ACCI Business Tendency Survey Report

July 2014

With the cooperation of GIZ

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This survey reveals that the business climate in general has deteriorated during last three months, but SMEs have suffered more from the volatile and unstable business condition which means they are more vulnerable to changes in business climate caused by politics, security and climate factors.

The companies in general had a too optimistic outlook in March 2014 compared to their judgment on the real situation in July 2014 regarding the future order books.

According to this survey the most important factor for business development is considered to be security; it is followed by lack of market and demand, poor infrastructure, administrative burdens and lack of access to finance.

A considerable number of companies reported to be closed or downsized. At least 9.9 percent of the employees of the surveyed companies had lost their jobs in a most favorable season of the year, which is unprecedented in our surveys.

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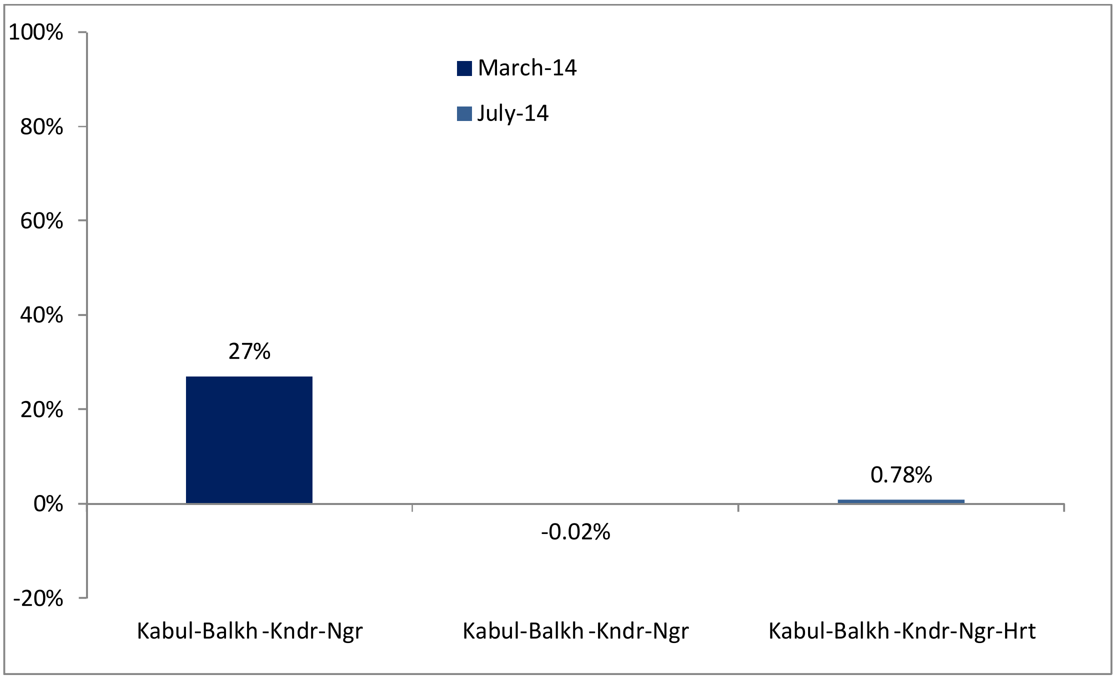
* The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The first survey was carried out in December 2012 in Kabul and Balkh regions and second survey in October 2013 covers Kabul, Balkh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

This time the survey is done in Kabul, Balkh, Kandahar, Nangarhar and Herat, Therefore, comparison over time is made for Kabul, Balkh, Kandahar and Nangarhar.

A.1- Business Climate overall and by Region

The overall business climate indicator in March 2014 for Kabul, Balkh, Kandahar and Nangarhar regions altogether valued (27) points and in July 2014 it decreased to (-0.02). Since Herat region has shown a comparatively better climate therefore the overall business climate indicator for all five regions in July 2014 is (0.78) points. Herat is included for the first time, therefore we only present the current situation of the businesses there.

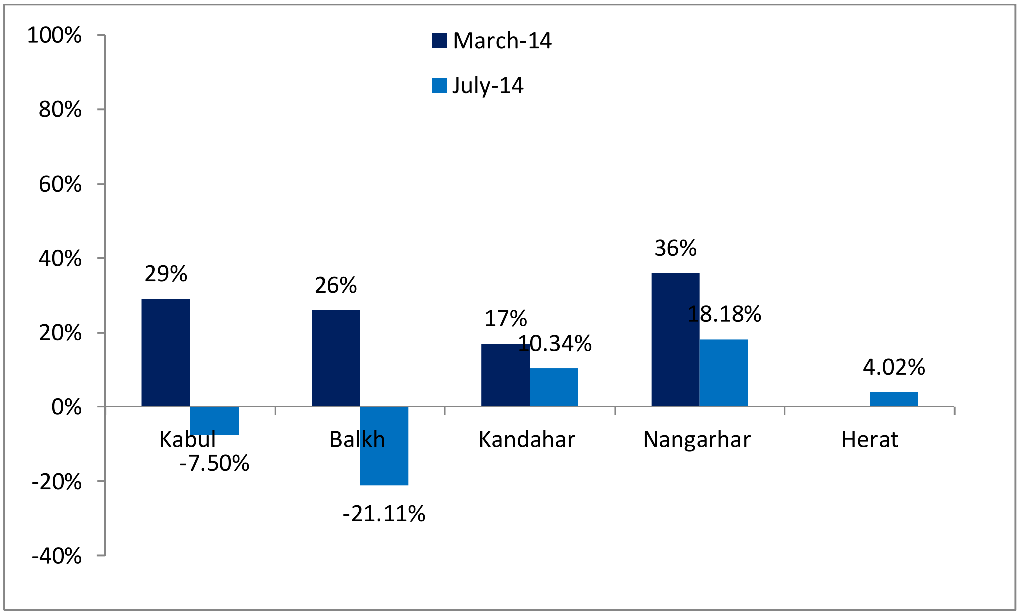


Graph 1a. Overall Business Climate, March 2014 and July 2014

The regional business climate in July 2014 shows that Nangarhar (18.18) enjoys the best climate, followed by Kandahar (10, 34) and Herat (4.02). Balkh (-21.11) stands at the lowest point of the regional ranking followed by Kabul (-7.5).

The integrated business climate in Kabul, Balkh, Kandahar and Nangarhar show lower value compared to the last survey in March 2014. This negative inclination might be caused by the electoral deadlocks and the ongoing political confusions.

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



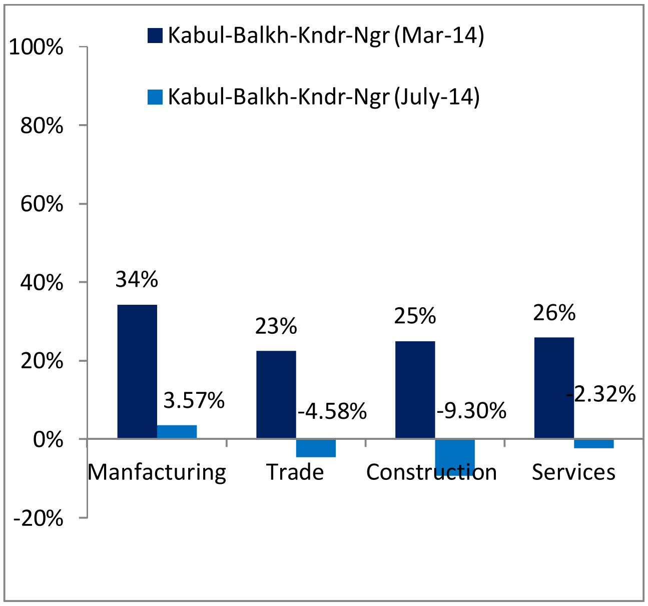
Graph 1b- Business Climate by Regions, Oct 2013 and March 2014

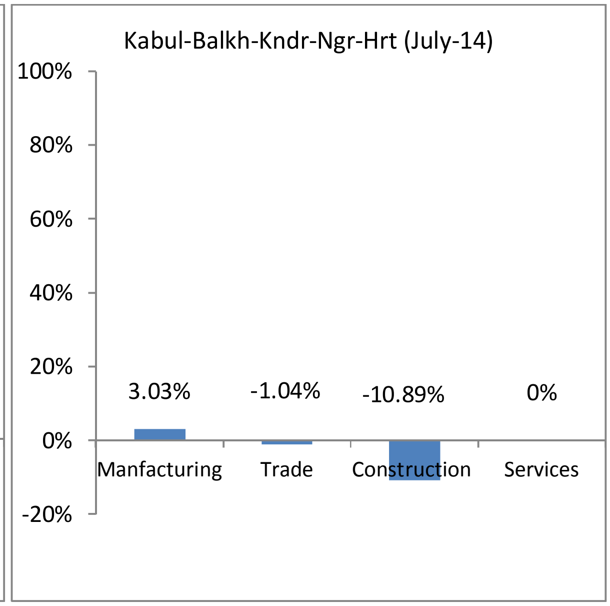
A.2- Business Climate by Sectors

This survey shows a sharp decline in all four sectors. Construction is in the worst condition while manufacturing tops in sectoral ranking, although in comparison to the last survey (March 2014) the later has also experienced a severe deterioration of business climate.

As illustrated in graph 2a, the trade (-4.58) and service (-2.32) sectors in Kabul, Balkh, Kandahar and Nangarhar provinces have also reported highly worsened business conditions, compared to the last survey which were (23) and (26) respectively.

In Herat construction (-20) had the lowest indicator and trade (16) the highest. Manufacturing was zero (0) and services (11.36)





Graph 2a. Business Climate by Sectors, March 2014 and July 2014

Graph 2b. Business Climate by Sectors, July 2014

A.3- Business Climate by Company Size

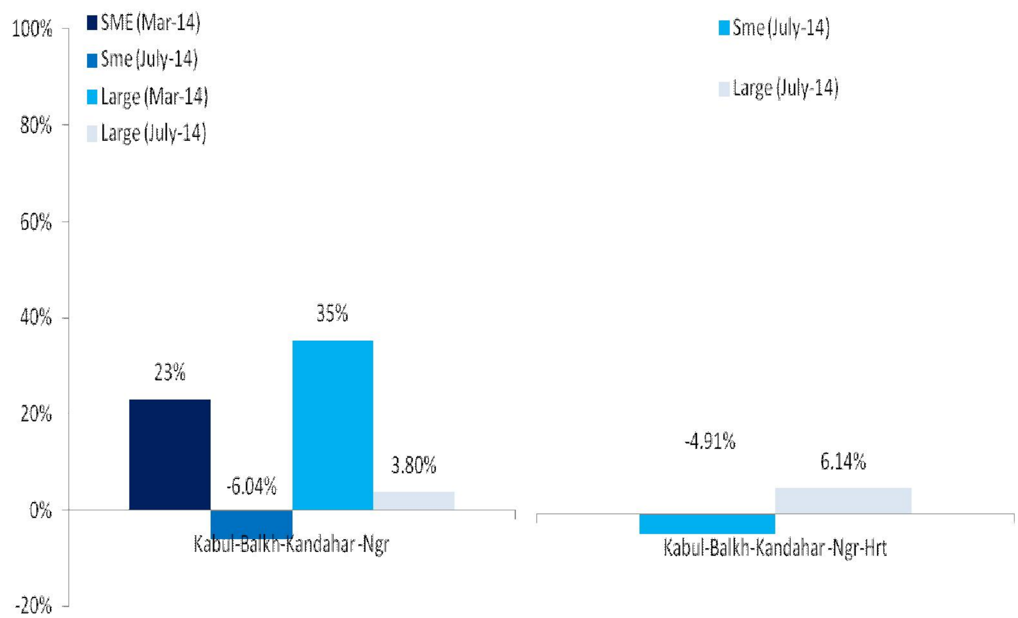
According to this Business Tendency Survey the business climate for SMEs and Large companies in Kabul, Balkh, Kandahar and Nangarhar is highly declined. Business Climate Indicator values for SMEs in Kabul, Balkh Kandahar and Nangarhar were (23) in March, and (-6.04) in July 2014.

The SMEs have suffered more from a volatile and unstable business condition which means they are more vulnerable to changes in business climate caused by politics, security and climate factors.

The Business Climate for larger companies in those four regions also shows a sharp decline. The business climate indicator for large companies has decreased from 35 points in March 2014 to 3.8 points in July 2014.

With Herat results included, the overall business climate indicator for both SMEs and Large Companies increases.

The surveyed companies are expecting an improvement in their business climates in coming six months.



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

B. Order Books

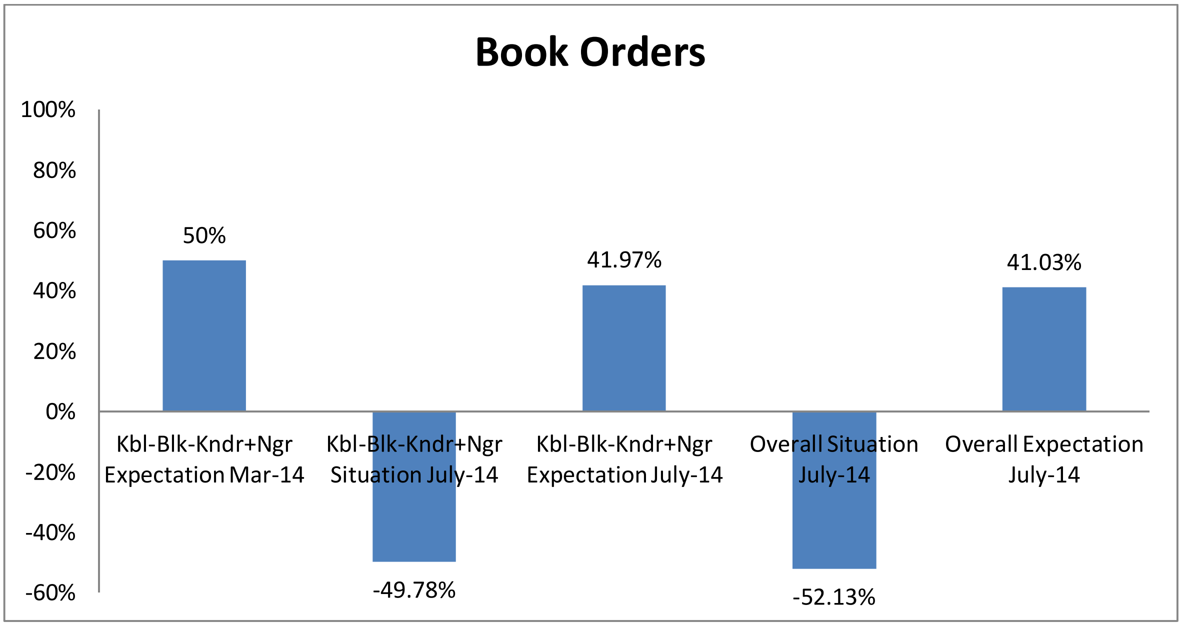
The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. However, the result figures are based on percentage balance values (positive minus negative answers).

In last Survey Kabul, Balkh, Kandahar and Nangarhar companies' expectation for the increase of their order books valued 50 (percent balance of positive minus negative expectations), but this July they expressed a lower expectation (41.97) for next three months.

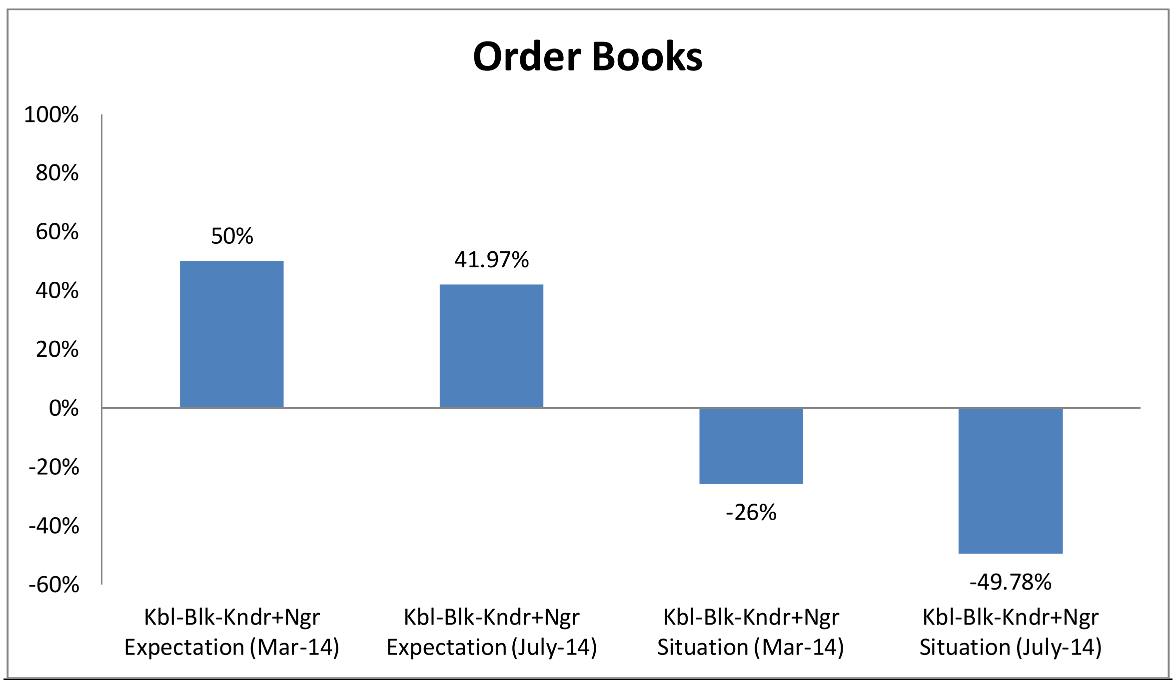
The comparison of the current situation (-49.78) of the order books with what the companies expected (50) in previous survey shows an extreme difference, and that the real situation of the companies' book orders was much worse than what they expected three months back.

The regional differences in analyzing the current situation of the order books were considerable with Nangarhar (-29.87), Herat (-50.57), Kandahar (-55.17), Balkh (-55.56) and Kabul (-58.5).

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



Graph 4a. Kabul, Balkh, Kandahar and Nangarhar Order Books 'Situation & Expectations in March 2014, Situation and Expectations in July 2014



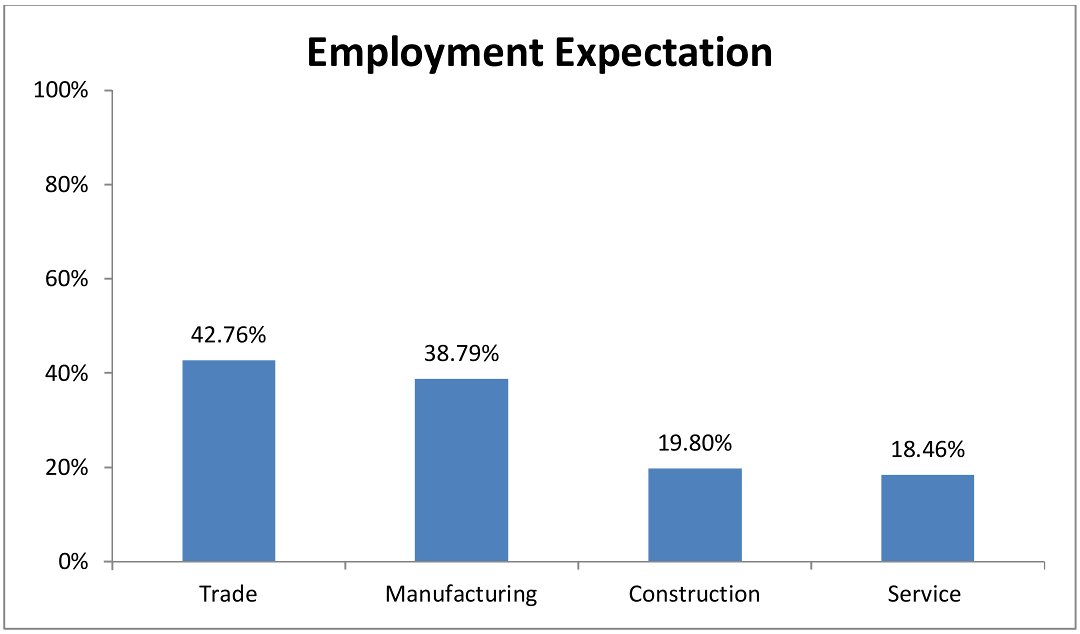
Graph 4b. Kabul, Balkh, Kandahar, Nangarhar & Herat Order Books 'Situation & Expectations in July 2014.

C. Employment Expectation

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

The balance of the employment plans is 42.76 points in Trade, 38.79 points in manufacturing followed by Construction 19.8 point and in Service 18.46 points.

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

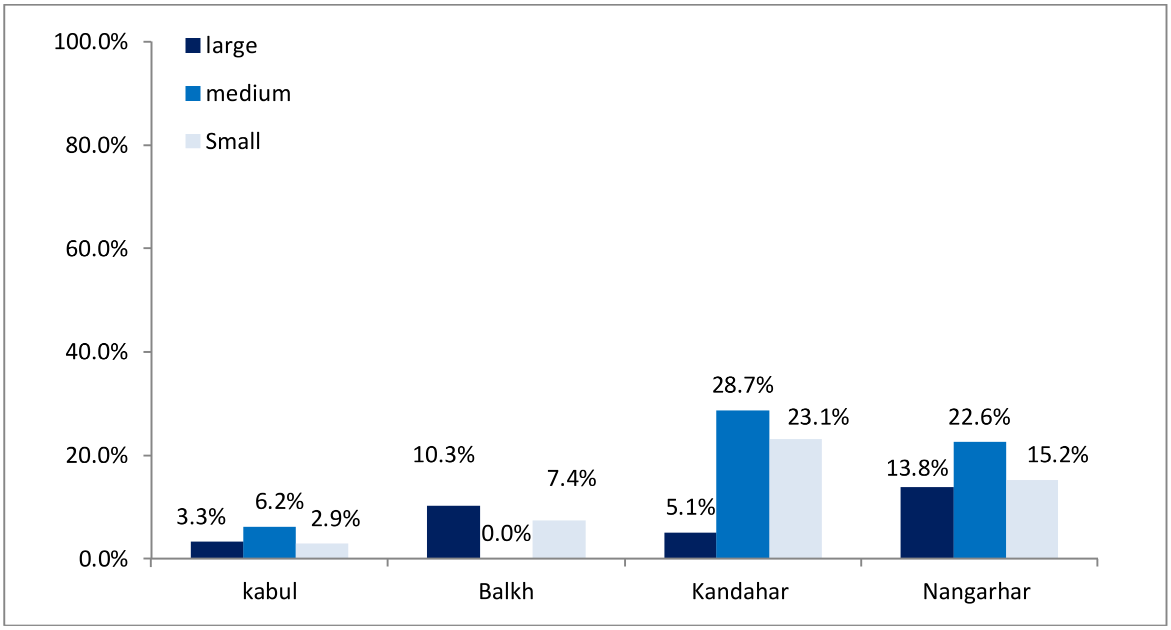


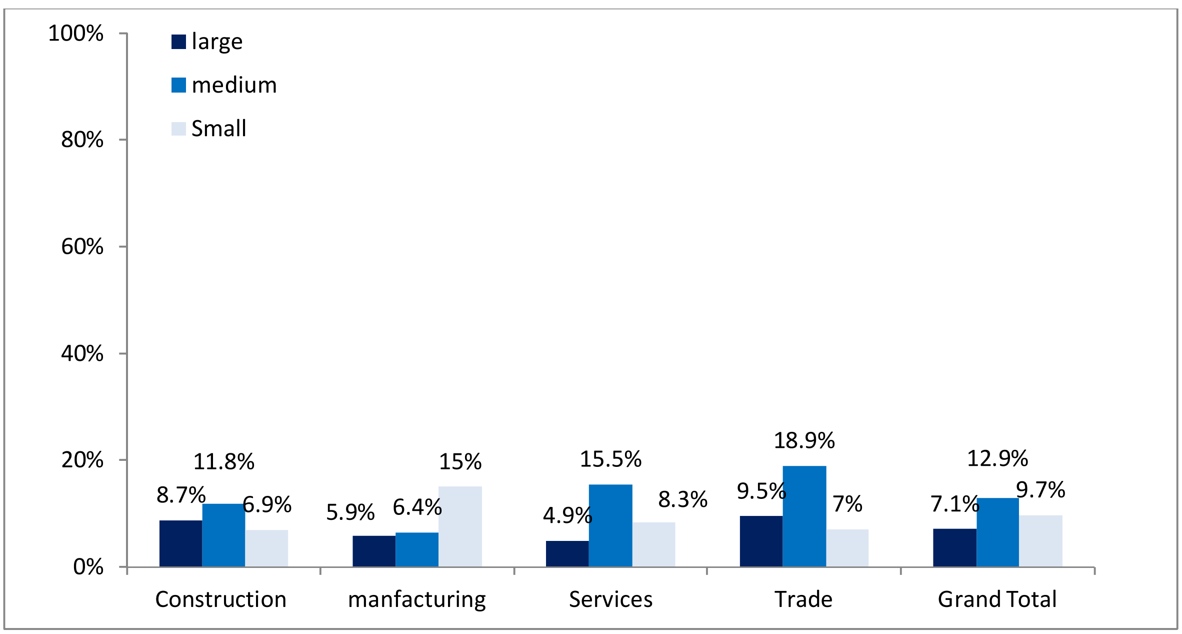
Graph 5. Employment Expectations by Sectors, July 2014

It is worth mentioning that the real situation of the employment was extremely different to what the businesses expected in previous survey. In March the surveyed companies expected an increase of (45.95) points in their employment for then the coming three months, while this survey showed a negative trend in employment during last three months. According to this survey at least 9.9 percent of the employees of the surveyed companies had lost their jobs in the most favorable season of the year, which is unprecedented in our surveys and indicates a dire situation of business mainly caused by political confusions.

Medium size companies had suffered the most, while large companies showed a comparatively lower decrease in the number their employees. In terms of sectors trade, service and construction had more firings than manufacturing.

For analysis of the unemployment trend we only focused on companies that participated in our last survey (March 2014) but this time reported that they were closed or downsized so much that were degraded from the category of large companies to medium/small, or from medium to small companies.





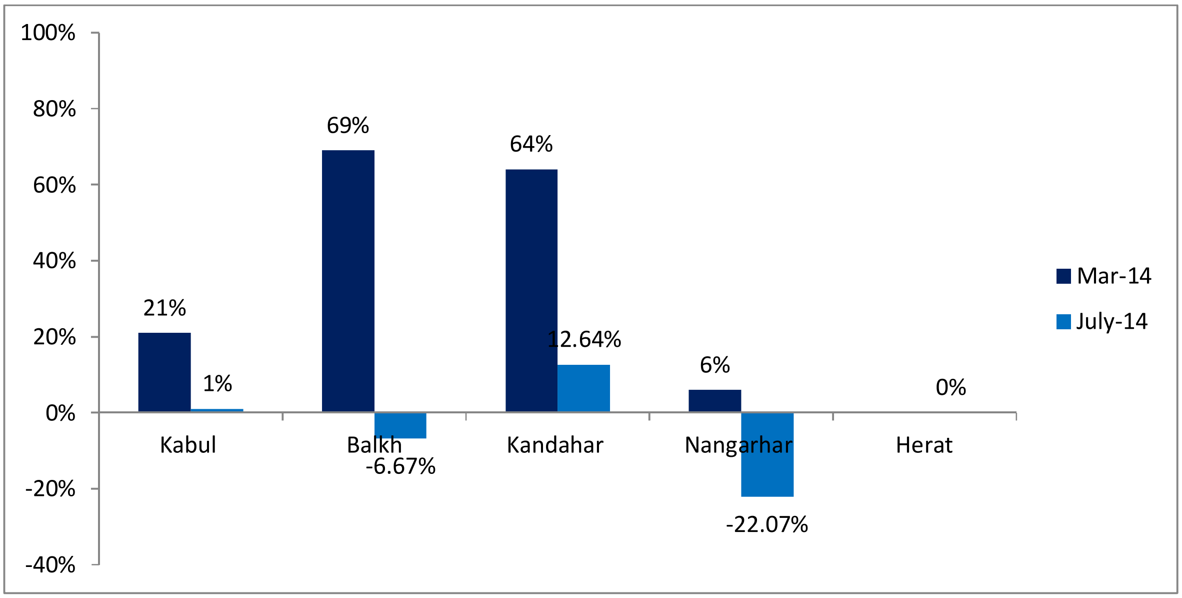
D. Security Situation

Business managers in Kabul, Balkh, Kandahar and Nangarhar regions reported decline in their security situation during last three months.

Nangarhar region (-22.07) has the lowest and Kandahar region (12.64) has the highest security indicator in this survey. But comparison overtime shows that the security condition in the perception of business managers has highly declined in in Balkh region from 69% in March 2014 to -6.67% in July 2014. Also in Kandahar, businesses have reported a considerable decline in their security (from

64% to 12.64%) during the last three months. Nangarhar also shows a sharp decline (from6% to -22.07). The surveyed companied in Kabul reported that their security condition has deteriorated from 21% in March 2014 to 1% in July 2014.

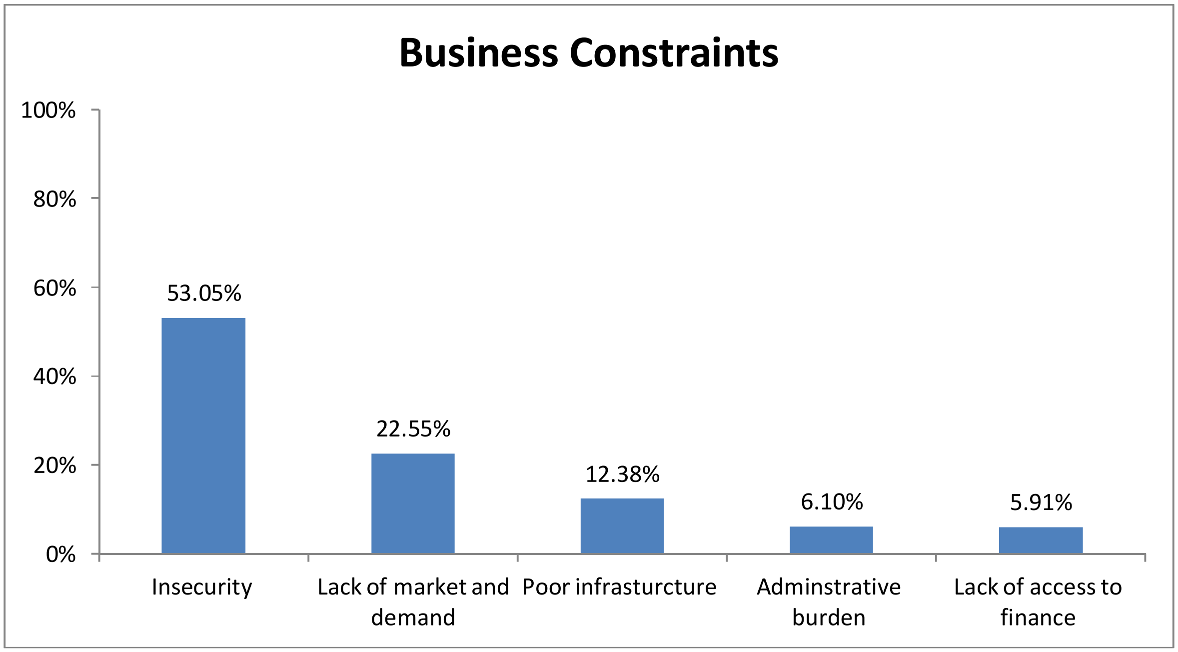
Herat's security indicator is (0) which means the number of companies who reported a deterioration of security condition is equal to those who reported improvements in their security conditions.



Graph 6. Security Situation March 2014 and July 2014

E. Constraints to be removed

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

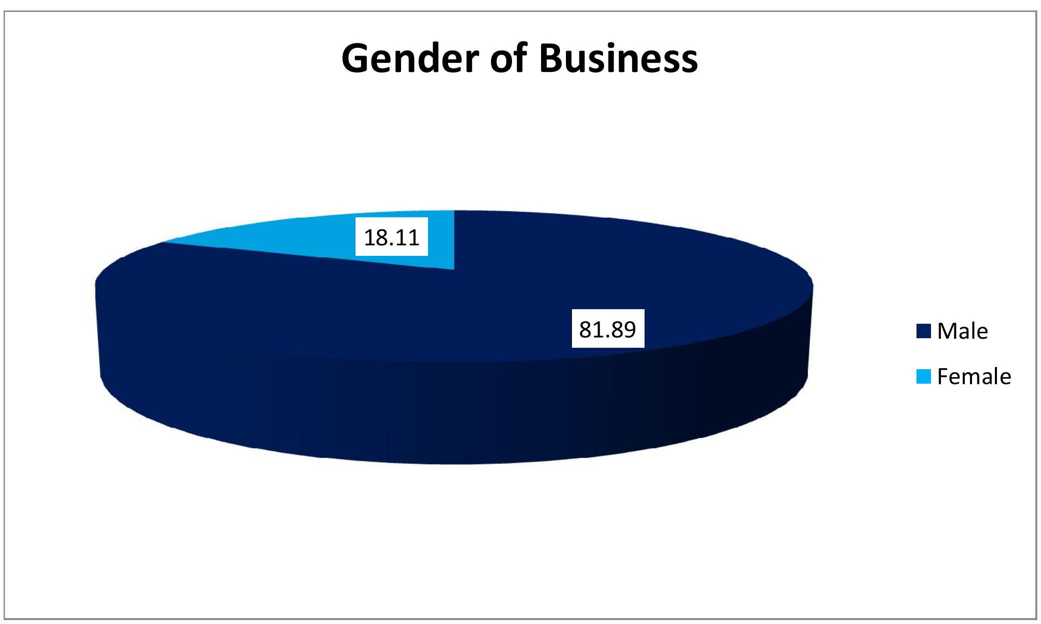


Graph 7. Overall rank order for constraints to be removed for better business development, July 2014

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, 18.11 percent of the respondents said that their businesses are owned by female or there are female shareholders in their companies, and 81.89 percent of the businesses are owned by male.



Graph 8. Gender of Business Owners July 2014

Appendix:

The Definition of the Business Climate Indicator

The Business Climate is based on a periodic survey of company managers in Manufacturing, Construction, Services and Trade sectors. The managers are requested to report on their present business situation as well as on their expectations for the next six months. They may judge their situation to be "better than normal", "normal" or "worse than normal". On their expectations they may answer that the situation will "improve", "remain the same" or "deteriorate".

The balance value of the present situation is the difference of the percentage shares of the answers "better than normal" and "worse than normal". The balance value for the expectations is the difference of the percentage shares of the answers "improve" and "deteriorate".

The Business Climate is the arithmetic mean of the situation (balance value) and the expectations (balance value).

In graphical presentations for the first survey rounds the "normal" and "remain the same" judgments are taken as the zero line. The range of the climate indicator may vary between 0 and in its maximum up to one hundred towards the positive (plus) and as well one hundred towards the negative (minus) side. At a later stage, after time series can be established, the "zero" line will be based on a normal year climate (taken as 100 and the following quarterly climate values indexed to this year).

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