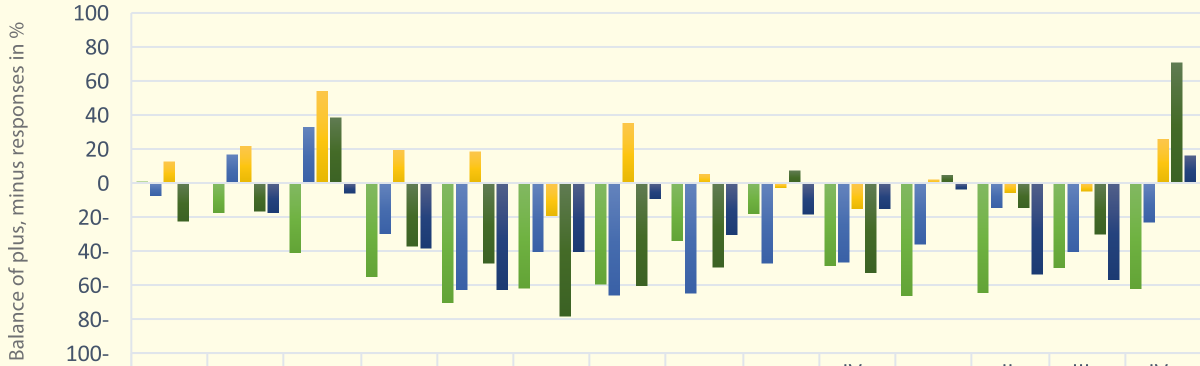
Graph 7: Employment by sectors overall, 2014 to 2016

D. Security Situation

The average indicator for security situation has slightly improved (-35.1) compared to the previous survey (-38.5), and regional differences are high.

Kandahar has reported a positive security indicator (26.1), while Nangarhar (-71.2) and Kabul (-61.6) have reported sharp deterioration, followed by Herat (-35.1) and Balkh (-22.6).

In general the security condition seems very unstable.

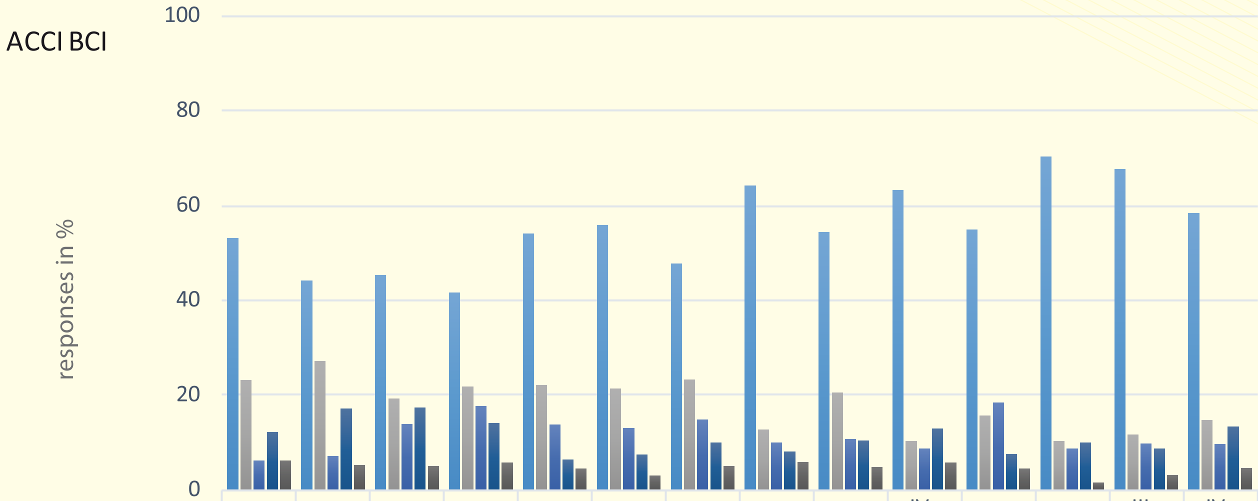


	II14-	IV14-	I15-	II15-	III15-	IV15-	I16-	II16-	III - 16	IV - 2016	I2017-	II- 2017	III - 2017	IV - 2017
Kabul	1	17-	40.5-	54.5-	70-	61.5-	59-	33.5-	17.5-	48.17-	65.7-	64.1-	49.4-	61.6-
Balkh	7-	17	33.33	29.22-	62.22-	40-	65.56-	64.45-	46.67-	46.09-	35.6-	14-	40-	22.6-
Kandahar	13	22	54.45	19.78	18.89	18.89-	35.56	5.55	2.22-	14.78-	2.5	5.2-	4.4-	26.1
Nangarhar	22-	16-	38.88	36.67-	46.67-	77.78-	60-	48.89-	7.77	52.18-	5.2	13.9-	29.6-	71.2
Herat	0	17-	5.55-	37.78-	62.22-	40-	8.89-	30-	17.78-	14.78-	3.3-	53.1-	56.5-	16.5

Graph 08: Perceived security situation by Province, 2014 to 2016

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, administrative reforms, better infrastructure and access to finance.



	II14-	IV14-	I15-	II15-	III15-	IV15-	I16-	II16-	III - 16	IV - 2016	I2017-	II2017-	III - 2017	IV - 2017
Security	53	44	45.18	41.43	53.93	55.71	47.58	64.11	54.29	63.12	54.8	70.2	67.5	58.3
Market & Demand	23	27	19.11	21.61	21.96	21.25	23.08	12.5	20.36	10.07	15.5	10.1	11.5	14.6
Administrative	6	7	13.75	17.5	13.57	12.86	14.67	9.82	10.54	8.51	18.2	8.5	9.6	9.5
Infrastructure	12	17	17.14	13.93	6.25	7.32	9.84	7.86	10.18	12.77	7.4	9.8	8.5	13.2
Access to Finance	6	5	4.82	5.54	4.29	2.86	4.83	5.71	4.64	5.53	4.3	1.4	2.9	4.4

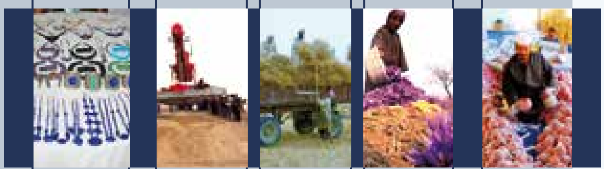
Graph 9: Desired improvements for business development, overall, 2014 to 2016

Appendix:
The Definition of the Business Climate Indicator

The Business Climate is based on a periodic survey of company managers in Manufacturing, Construction, Services Trade and Agriculture 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 2017

Why Survey and Research

- *To enhance a common understanding of business challenges*
- *To foster business intelligence*
- *To find hard facts and figures for PPD*

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 be a very short questionnaire*
- *Large and upper-medium sized firms (because they have a higher impact on economic fluctuation)*

Business Bottleneck Survey

- *To identify longer term (more structural problem 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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