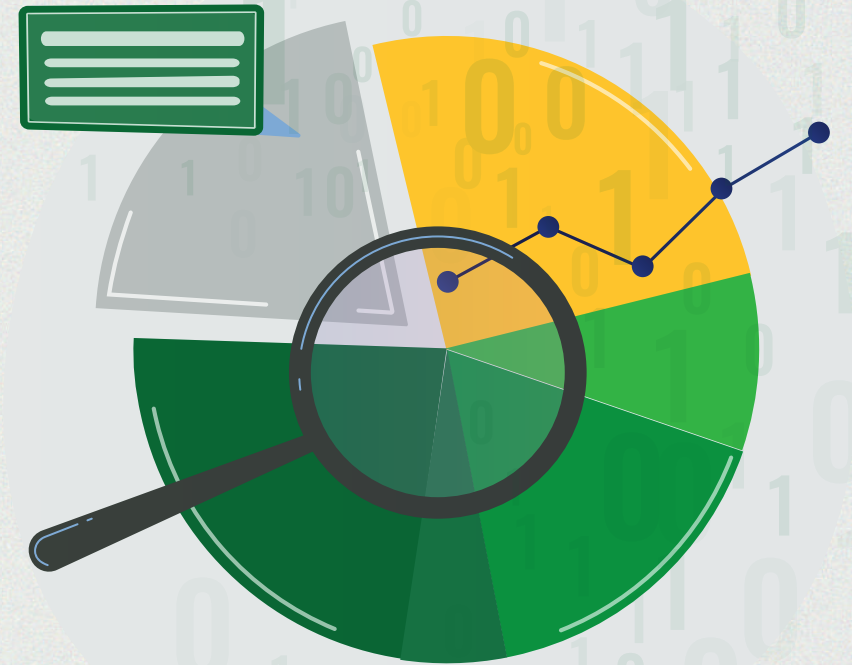


KHYBER PAKHTUNKHWA BUSINESS BAROMETER SURVEY: Q2 FY22

ASSESSING THE BUSINESS
CLIMATE IN KP

KP BUSINESS VOICE



Adam Smith
International



KP BUSINESS VOICE

OBJECTIVES

The KP Business Voice is an initiative comprising a set of three Public-Private Dialogues (PPD)s, which will allow the concerns and suggestions of the KP business community to inform the government's economic policy.

The three Public-Private Dialogues (PPD)s are:

- 1) Pre and Post-Budget Assessments
- 2) Business Barometer Surveys
- 3) Sector-specific roundtables and policy briefs.

KP BUSINESS BAROMETER SURVEY

The barometer survey is conducted quarterly in order to gauge the perceptions and performances of KP businesses. The surveys will help stakeholders assess the investment and business climate within Khyber Pakhtunkhwa. The activity aims to:



ESTABLISH A BENCHMARK FOR BUSINESS PERCEPTIONS IN KP



TRACK PROGRESS OF THE EVOLVING PERCEPTIONS OVER THE COMING YEAR



GIVE AN OVERVIEW OF HOW BUSINESSES ARE MANAGED IN KP



UNDERSTAND HOW LEGAL, REGULATORY AND POLICY RELATED CONSTRAINTS IMPACT PRODUCTIVITY AND JOB CREATION WITHIN THE BUSINESS COMMUNITY

The first survey was conducted in July-Aug '21, while the second survey was conducted during Oct '21.

RESPONDENTS PROFILE



351

IN THE 1st QUARTER



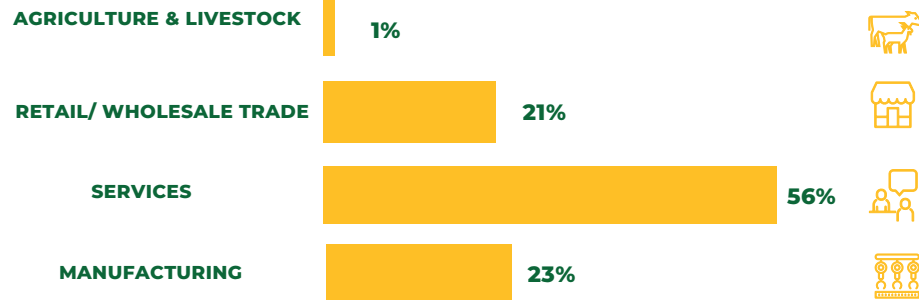
227

IN THE 2nd QUARTER

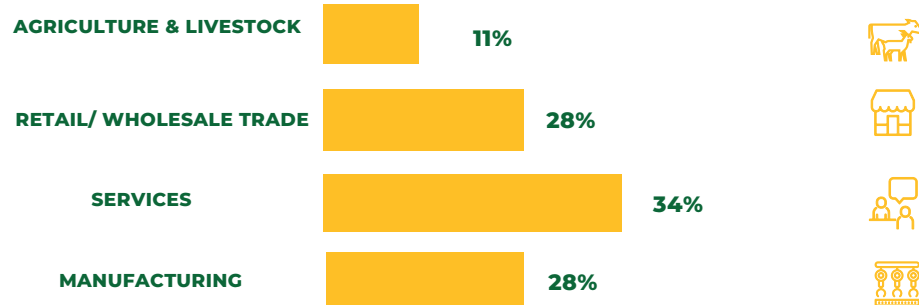
FIRMS ACROSS KP PARTICIPATED IN THIS SURVEY EXERCISE

TYPES OF BUSINESS SEGEMENT

In Q2, survey respondents were more well-distributed amongst business-segments with more participation in the agriculture/livestock segments, manufacturing, and retail. In Q1, the service segment dominated the survey participation.

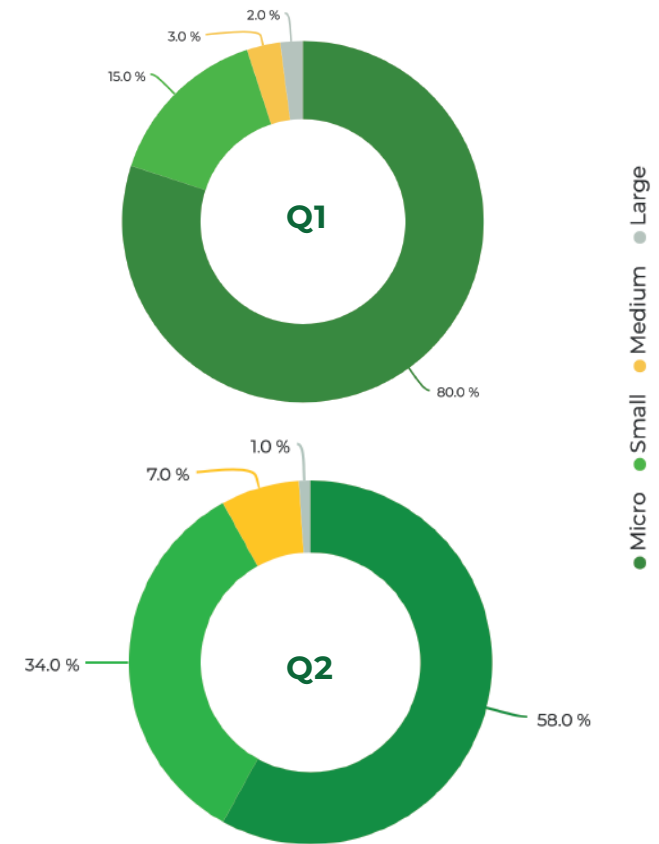


Quarter 1



Quarter 2

SIZE OF THE FIRM BASED ON NUMBER OF EMPLOYEES



Firm size in Q2 is also more diverse, with micro and small enterprises occupying the larger share; with the focus shifting toward small firms. Micro enterprises dominated the Q1 survey with nearly 80%

Survey respondents in Q2 are diverse in terms of segments and firm size with greater representation in Q2 of SMEs (versus micro in Q1) and segments such as agriculture, retail, and manufacturing.

CAPTURING BUSINESS PERCEPTIONS IN KP-Q2

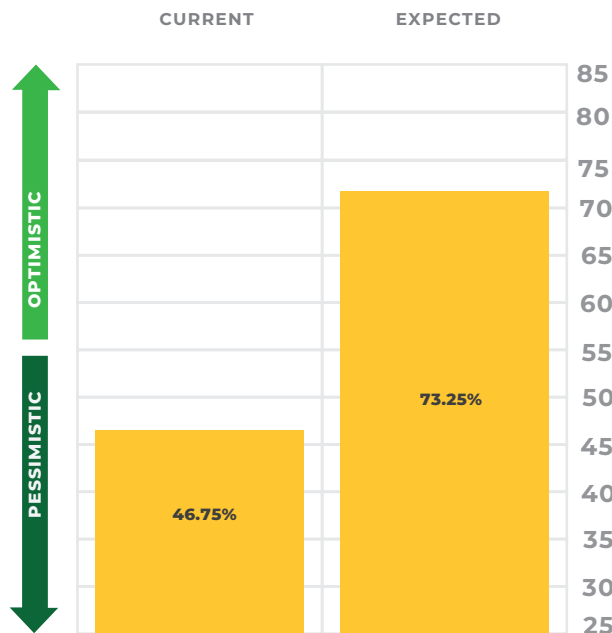
Based on diffusion index (DI) methodology. The DI shows the general tendency of respondents on each of the below areas. At a score of 50, businesses are neutral.

DI > 50 implies more positive views than negative views

DI < 50 implies more negative views than positive views

DI = 50 implies positive and negative views are equal

PERCEPTIONS ON ECONOMIC CONDITIONS



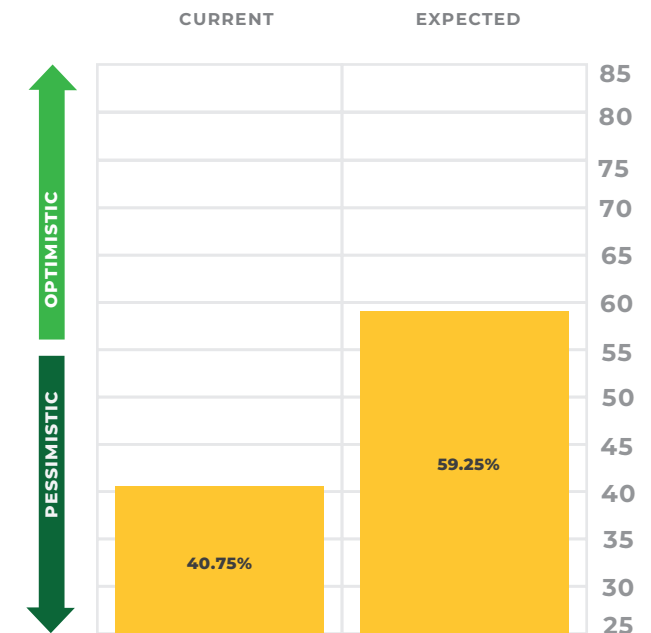
BUSINESSES IN THIS SECOND SURVEY ARE LESS CONFIDENT ABOUT CURRENT ECONOMIC CONDITIONS BUT EXPECT THE ECONOMY TO TAKE A DRAMATIC TURN TOWARDS BETTERMENT OVER THE NEXT FEW MONTHS

PERCEPTIONS ON BUSINESS PRODUCTION



WHEREAS CURRENT CONFIDENCE IN TERMS OF DOMESTIC PRODUCTION IS LOW, KP BUSINESSES IN THE SECOND ROUND OF THE SURVEY SEEM OPTIMISTIC THAT THEIR PRODUCTION WILL IMPROVE

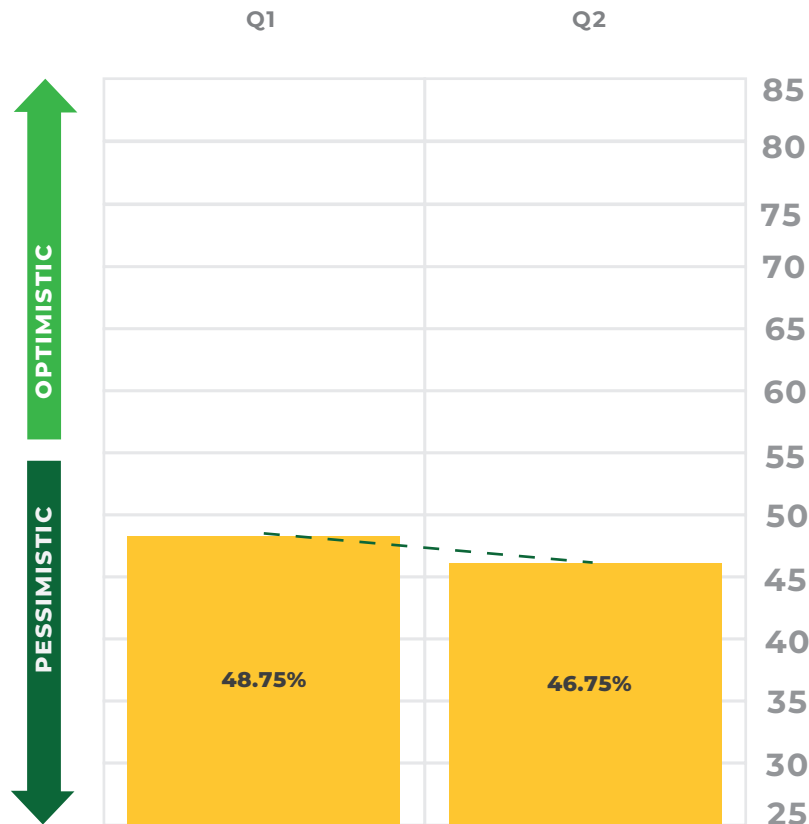
PERCEPTIONS ON BUSINESS EMPLOYMENT



EMPLOYMENT IS THE ONLY INDICATOR WHERE ROUND 2 RESPONDENTS ARE NOT AS OPTIMISTIC ABOUT CURRENT & FUTURE PROSPECTS. HOWEVER, THEY DO BELIEVE EMPLOYMENT WILL INCREASE IN THE FUTURE

BUSINESS CONFIDENCE: ROUND 1 VS. 2

CURRENT ECONOMIC CONDITIONS



Respondents in round 2 reported slightly lower business confidence than those in round 1.

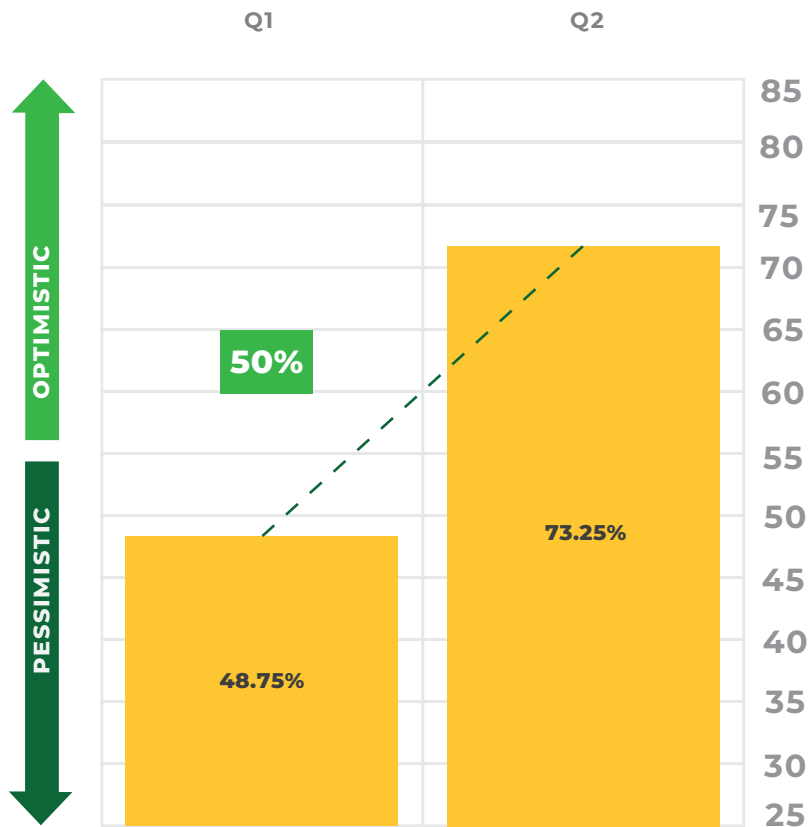


Pressures from massive inflation, cost of electricity, gas price hikes, rupee depreciation could explain why business confidence is further down from Q1.

The silver lining here is that respondents do not feel these conditions would prevail or are permanent as their future expectations are high.

EXPECTED BUSINESS CONFIDENCE IS UP SINCE Q1

CURRENT ECONOMIC CONDITIONS



The businesses sampled in Q1 were not confident about the future in terms of where the economy was headed.

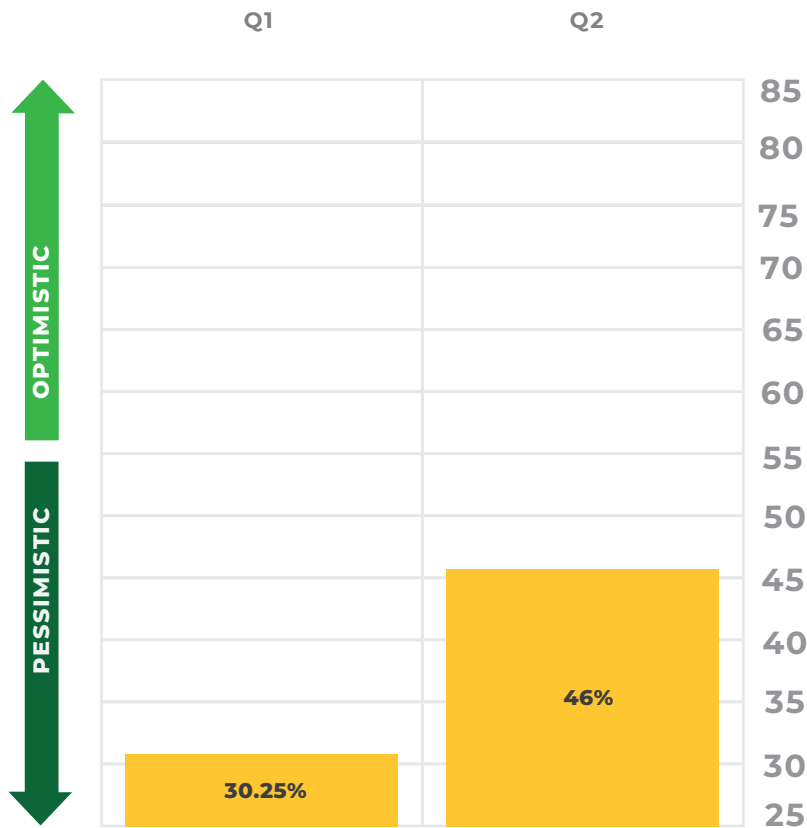


Q2 businesses sample showed more confidence that the economy is moving in the right direction and conditions will improve over the next few months.

The sample composition has changed between the two rounds, so changes could be partly attributed to that.

KP BUSINESSES ARE MORE OPTIMISTIC ABOUT THEIR PRODUCTION LEVELS

CURRENT BUSINESS PRODUCTION



KP businesses sampled in Q1 were very pessimistic about their firms' production.



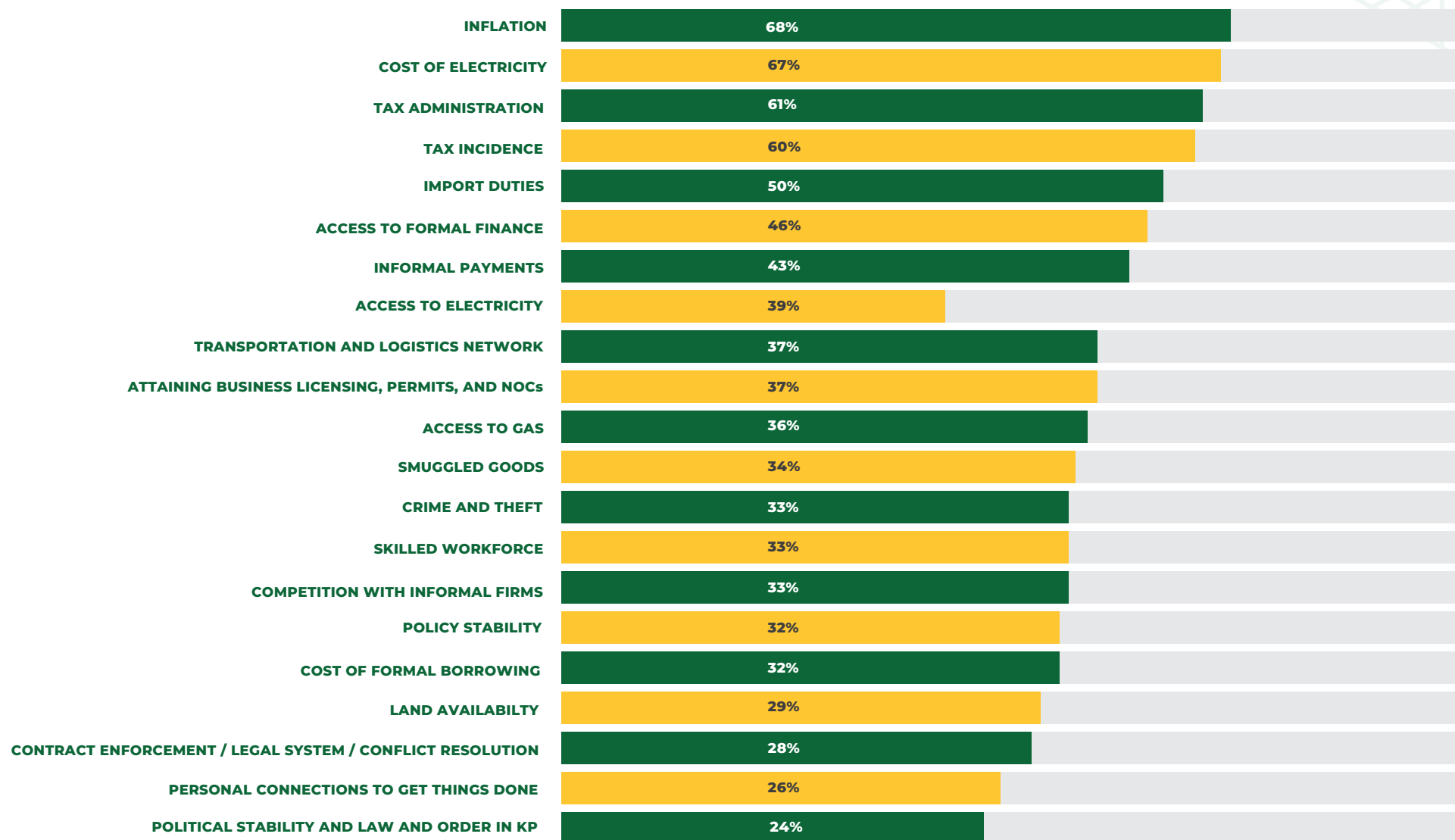
Those sampled in Q2 are slightly more optimistic about their financial and operational performance.

It is important now to look at what obstacles businesses believe to be hindering their performance, and whether they expect those challenges to improve.

CURRENT BARRIERS TO DOING BUSINESS IN KP - Q2



CHALLENGES HIGHLIGHTED AS 'MAJOR' OR 'MOST SEVERE'



BARRIERS TO DOING BUSINESS IN KP

COMPARATIVE INSIGHTS BETWEEN SURVEY ROUND 1 & ROUND 2

OBSTACLES FACED	SEVERITY IN Q1	SEVERITY IN Q2
INFLATION	1	1
COST OF ELECTRICITY	2	2
TAX ADMINISTRATION	4	3
TAX INCIDENCE	3	4
IMPORT DUTIES	9	5
ACCESS TO FORMAL FINANCE	8	6
INFORMAL PAYMENTS	10	7
ACCESS TO ELECTRICITY	7	8
TRANSPORTATION & LOGISTICS NETWORK	21	9
ATTAINING BUSINESS LICENSING, PERMITS, & NOCs	12	10
ACCESS TO GAS	18	11
SMUGGLED GOODS	15	12
CRIME AND THEFT	17	13
SKILLED WORKFORCE	6	14
COMPETITION WITH INFORMAL FIRMS	11	15
POLICY STABILITY	13	16
COST OF FORMAL BORROWING	14	17
LAND AVAILABILTY	20	18
CONTRACT ENFORCEMENT / LEGAL SYSTEM / CONFLICT RESOLUTION	5	19
PERSONAL CONNECTIONS TO GET THINGS DONE	16	20
POLITICAL STABILITY AND LAW AND ORDER IN KP	19	21

TOP OBSTACLES HIGHLIGHTED DURING BOTH SURVEY ROUNDS



INFLATION



COST OF ELECTRICITY



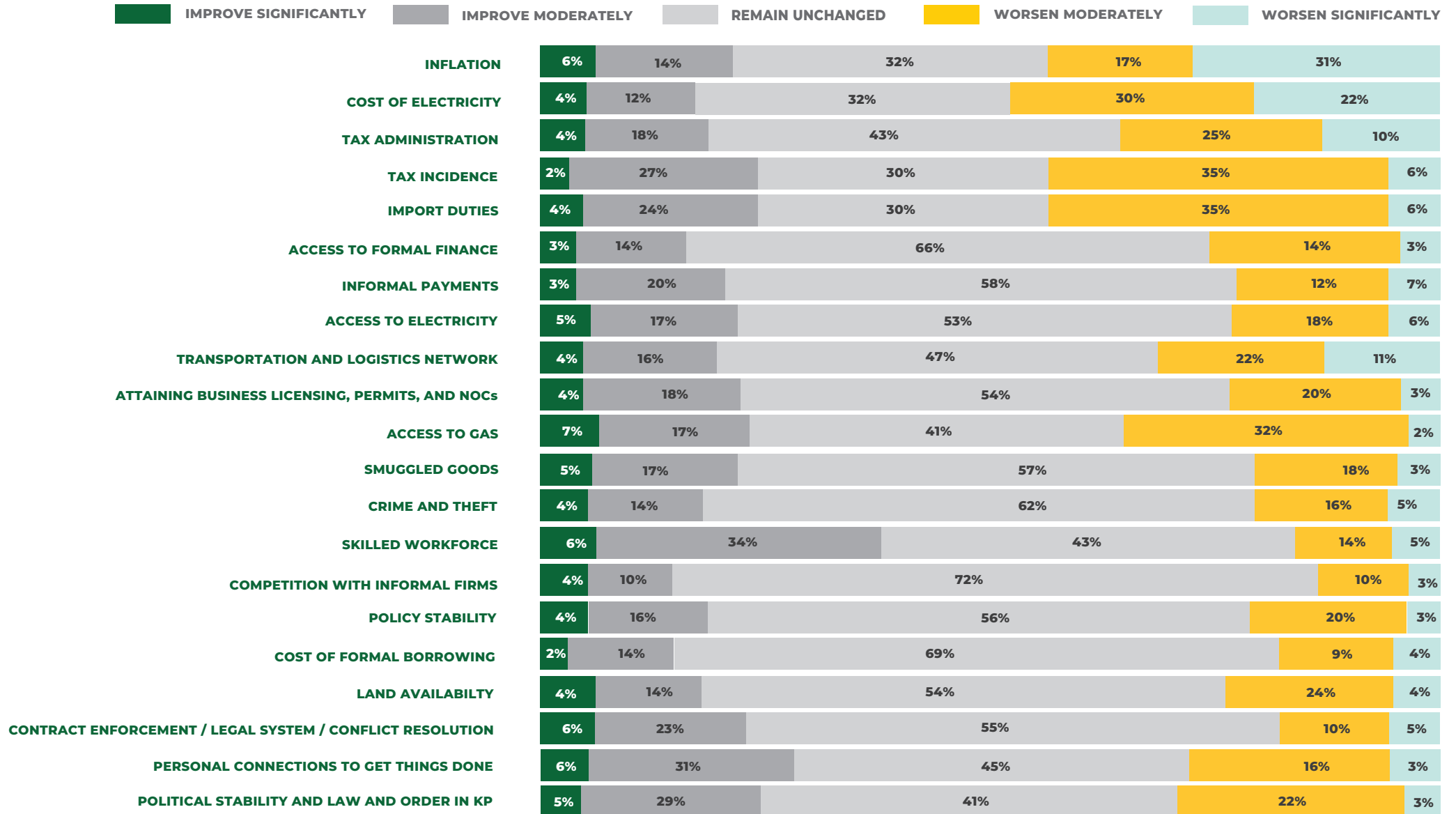
TAX ADMINISTRATION
+
TAX INCIDENCE

ACCESS TO GAS: Gas shortages in the country is evidently affecting KP businesses. In Q2, survey respondents ranked this obstacle as being high.

ACCESS TO FINANCE: Access to Finance is a prominent issue in KP, ranked high during both rounds by respondents. This is also a nation-wide business obstacle. Most SMEs and micro enterprises in Pakistan make use of informal borrowing channels which are often very expensive, but in the absence of formal borrowing avenues, they have to avail costly finance.

WILL THESE OBSTACLES IMPROVE?

IN THE NEXT YEAR





52%

OF THE BUSINESSES SAMPLED IN Q2 BELIEVE **COST OF ELECTRICITY** WILL WORSEN OVER TIME



49%

OF THE BUSINESSES SAMPLED IN Q2 BELIEVE **INFLATION** WILL WORSEN OVER TIME



LEAST SEVERE OBSTACLES HIGHLIGHTED DURING BOTH SURVEY ROUNDS



PERSONAL CONNECTIONS



LAND AVAILABILITY



POLITICAL STABILITY + LAW & ORDER IN KP

PERCEPTIONS WERE NOT AS PESSIMISTIC IN Q1. THIS COULD BE BECAUSE BOTH INFLATION AND COST OF ELECTRICITY HAVE TAKEN A TURN FOR THE WORST OVER THE PAST FEW MONTHS AND ARE EXPECTED TO REMAIN PROBLEMATIC.

ALMOST 50% OF KP BUSINESSES SAMPLED IN Q2 BELIEVE THAT HIGHLIGHTED OBSTACLES WILL REMAIN UNCHANGED

BUSINESSES DO NOT FEEL HEARD

BUSINESSES AND INDUSTRIES NEED TO BE MEANINGFULLY ENGAGED FOR EFFECTIVE AND PRO-BUSINESS POLICYMAKING AT BOTH THE FEDERAL AND PROVINCIAL LEVELS.

KP GOVERNMENT MUST IDENTIFY WAYS TO CONSULT AND COLLABORATE WITH BUSINESSES, ESPECIALLY SMES, IN ORDER TO FACILITATE AND SUPPORT THEIR GROWTH.

DO YOU FEEL YOUR VOICE IS HEARD IN THE FEDERAL/ PROVINCIAL GOVERNMENT POWER CHAMBER?



< 10% SAID YES
(THIS WAS 11% IN Q1)

HAVE YOU EVER BEEN CONSULTED BY THE GOVERNMENT ON ANY POLICY-RELATED MATTER?



< 11% SAID YES
(THIS WAS 35% IN Q1)

KEY TAKEAWAYS

IN Q1, THE BUSINESSES SAMPLED WERE NOT OPTIMISTIC ABOUT PRESENT OR FUTURE ECONOMIC CONDITIONS

IN Q2, THE BUSINESSES SURVEYED DEMONSTRATE SUBSTANTIAL OPTIMISM ABOUT FUTURE ECONOMIC CONDITIONS OF THE COUNTRY AS WELL AS THEIR OWN OPERATIONAL AND FINANCIAL GROWTH.

HOWEVER, THERE ARE STILL SEVERAL OBSTACLES - BOTH AT THE MACRO LEVEL AND THE BUSINESS LEVEL - THAT NEED TO BE ADDRESSED

MOST CONCERNING



INFLATION



COST OF ELECTRICITY



TAX INCIDENCE



TAX ADMINISTRATION



ACCESS TO ELECTRICITY

LEAST CONCERNING



POLITICAL STABILITY



LAW & ORDER



FORMS OF CORRUPTION



CONTRACT ENFORCEMENT



LAND AVAILABILITY

KP GOVERNMENT MUST CONTINUE TO WORK ON DEVELOPING A MORE COLLABORATIVE APPROACH TOWARD RESOLVING BUSINESS CONSTRAINTS & CURATING POLICIES

Sustainable Energy and Economic Development (SEED) Programme is funded by United Kingdom's Foreign, Commonwealth and Development Office (FCDO). The SEED programme, in close collaboration with the Government of Khyber Pakhtunkhwa (GoKP), aims to improve economic and urban planning in Khyber Pakhtunkhwa to help the province plan and finance investment needs for growth, jobs and prosperity.

Adam Smith
International

