Statistics Sierra Leone

THE SIERRA LEONE BUSINESS CONFIDENCE INDEX

(SLBCI) 2011

Economic Statistics Division
Statistics Sierra Leone

May, 2012
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Mohamed King-Koroma
Acting Statistician General
The survey for the compilation of the Sierra Leone Business Confidence Index (SLBCI) was approved by the Monetary Policy Committee following the need expressed by the Monetary Policy Technical Committee for a tool to gauge and manage business expectations. This is the second year this index is being compiled in Sierra Leone (the first was in 2010), which is meant to capture the perception of business people on the economy. The Index therefore, measures the perception of top business executives and managers of business establishments on the past/current and future political and macroeconomic developments and indicators as they affect business performance and expectations. The Business Confidence Index is presented as a Diffusion Index (DI) and measured on a scale of 0 to 100, where 0 indicates total lack of confidence and 100 indicates extreme confidence. A score of 50 index point indicates business sentiments remain stable. The Survey Questionnaire covers eight broad themes that together address 20 specific economic policy relevant issues. Questions asked in the survey require the respondent to choose among three options; normal, above normal or below normal or same, increase or decrease. Two types of indices are compiled; the past/current business outlook index (the index derived from perceptions about past/current performance), and the business expectations outlook index (the index derived from business peoples’ expectation of performance three months in advance). These two indices are calculated for every variable and aggregated to form a composite business confidence index.

Broadly, two types of indicators are computed, which are confidence-building indicators, which capture positive sentiment about the economy such as those that relate to general economic situation, sales volumes, output levels, business turnover, profitability, investment plan, capacity utilization, and employment level; and confidence-undermining indicators, which capture negative sentiment of business owners about macroeconomic factors, finance and credit markets and governance factors as they affect business operations. As a result, the overall index is computed as a weighted average of all the positive and negative indices highlighted above (all 8 of them) and 50 is added to that average. This is because for a DI, 50 is the base; 50 is therefore the benchmark for comparison. This is done for both the past/current outlook and expected outlook indices.

The index is compiled based on a quarterly survey of all establishments engaged in similar kind of activities such as in Manufacturing, Wholesale and Retail Trade, Construction and Other Services sectors in the Western Area of Sierra Leone. These establishments are classified by employment size in to small scale establishments (<10 employees), medium scale establishments (10-49 employees) and large scale enterprises (50+ employees). The first survey was conducted in June, 2010.

The sample size consists of 160 reporting units allocated equally within the four strata to allow for sector comparison. Both purposive (judgmental) sampling and ordered probability proportional to size (PPS) of employment sampling techniques were used to select the sample. For each sector, the top ten establishments were purposively selected and the remaining establishments were reorganized by size of employees. Within each sector an ordered list of establishments was reconstructed from which the first 30 establishments on the list were selected and added to the 10 already selected. The pre-coded questionnaire for each sector was then sent to selected establishments for completion. Those establishments that were selected for the quarter 2 survey were maintained and surveyed in quarters 3
and 4. This allowed for the generation of a panel data set, which is handy in conducting trend analysis of responses. Only few replacements have been made to the original list due to non-availability of respondents.

**Key Finding : The key findings of this survey were as follows -**

- The Sierra Leone Business confidence Index for the first quarter of 2011 was 60.37 index points which was 10.37 points above normal; second quarter was 59.69 index points, which was 9.69 above normal; third quarter was 62.01, which was 12.01 index points above normal; and the fourth quarter was 64.0 index points which was 14.0 points above normal. This gives an average of 61.52 index points which is 11.52 index points above normal. This implies that business managers were generally optimistic about future business prospects in the economy despite the inflationary pressures in the economy coming from a hike in fuel prices and the continuous depreciation of the Le.

- The data shows that the Past/current performance index increased from 55.3% in quarter 1 to 55.8% in quarter 2 to 57.4% in quarter 3 and 60.0% in quarter 4. This suggests a continuous improvement in the sentiments of businesses with regards to the current performance of business operations in the country.

- On the other hand, the expected business outlook index continuously declined from 65.5% in quarter 1 to 63.5% in quarter 2 but increased to 66.6% in quarter 3 and 68.1% in quarter 4 reflecting a fluctuation in the ability of business executives to predict the impact of macroeconomic and governance factors on future business operations.

- When analysed by sector for quarter 1, Wholesale and Retail Trade has the least current outlook of 48.86%, followed by manufacturing (51.72%) and other services (60.64%). These indices improved considerable in quarter 4. Construction and other services sector expressed the strongest business sentiments regarding past/current business operations throughout the quarters.

- The data show that future expectations were generally higher than normal for each sector in each quarter; expectations were particularly higher in other services sector with 75.50% in quarter 4, 67.69% in quarter 3, 71.25% in quarter 2 and 72.70% in quarter 1.

- By size of establishments, the past/current outlook index improved considerably across the size of establishment from quarter 1 to quarter 4; but particularly for quarter 4 which recorded an index of 59.2% for small scale establishments, 57.1% for medium scale and 62.4% for large scale establishments. On the other hand, quarter 2 recorded the least future business outlook index for all sizes of establishments. This means that business people were uncertain with the current trend of activities due to the change from imperial to metric system which brought pandemonium in the market and this made them less predictive about the future.

- When analysed by sector for quarter 1, Trade has the least current outlook of 53.88%, followed by manufacturing 55.40%, construction 64.28% and other services 66.67%, which is partly explained by the result of bureaucracy and corruption indices. Other services sector expressed the strongest business sentiments regarding past/current business operations for quarters 1, 2 and 4 but in quarter 3 constructions had the strongest sentiment.

- Regarding the economic wide outlook index, the data shows that the average assessment by all respondents of current or past performance of business was below normal 44.91% in quarter 1 and dipped to 37.53% in quarter 2 but improved in quarter 3 to 48.91% and quarter 4 to 48.23% largely due to renewed concerns over the impact of macroeconomic factors (such as inflation and exchange rate instability) and governance factors (such as crime and corruption) on business operations in the country.

- Also, the expected business outlook index in quarter 1 was 69.47%, but dipped in quarter 2 to 56.38%, improved in quarter 3 (72.20%) and further increased to 74.66% in quarter 4.
• The production and sales index data shows that the business confidence index for past/current level of business activity was above average for all the quarters, but declined slightly in quarter 2 (53.5%). On the other hand, the expected business confidence index declined sharply from 73.6% in quarter 1 to 63.7% in quarter 2, 76.0% in quarter 3 and dipped to 66.0% in quarter 4 reflecting a fluctuation on future production expectation, sales and/or demand levels of businesses from one quarter to the other.

• The Turnover/selling prices index data shows that past/current business outlook on turnover was below normal at 44.5%, 37.7% and 48.1% in quarter 1, 2 and 3 respectively; but above average at 51.2% in quarter 4. This could be connected to the usual expected boom in sales during Christmas festive period. Also expected business outlook index was above normal in quarters 1 (63.5%), 3 (63.1%) and 4 (64.5%) but at average in quarter 2 (49.9% app.50%) indicating a drop in the confidence level regarding sales levels in the next 3 months; this could be due to the confusion that accompanied and the misinterpretation of the metric system introduced in May 2011.

• The investment plan index data shows that the past/current indices were slightly above normal for quarters 1 (52.0%), 3 (51.9%), 4 (53.5%) but dipped to (40.4%) in quarter 2. This underlines the fact that current capacity utilisation was just above average for most businesses in the country. In addition, the expected business outlook though above normal in quarters 1 (62.8%), 3 (62.0%) and 4 (61.8%) but below average 48.2% in quarter 2.

• The total employment index shows that the past/current employment outlook for all sectors was below average in quarter 1 (48.3%) and 2 (40.1%). However, sentiment to expand current employment levels improved considerable in quarters 3 (52.1%) and 4 (55.2%).

• The Financial and Credit Market index shows that average past/current outlook was 68.0% in quarter 1, 53.6% in quarter 2, 68.3% in quarter 3 and 68.3% in quarter 4. This means that the current business confidence dropped significantly in quarter 2 and 4; The expected business outlook index and the overall index also declined in quarters 2 and 4, which represents a fluctuation in the confidence level of business executives over the quarters.

• The macroeconomic factors index shows that the past/current business index recorded a significant drop from 88.8% in quarter 1 to 67.4% in quarter 2 but increased in quarter 3 (86.3%), 86.7% in quarter 4; while the expected business outlook dropped from 85.0% in quarter 1 to 66.8% in quarter 2 but increased to 85.7% in quarter 3 and dipped again in quarter 4 to 79.7%. As a result, the overall macroeconomic index dropped from 86.9% in quarter 1 to 67.1% in quarter 2, 86.0% in quarter 3, 83.2% in quarter 4. This means that business people were uncertain about improvement in business operations due to the impact of macroeconomic factors on their businesses.

• For the governance factors index, both the past/current outlook index and the expected business outlook index recorded a decline between quarter 2 and quarter 4. Of course with the invocation of MAC-P, the joint military and police patrols reduced crime and instability in the city. The confidence did improve, for example, the overall business confidence index declined from 52.5% in quarter 1 to 41.7% in quarter 2. However, the confidence dropped again in quarter 4 (as indicated by the 44.5% index points) due to increased fear about the impact of crime, corruption and bureaucracy on business operations.
1.0 INTRODUCTION

The Sierra Leone Business Confidence Index measures the perception of Company Chief Executives, Managers, and in some cases Business Owners’ on the current and future state of the economy as it affects business operations and investment decisions. The Index estimates business peoples’ perception of current and expected developments regarding general economic performance, sales, investments, employment, selling prices, capital inflows or outflows, exchange rates and instability of the Leone etc. The Sierra Leone Business confidence index is measured on a scale of 0 to 100, where 0 indicates total lack of confidence and 100 indicates extreme confidence. The Survey Questionnaire covers seven broad themes that together address 20 specific economic policy relevant issues. The respondent is required to choose from three options; higher, lower or the same for each of the questions. Two types of indices are compiled; the current/past status index (the index derived from perceptions about current/past performance), and the business confidence index (the index derived from business peoples’ expectation of performance three months in advance). These two indices are calculated for every variable and aggregated to form a composite index.

1.1 Coverage

The index is compiled based on a quarterly survey of all establishments carrying out the same kind of activities in selected sectors in the Western Area of Sierra Leone classified by employment size in to small scale establishments (<10 employees), medium scale establishments(10-49 employees) and large scale establishments(50+ employees). The survey covers four main sectors of the economy; Manufacturing, Wholesale and Retail Trade, Construction and Other Services (Tourism, Banking, Insurance and Transport and Communication) sectors of the economy. The target respondents are top executives, business leaders, owners and top managers of these establishments.

1.2 Periodicity and Timeliness of Data

The Sierra Leone Business Confidence survey is carried out quarterly with a quarterly reference period. This means information collected on a quarterly basis will refer to the past three months and the next three months. The survey is carried out four times in the year during the second and third week of the last month of the quarter. The survey results are released at the end of the first month of the following quarter. The first survey was conducted in quarter 2, 2010.

1.3 Objective of the Survey

The main aim of the Sierra Leone Business Confidence survey is to obtain qualitative information for use in monitoring the current and future business situation and forecasting short-term developments in the economy. It is intended to provide economic decision makers particularly the Monetary Policy Committee with necessary information about future business outlook and expectations that could be used to determine monetary policy. The survey is carried out with the aim of finding out the opinion of senior managers of the major private sector enterprises about the
recent past, present and the future macroeconomic developments as they affect production, investment, demand, sales, capacity utilization and inflation expectations. It is widely recognized that business peoples’ expectations play a major role in economic development and taking this into consideration in making short-term business decisions is crucial to avoid economic and financial crisis.
2.0 SURVEY METHODOLOGY

This section outlines the methodology of the survey, including index compilation procedures.

2.1 Sampling Frame
The Business Register maintained by SSL was used to reconstruct the sampling frame. The frame consisted of all establishments carrying out the same industrial activity (Kind-of-Activity-Units) in the Western Area and regional cities of the Country classified as belonging to the following four sectors: Construction, Manufacturing, Wholesale & Retail Trade, Other Services (Hotels & Restaurants, Banking, Insurance, Transport and Communication). The frame was updated using records provided by the National Revenue Authority (NRA), the National Social Security and Insurance Trust (NASSIT) and field work done by Statistics Sierra Leone. The regrouping of establishments was done in order to capture pertinent information on key industries of the economy.

2.2 Reporting Unit and Sampling Unit
The frame consisted of several establishments operating from one location and carrying out predominantly one kind of activity. In this case the reporting unit was the same as the sampling unit. However, where the sampled unit (the establishment) carries out several of the same kind of activity in different locations, or several activities in the same location, then the main establishment or head office was used as reporting unit even if the branch was selected. This is particularly applicable wherein the head office keeps a centralize books of accounts for all activities and branches.

2.3 Sample Size and Sample Size Allocation
The sample size was determined on the basis of a rule of thumb that about 30 reporting units were required to obtain an acceptable level of precision for each stratum. Thus 160 reporting units were selected for the study allocated equally within the four strata, ten extra to allow for sample shortfall due to non response. The sample size was allocated equally among the four sectors covered in the study. Thus there were forty reporting units each from Construction, Manufacturing, Wholesale and Retail Trade, and Other Services (Tourism, Banking, Insurance, and Transport and Communication) sectors. An equal sample size allocation was adopted to allow for comparison of the business expectations across sectors.

2.4 Survey Instrument
The questionnaire was designed following the guidelines set in the Organization for Economic Cooperation and Development Handbook (OECD Handbook on Business Tendency Surveys). The standard OECD harmonized questionnaire for Business Tendency Surveys was used as the main framework adapted to our country specific situation. However, the survey questionnaire is much longer than the standard OECD questionnaire. The Sierra Leone Business Confidence questionnaire contains 40 questions, 20 intended to address past/current business performance and 20 to
measure future business expectations. The questions cover eight broad themes that together address 20 specific economic policy relevant issues on both past/current business performance and future expectations. The main themes covered by the survey are; General Economy and Business wide outlook, Sales/Production Volumes, Turnover/Selling Prices, Investment Plans, Employment, Finance and Credit Markets, Macroeconomic Factors and Governance Factors.

There are four questionnaires which are similar in scope but each modified slightly to suit the special needs of the sector surveyed. Three optional multiple choice questions are used in harmony with standard practice. Respondents were asked for judgment on business developments in the recent past; give an assessment of the current situation and their expectation on the future trend of the selected indicators. When asked to assess their current business operations, respondents were asked to state whether they were; “above normal”, “normal” or “below normal”. Alternatively questions on business expectations normally require the respondents to state whether their operations will “increase”, “decrease” or remain the “same”.

2.5 Sample Design

The sample design was a combination of purposive (judgmental) sampling and ordered probability proportional to size sampling techniques. For each sector, the top ten companies were purposively selected using the number of employees as size measure. The remaining establishments were reorganized into four strata, each stratum representing one sector. The sample was selected by stratum. Thus for each establishment in the stratum, the number of employees was represented by \( x_i \) and a random number \( U_i \) between 0 and 1 was associated with each establishment. A variable \( Z \) such that \( Z = nx_i/\sum x_i \) where \( n \) is sample size, \( x_i \) is the number of employees in enterprise \( i \) (i = 1, 2, 3...N) and \( \sum x_i \) is the cumulative total number of employees for all establishments of the specified type was computed. The ranking variable \( Q \) which was a function of \( Z \) such that \( Q_i = U_i(1-Z_i)/Z_i(1-U_i) \) where \( Z_i \) and \( U_i \) are defined as above was constructed. The values of \( Q_i \) obtained were sorted in ascending order and for each sector 30 additional establishments with the smallest value of the ranking variable (\( Q \)) were selected. The ranking was very useful because during field work the establishments that were found to be unsuitable were replaced with the next ones in the ranking. Thus ordered PPS provided some flexibility and made replacement statistically robust.

To reduce sample variance, and to measure changes over time more accurately and reduce the cost of the survey a fixed panel of reporting units and respondents are used each quarter. However, replacement is made from time-to-time to account for closure and outright refusal cases and to reduce respondent fatigue.

2.6 Data Collection

The Business Confidence Survey is carried out by Statistics Sierra Leone using the already established real sector data collection framework. A self administered questionnaire is sent to each selected establishment (reporting unit) accompanied by a letter from the Statistician General requesting the unit to participate in the study on a quarterly basis and providing additional
information on the survey. Data Collectors make return visits to collect completed questionnaires or to answer questions relating to the survey. The data collection normal lasted for 10 days.

2.7 **Organization of the Survey**

The survey is implemented by the National Accounts Section in the Economic Statistics Division at SSL. The existing real sector data collection framework is used to implement the survey. The Head of the National Accounts Section serves as Survey Coordinator while the Director of the Division provides overall supervision and technical expertise in the design and construction of the indices. To ensure credibility and prompt response from business executives, all Section Heads, Statisticians and other staff in the Economic Statistics Division served as Data Collectors.
3.0 PROCESSING, ANALYSIS AND REPORTING OF THE SURVEY RESULTS

3.1 Index Estimation Procedures

In the survey questionnaire, respondents were given any of three answer choices to select from for each question. The choices may be differently worded but they can broadly be classified as positive, negative and unchanged. This is the standard practice in confidence surveys. These qualitative responses are then converted into quantitative responses by scoring the responses received using the criteria below:

- The score of +1 is assigned to the answers that show positive sentiment
- The score of 0 is given to “unchanged” answers.
- The score of -1 is assigned to “negative” responses

Two approaches are used to estimate the indices; the balances approach (Net-Balances) and the Diffusion Indices approach. In using the Balance Approach, the positive (1), neutral (0) and Negative (-1) responses are first converted into percentages. The net balance is calculated by subtracting the negative percentages from the positive percentages. The formula used to compute the balances is B=100(P-N) where P is the fraction of positive responses in the total and N is the fraction of the negative responses in the total.

The net balances computed are then converted into diffusion indices using the following relationship; DI = (100+ B)/2 where DI is the Diffusion Index and B is the Net Balances computed as above.

The indices computed using the net balances approach range from -100 to 100 while diffusion indices range from 0 to 100. The Sierra Leone Business Confidence Index is presented as a diffusion index for ease of presentation and interpretation. However, both index types have exactly the same information content and each represents another way of presenting the same information. First balances are computed for each question based on the total number of responses for each of the three response option. Using the formula outlined above, an elementary diffusion index is computed for each question. The overall indices by sub-indicator, main indicator and eventually sector are computed as simple averages of the item indices. Separate indices are computed for Industry, Construction, Wholesale and Retail Trade, and Other Services Sectors. These are then aggregated to compute the overall Business Confidence Index. The index is computed as a past/current performance index and a future expectations index. It is also presented by size of establishments divided into small scale establishments (< 9 employees), medium scale establishments (10-49 employees) and large scale establishments (50+ employees).
3.2 Type of Indices Computed

Broadly, two types of indicators are computed:

A. Confidence-building Indicators

These indicators capture positive sentiment about the economy—they are those that relate to general economic situation, sales volumes, output levels, business turnover, profitability, investment plan, capacity utilization, and employment level.

These indicators are summarized as follows:

1. General Economy and Business Outlook (positive average)
   - Business Outlook
   - Economy Wide Outlook
2. Sales volumes (positive average)
   - Sales volumes
3. Turnover/Selling Prices (positive average)
   - Profitability
   - Orders Placed With Suppliers
   - Average Selling Prices
4. Investment Plans (positive average)
   - Investment Changes
   - Capacity Utilization
5. Employment Total (positive average)
   - Employment Levels

Thus the net-balances of these 5 main indicators were given a positive sign in the computation of the composite DI

B. Confidence-undermining Indicators

These are indicators that capture negative sentiment of business owners about the impact of factors under investigation on their business operations.

Three broad indicators are estimated here as show below:

1. Finance and Credit Markets (negative average)
   - High Interest Rates
   - Non-availability of Bank Credit
   - Non-availability of Credit from other Financial Sources
   - Non-availability of Foreign Exchange
2. Macroeconomic Factors (negative average)
   - Taxes
   - Inflation
   - Exchange Rate instability
3. Governance Factors Summary (negative average)
   - Effect of Corruption
   - Effect of Crime
   - Effect of Bureaucracy
   - Effect of Internal Political Climate

As a result, the net-balances of these 3 main indicators (6-8) were given a negative sign in the computation of the composite DI
### Computing the Overall Composite Index:

The overall index is computed as a weighted average of all the positive and negative indices highlighted above (all 8 of them) and 50 is added to that average. This is because for a DI 50 is the base; 50 is therefore the benchmark for comparison. This is done for both the current and expected indices. Thus overall index is computed as follows: \( \text{Average (1,2,3,4,5,6,7,8)} + 50 \)

### Weights

Two sets of weights are used in the computation of the overall index: establishment weights and sectorial weights. Establishment weights are obtained from the business register based on the sample selected, while sectorial weights are obtained as the sectorial share in the gross domestic product (GDP). The two weights ensured that the index obtained is nationally representative.

### Interpretation of Results

A Diffusion Index ranges from 0 to 100 and is interpreted as follows;

(i) Index of 50 means that business sentiment remains stable.

(ii) Index above 50 means business confidence has improved

(iii) Index below 50 means business confidence has worsened

In the computation of the overall index, the following variables; Finance and Credit Markets (Effect of High Interest Rates, Non-Availability of Bank Credit, Non-Availability of Credit from other sources and Non-Availability of Foreign Exchange); Macroeconomic Factors (effect of taxes, Inflation and Exchange Rate Instability); and Governance Factors (Effect of Bureaucracy, Corruption, Crime and Internal Political Climate) were computed as confidence undermining factors and hence assigned a negative value. As a result, a score above 50 for each of these factors should be regarded as deterioration in the confidence level. Since these variables are regarded as confidence undermining factors, the higher the score on them the lower the business confidence. Thus in the computation of the overall index their individual scores are netted out as a negative balance.
4.0 PRESENTATION AND ANALYSIS OF SURVEY RESULTS

4.1.1 The Indicators of Business Confidence

The Sierra Leone Business Confidence survey questionnaire contained 40 questions, 20 intended to address past/current business performance and 20 to measure future business expectations. The questions covered eight broad themes that together addressed 20 specific economic policy relevant issues on both past/current business performance and future expectations. There were four questionnaires which were similar in scope but each modified slightly to suit the special needs of the sector surveyed. Three optional multiple choice questions were used in harmony with standard practice. Respondents were asked for judgment on business developments in the recent past, and give assessment of the current situation and their expectation on the future trend of the selected indicators. When asked to assess their current business operations respondents were asked to state whether they were; “above normal”, “normal” or “below normal”. Alternatively questions on business expectations required the respondents to state whether their future operations will “increased”, “decrease” or remain the “same”.

4.1.2 Aggregate Business Confidence Indicators

The Sierra Leone Business confidence Index for the first quarter of 2011 was 60.4 index points which was 10.4 points above normal; second quarter was 59.6 index points, which was 9.6 above normal: third quarter was 62.0, which was 12 index points above normal and the fourth quarter was 64.0, which was14.0 points above normal. This gives an annual average of 61.5 index points, which were 11.5 index points above normal. This implies that business managers were generally optimistic about future business prospects in the economy despite the double digit inflation rate throughout 2011.

Figure 4.1.2: Overall Business Confidence Index

The quarter 1, 2011 60.4 percentage point index was as a result of slight decline in the macroeconomic and governance indices, which contains bureaucracy and corruption indices. As the macroeconomic and governance environment became stable, business people became more and more confident to predict about the impact of these factors on their business operations in the future. The 1.2 percentage point decrease in the overall index from quarter 1 to quarter 2 could be attributed mainly to the confusion surrounding the change from imperial system of measurement.
to the metric system in May 2011, which was accompanied by an increase in the pump price of all petroleum products in the country. The misinterpretation of the new system led to hoarding of fuel which brought about pandemonium in the market thereby creating environmental insecurity in the business sector and heightened inflation expectation in the market thereby undermining the confidence of business executives in the short-to-medium term.

The 4.0 percentage point increase in the index from quarter 2 to quarter 3 other hand implied that there were strong sentiments expressed as contained in the expected business outlook index which could be attributed to the stable sentiments expressed about the impact of macroeconomic factors (e.g inflation, taxes etc.) and governance factors on the business operations in the country. This in turn improved the rating of the confidence building factors such as investment, employment and the overall economic performance indicators. All previous fears of pump price and heightened inflation that resulted from the introduction of the metric system in quarter 2 had disappeared from market by the end of the third quarter; hence the index is enhanced, reflecting stronger sentiments in the market.

The 3.3 percentage point improvement in the index in quarter 4 over quarter 3 estimate implies that business sentiments improved further in quarter 4 over quarter 3 notwithstanding the shortage of liquidity during the festive period; this improved sentiment could be attributed to the ability of business executives adjustment to the impact of macroeconomic factors (e.g. inflation, taxes etc) and governance factors on the business operations in the country. This in turn improved the rating of the confidence building factors such as investment, sales volume, employment and the overall economy performance indicators.

In quarter 4, both inflation and exchange rates were stable and the concerns for insecurity among business executives were rated low, which could be a direct effect of strategic policing by the Sierra Leone Police during the festive season.

**Figure 4.1.2.1: Overall Business Confidence Index - Comparing 2011 and 2010**

The data above indicates that in quarter 1, 2011 performance index was 60.4% while no survey was conducted in quarter 1, 2010; but in quarter 2 of 2010 with index points at 60.3% and 59.6% of 2011 indicates a decline of 1.1 percentage index point which implies that sentiments were weaker in 2011 than in 2010 which could be due to macroeconomic factors (e.g inflation and exchange rate instability), insecurity and governance factor due to the change from imperial to metric system in May’2011 as explained earlier in 4.1.2.
Quarter 3, 2011 and quarter 3, 2010 both indicates a performance index of 62.0% and a 0.0 percentage index point which implies that business executives expressed similar sentiments over the business environment in the two quarters. Quarter 4, 2011 indicates a performance index of 64.0% while quarter 4, 2010 59.3% which indicates an 8.0 percentage point growth and implies that there was stronger sentiments in business operations in 2011 over 2010 for the same quarter which could be attributed to the improved sentiments expressed about the impact of macroeconomic and governance factors. A boost in trade activities resulting from a stable exchange rate could have been responsible for this improvement in the quarter 4, 2011 over quarter 4, 2010.

The annual average of 2011 indicates a performance index of 61.5% while in 2010 indicates 60.5% performance index, which implies a 1.6 percentage point increase over year 2010. This could be as a result of increase in the sales volume, turnover/selling price (profitability, orders placed with suppliers, average selling prices), investment plans, which could be due to the stable inflation and stable exchange rate during 2011 compared with 2010.

4.1.3 Aggregate Business Confidence Indicators by Period

The data in Figure 4.1.3 shows that the Past/current performance index increased from 55.3% in quarter 1 to 55.8% in quarter 2 and 57.4% in quarter 3 to 60.0% in quarter 4. This suggests a continuous improvement in the assessment of business executives with regards to the general economic outlook, turnover/selling prices and employment expansion on one hand, and the decline in the assessment with regards to the impact of macroeconomic factors such as inflation, taxes and governance factors such as crime and political instability on current operations (see appendix Table 3).

On the other hand, the expected business outlook index declined from 65.5% in quarter 1 to 63.5% in quarter 2 and then increased to 66.6% in quarter 3 and further increased in quarter 4 to 68.1% reflecting the inability of business executives to predict the impact of macroeconomic factors on future business operations in the quarter 2 due to heightened inflation fears resulting from the increase in pump price of petroleum products.

Figure 4.1.3: Overall Business Confidence Indicators by Period

This behaviour of the Expected Business Outlook index in quarter 1 at 60.4% to 59.6% in quarter 2 indicates a marginal decline, quarter 3 at 62.0% performance point is at 64.0% which indicates a continuous increase over time which is consistent with economic theory which suggests that as expectations are built into inflation, the future becomes less predictive and as a result business
planning time horizon is reduced; this would have negative impact on business operations in the long-term.

Table 4.1.3: Overall Business Confidence Indicators by Sector

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<th>Quarter</th>
<th>Construction</th>
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<th>Other services</th>
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</table>

When analysed by sector, Wholesale Trade has the least Past/Current Business Outlook of 48.86%, 50.97% and 50.82% in quarters 1, 2 and 3 while in quarter 4 Manufacturing has the least current outlook of 54.81%, which is partly explained by the impact of double digit inflation on these sectors. These indices improved in quarter 4.

Construction sector expressed the strongest business sentiments regarding past/current business operations for quarters 1 at 62.03%, 3 at 65.28% and 4 at 64.06%. Other Services expressed the strongest business sentiments regarding Past/Current Business Outlook in quarter 2 at 60.96%.

Expectations were generally higher than normal for each sector in each quarter and particularly higher in Other Services Sector with 72.70% in quarter 1, 71.25% in quarter 2, 74.30% in quarter 3 and 75.50% in quarter 4.

Figure 4.1.4: Overall Business Confidence Indicators by Size of Establishment

By size of establishments, the past/current outlook index improved considerably across the size of establishment from quarter 1 to quarter 4; but particularly for quarter 4 which recorded an index of 62.4% for Large Scale establishments, 57.1% for Medium Scale and 59.2% for Small Scale establishments (Figure 4.1.4a).

On the other hand, quarter 2 recorded the least future business outlook index for all sizes of establishments with the performance index at 64.4% for Large Scale, Medium Scale at 60.5% and Small Scale at 62.9% which indicates that business executives were quite hesitant on business
expectations. Quarter 3 saw the improving trend of business expectations with Large Scale Establishment at 67.7% having the highest expectation in 2011, Medium Scale 63.1% and Small scale 62.2% which means that business executives felt more confident with the current trend of activities and less predictive about the future.

4.2 General Economy and Sector Wide Outlook
Three questions were used to compute this indicator. On the expectation side respondents were asked to rate how they will expect the national economy or the business situation in their sector to perform in the next three months. They were also asked to rate as good, satisfactory or bad the current business situation in their sector. These responses were used to compute two indicators; Economy wide outlook and Business outlook. The indicator “economy wide outlook” reflects the respondents’ perception of the future performance of the economy only. Unlike the Business Outlook indicator which had a question on both the current and future outlook, no question was asked to assess current or past performance of the general economy.

Figure 4.2: General Economy and Sector Wide Outlook

The data in Figure 4.2 show that the average assessment by all respondents of current or past performance of business in their sector was below normal 44.91% in quarter 1, but dipped in quarter 2 (37.53%) largely due to renewed concerns over the impact of macroeconomic factors (such as inflation, exchange rate instability) and governance factors (such as crime and corruption) on business operations in the country; however the index increased in quarter 3 (48.91%) and further increased in quarter 4 (49.23%) indicating an improvement in the sentiments of mangers. The expected business outlook index in quarter 1 was 69.47%, but declined in quarter 2 to 56.38% due to panic of a possible negative impact on the cost of business operations in the country following the jump in the fuel pump price and the confusion surrounding the introduction of the metric system. However, the index improved in quarter 3 (72.20%) and quarter 4 (74.66%) for. The overall performance index was above normal for all the four quarters.

4.3 Production, Sales Volumes or Demand for Services
Three types of questions were asked to determine this indicator slightly modified to meet the needs of the targeted sector. In the manufacturing sector the questions were asked to address production, in the Retail trade sector the three questions address sale volumes, in construction information was sort on level of business activity while in the services sector, questions were modified to address demand for services. Respondents were asked what had been their company’s level of production, sales volumes, demand for services or level of business activity in the past three months, what changes they expected in the next three months and what was their current level of
stocks, level of contracts currently been executed or current level of competition in the sector. The two questions relating to current performance were grouped together to compute the current Production, Sales or Demand for services index while only one question was used to determine the future production, sales or demand for services index.

**Figure 4.3 Production, Sales Volumes or Demand for Services**

As shown on Figure 4.3 above, the business confidence index for past/current level of business activity in the country was above average for all the quarters, but declined slightly in quarter 2 (53.5%). On the other hand, the expected business confidence index declined sharply from 73.6% in quarter 1 to 63.7% in quarter 2 and increased in quarter 3 (76.0%) but dipped again in quarter 4 (66.0%) reflecting a down grading of future production, sales and/or demand levels of businesses from one quarter to the other. As a result, the overall index declined from 67.8% in quarter 1 to 58.59% in quarter 2 but increased in quarter 3 (71.19%) and dipped again in quarter 4 (65.04%) representing a drop in the sentiment expressed for future prospects in production, sales and demand levels.

### 4.4 Turnover/Selling Prices

This indicator measures the value of the sales of the business organisation or its revenue. It also refers to how quickly the company sells its inventory. A high turnover means that goods are sold quickly, while a low turnover means that goods are sold slowly. Both the total turnover and the rate of turnover affect the profitability of the business. Turnover as an index should be interpreted in a positive light. A high turnover index is good and the higher it is above the 50 index point or the normal level, the better the confidence level. Three indicators are combined to form this indicator; profitability, orders placed with suppliers and average selling prices. In the Services Sector, profitability is combined with capital inflows and capital outflows to produce the turnover index. Thus six questions were asked, three on current outlook and three on expected performance on these indicators. Respondents were asked whether in the past three months their profitability, orders placed with suppliers, selling prices or net inflows from abroad increased, decreased or remained the same. The responses to these questions were compiled into past/current performance and expected performance indicators for each of these indicators and combined to make up the turnover confidence index.
The data in Figure 4.4 shows that Past/current business outlook on turnover was below normal at 44.5% in quarter 1, 37.7% in quarter 2, 48.1% in quarter 3 respectively; but above average at 51.4% in quarter 4. This could be connected to the usual expected boom in sales during Christmas festive period. Also Expected business outlook index was above normal in quarters 1 (63.5%), 3 (63.1%), 4 (64.5%) but however declined in quarter 2 (49.5%) which is below average indicating a drop in the confidence level regarding sales levels in the next 3 months.

### 4.5 Investment Plans

For the purpose of the index, four questions were asked; two to solicit responses on investment changes and two on capacity utilisation. To determine current or expected changes in capacity, respondents were asked whether their company changed in capacity during the past three months or expect to change in capacity during the next three months. The company is said to change in capacity if it made new investments, increased space, added new outlets, expanded to new locations, increased working capital, introduced new technology or introduce new distribution networks. The two questions on capacity utilisation asked whether the respondents’ current or future operations relative to optimal capacity were above normal, normal or below normal. Figure 4.5 below illustrates sentiments on current and future investment plans of businesses.

Figure 4.5 shows that the past/current indices were slightly above normal for quarters 1 (52.0%), 3 (51.9%) and 4 (53.5%) but below normal (40.4%) in quarter 2. This underlines that fact that current capacity utilisation was just above average for most businesses in the country. This means that the extent to which the company’s productive resources were utilised for the production of goods and services was below potential. Low capacity utilisation could be as a result of insufficient demand for the good or service being produced, may be as a result of stiff competition in the economy.
On the other hand, business executives expressed sentiments above normal in quarters 1 (62.8%), quarter 3 (62.0%) and 4 (61.8%), which indicates an expected increase in capacity utilisation in the next three months. However, there was a decline from 62.8% in quarter 1 to 48.2% in quarter 2, as a result the overall index in quarter 2 (44.4%) was below average.

### 4.6 Employment

To compute the employment indices, two questions were asked to determine past and future employment levels. Respondents were asked to state whether their employment levels in the past three months compared with the same period last year increased, decreased or remained the same and how they expect employment levels to be in the coming period. Their responses are illustrated in Figure 4.6.

**Figure 4.6: Total Employment Index**

As shown on Figure 4.6 the past/current employment outlook for quarters 1 (48.3%) and 2 (40.1%) was below average indicating a low sentiment regarding the possibility of expanding employment in the short term. However, sentiment to expand current employment levels improved considerably in quarters 3 (52.1%) and 4 (55.2%) which could be as a result of the optimism of business executives with regards to business turnover/sales. Also the expected business outlook indices were all above average, especially in quarter 4 (66.5%). This is also the case for the overall indices except when it declined in quarter 2 (45.2%). This means that there is hope for future expansion of employment levels in the economy, which is good for the reduction of unemployment.

### 4.7 Finance and Credit Markets

Four economic variables were combined to compute this aggregate variable. These were; interest rates, bank credit, credit from other financial sources and availability of foreign exchange. These variables are closely related to transactions on the financial markets where financial transactions in the form of bonds, shares, foreign exchange, short term credit etc. take place. The intention is to provide a measure of the aggregate impact of these variables on business confidence. Respondents were asked the questions; “How did the following financial and monetary factors affect your business operations in the past three months?” and “How do you expect the following financial and monetary factors to affect your business in the next three months?”. The respondents were
required to state whether; “Greatly”, “No effect” or “Less Extent”. In the computation of the specific indicators on each of the variables, a score of +1 was given to “Greatly” responses, 0 score on “No effect” responses and -1 score was given for “less extent” responses. The indices computed for each of these variables and the aggregated index (Financial and Credit Markets) should be interpreted as reflecting the negative impact of these variables on the business. If high interest rates, non-availability of bank credit, credit from other financial sources and non-availability of foreign exchange affected the business greatly that would be regarded as a confidence undermining factor. A high index on each of these variables implies a decrease in confidence. So in the computation of the aggregated business confidence index the score on each of these variables and by implication the index on financial and credit markets was regarded as a negative balance and netted out.

**Figure 4.7: Finance and Credit Markets**

![Chart showing Finance and Credit Markets]

The average current Financial and Credit Market Outlook which represents the combined effect of increase in high interest rates and the non-availability of bank credit, credit from other financial sources and foreign exchange on business operations was 68.0% in quarter 1, 53.6% in quarter 2 and 68.3% in quarter 3 and 61.8% in quarter 4. This means that the past/current business confidence worsened significantly in quarter 2; the continuous decline of the exchange rate could be a significant factor behind this drop in this indicator. The trend is the same for the expected business outlook index and the overall index indicates a drop in confidence level of business executives in quarter 2.

### 4.8 Macroeconomic Factors

The macroeconomic variables referred to were the impact of taxes, inflation and the instability of the Leone which is closely linked to foreign exchange transactions. Respondents were asked the questions “To what extent do you think the following macroeconomic factors affected your business in the last quarter?” and “To what extent do you think the following macroeconomic factors will affect your “business in the next quarter”? The required responses were “Greatly”, “No effect” or “To a less extent”. The responses were combined to compute the current and expected...
aggregate macroeconomic index. In the computation of the final Business Confidence Index, Macroeconomic variables were treated as confidence undermining factors and netted out in the same way as Financial and Credit Market factors. Figure 3.1 and 3.2 below illustrate the results.

**Figure 4.8: Macroeconomic Factors**

![Figure 4.8: Macroeconomic Factors](image)

Figure 4.8 shows that the past/current business index recorded a significant drop from 88.8% in quarter 1 to 67.6% in quarter 2; also the expected business outlook dropping from 85.0% in quarter 1 to 66.8% in quarter 2. As a result, the overall index dropped from 86.9% in quarter 1 to 67.1% in quarter 2. This means that there has been an improvement in the confidence level over the quarters 2 and 3. Although the indices are still high (due to inflation), yet they represent a significant improvement in the confidence level of businesses regarding macroeconomic factors.

### 4.9 Governance Factors

Four indicators were combined to compile what we call the governance index. These include; effect of corruption, effect of crime, effect of bureaucracy, and the effect of internal political climate.

The effect of bureaucracy refers to the impact of any existing time consuming paperwork and administrative procedures in place to regulate the conduct of business. It refers to the extent to which current structures and organizational arrangements are put in place to regulate business activities such as the need for many signatures to get business approvals added costs, or delayed business operations.

Corruption refers to bribery; the practice of giving money or anything of value to influence actions of officials in charge of decision making to induce them to alter their decisions in favor of the company. Companies may give money to avoid being taken to task for business irregularities or they may merely pay bribes to avoid harassment from government officials who are responsible for checking certain irregularities. The indicator is also intended to find out whether establishments have to pay bribe to continue in business or gain certain privileges such as winning contracts.

The crime indicator measures the extent to which establishments are affected by employee dishonesty and cheating to promote personal interest. It includes fraud, forgery, embezzlement etc.
The effect of political climate refers to the prevailing political attitudes, standards, policies or conditions in the country. Respondents were required to assess the extent to which factors such as political unrest, political affiliation, changes in government policy etc affect business operations. This indicator is also included in the study to guage the impact of political events such as local, municipal or national elections on business confidence.

The respondents were asked the questions “To what extent did the following governance related factors affect your business in the last quarter?” and “To what extent do you expect the following governance related factors to affect your business in the next quarter?”. They were required to respond “Greatly”, “No effect” and “To a Less Extent”. The responses “Greatly” were regarded as positive responses, “No effect” as neutral responses and “To a less Extent” as negative responses. The net balance for each of these indicators was treated like the macroeconomic factors and in the compilation of the overall balance were netted out.

**Figure 4.9: Governance Factors**

All the indices recorded a drastic decline in quarter 2 (41.7%), which of course the main reason for the decline could be attributed mainly to the confusion rounding the change from imperial system of measurement to the metric system in May 2011, which was accompanied by an increase in the pump price of all petroleum products in the country. The misunderstanding of the new system as well as the hoarding of fuel brought about pandemonium in the market, thereby creating an environment of insecurity in the business sector. Thus both the hoarding and the increase in the fuel pump price heightened inflation expectations in the market, which in turn undermined the confidence of business executives in the medium term.

The confidence did improve in quarters 1 (53.2%) and quarter 3 (52.7%). The overall business confidence index declined in quarter 2, (41.2%) and quarter 4 (45.6%) due to increased fear about the impact of crime, corruption and bureaucracy on business operations.
5.0 CONCLUSION

One positive outcome of this study was that sentiments about future business outlook were higher than sentiments about past/current business performance. This means that business executives were optimistic about the future, expecting improvement in performance for all indicators, which is an indication that macroeconomic, and governance indicators are not yet out-of-control, all things being equal.

The data has showed there was a high level of capacity under utilisation in all sectors surveyed particularly in the manufacturing sector. Capacity under utilisation is associated with increasing costs as total costs per unit remain high. Thus, the results show that most managers reported below normal profitability or decreases in profitability, due to increased competition from cheap imports and high inflation.

Widespread capacity underutilization implies that actual output was below the economy’s potential output. A negative output gap may create problems of unemployment (which is widespread among the youth), weak business profits and low investment. With a low output base there is likely to be a large number of people out of work which means that wages could decline. A decline in demand and slump in profits also mean that the amount of tax revenue that can be raised declines. Inflationary pressures are currently high with double digit rates of inflation reported to be undermining business confidence. It might be worthwhile to further investigate the extent of capacity underutilization particularly in industry and the implications for monetary policy.

Negative Sentiments about the impact of macroeconomic factors such as taxes, inflation and exchange rate stability were very high particularly among managers of small and medium size establishments. With the introduction of the metric system in May 2011 and the consequent surge in fuel price heightened inflation concerns, which led to the high negative sentiments expressed by managers of the effect of these macroeconomic factors on their business. However, the negative impact of the confusion surrounding the introduction of the metric system slowly disappeared as the public became more aware of the benefit of the system. The Leone has been depreciating continuously over the past 12 months, and it is obvious that managers reacted to this downward trend in the exchange rate which led to the high negative assessment of macroeconomic indicators within the reference period.

Attentions are needed to be paid to the operations of finance and credit markets. Negative sentiments on the impact of factors such as high interest rates, non-availability of bank credit, credit from other financial sources and foreign exchange were very high. Key sectors such as construction and manufacturing were the most affected especially by high interest rates and the non-availability of bank credit.

The main governance factors undermining business confidence particularly in the construction and wholesale and retail trade sectors were corruption and crime, especially in the second and third
quarters. The impact of other factors such as, internal political climate, and bureaucracy were manageable although above normal. The focus of policy should therefore be to intensify the current efforts to reduce crime, corruption and bureaucratic procedures on business operations in the country.
6.0 REFERENCES

Building up a Real Sector Business Confidence Index for Turkey
Dilara Ece, Türknur Hamsici, Ece Oral, Central Bank of the Republic of Turkey Research and Monetary Policy Department, - November 2005

Business Tendency Surveys; A Handbook; Organization for Economic Cooperation and Development (OECD)
APPENDIXES
### APPENDIX A:

SIERRA LEONE BUSINESS CONFIDENCE INDEX - 2011 ANNUAL TABLES OF RESULTS

#### Table A.1: Overall Business Outlook Indices and Quarterly Percentage Change

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<thead>
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<th>Past/Current Business Outlook</th>
<th>Expected Business Outlook</th>
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**Quarterly Change**

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<td>87.65</td>
<td>85.16</td>
</tr>
<tr>
<td>Inflation</td>
<td>90.37</td>
<td>85.62</td>
<td>89.11</td>
<td>82.25</td>
</tr>
<tr>
<td>Exchanger Rate Instability</td>
<td>81.99</td>
<td>77.94</td>
<td>82.04</td>
<td>78.57</td>
</tr>
<tr>
<td><strong>Macroeconomic Factors</strong></td>
<td>85.65</td>
<td>82.92</td>
<td>86.27</td>
<td>81.99</td>
</tr>
<tr>
<td>Effect of Corruption</td>
<td>48.48</td>
<td>58.52</td>
<td>51.04</td>
<td>60.57</td>
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<tr>
<td>Effect of Crime</td>
<td>48.48</td>
<td>47.79</td>
<td>51.04</td>
<td>47.93</td>
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<tr>
<td>Effect of Bureaucracy</td>
<td>43.72</td>
<td>42.59</td>
<td>52.01</td>
<td>52.43</td>
</tr>
<tr>
<td>Effect of Internal Political Climate</td>
<td>47.20</td>
<td>47.89</td>
<td>52.60</td>
<td>53.28</td>
</tr>
<tr>
<td>Governance Factors Summary</td>
<td>46.97</td>
<td>49.20</td>
<td>51.68</td>
<td>53.55</td>
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<tr>
<td><strong>Overall Business Confidence Index</strong></td>
<td>55.07</td>
<td>66.24</td>
<td>56.34</td>
<td>63.10</td>
</tr>
</tbody>
</table>
## Table A.11: Quarter 4, Detailed Overall Summary by size of Establishment

<table>
<thead>
<tr>
<th>Description</th>
<th>Small Scale Business Establishments</th>
<th>Medium Scale Establishments</th>
<th>Large Scale Establishments</th>
<th>Overall Business Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy Wide Outlook</td>
<td>0.00</td>
<td>66.91</td>
<td>0.00</td>
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<tr>
<td>Business Outlook</td>
<td>47.97</td>
<td>76.83</td>
<td>51.12</td>
<td>79.74</td>
</tr>
<tr>
<td>General Economy and Business Outlook</td>
<td>47.97</td>
<td>71.87</td>
<td>51.12</td>
<td>79.08</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>52.68</td>
<td>61.45</td>
<td>59.61</td>
<td>51.44</td>
</tr>
<tr>
<td>Sales Volume</td>
<td>52.68</td>
<td>61.45</td>
<td>59.61</td>
<td>51.44</td>
</tr>
<tr>
<td>Profitability</td>
<td>55.05</td>
<td>61.79</td>
<td>46.79</td>
<td>56.12</td>
</tr>
<tr>
<td>Orders Placed With Suppliers</td>
<td>37.72</td>
<td>70.32</td>
<td>40.79</td>
<td>66.84</td>
</tr>
<tr>
<td>Average Selling Prices</td>
<td>52.16</td>
<td>65.83</td>
<td>44.32</td>
<td>54.94</td>
</tr>
<tr>
<td>Turnover/Selling Prices</td>
<td>48.31</td>
<td>65.98</td>
<td>43.97</td>
<td>59.30</td>
</tr>
<tr>
<td>Investment Changes</td>
<td>46.99</td>
<td>59.19</td>
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<td>58.07</td>
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<td>Capacity Utilization</td>
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<td>59.99</td>
<td>45.29</td>
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<td>Investment Plans</td>
<td>53.53</td>
<td>59.59</td>
<td>46.54</td>
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<td>Employment Levels</td>
<td>50.83</td>
<td>58.54</td>
<td>53.65</td>
<td>64.70</td>
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<tr>
<td>Employment Total</td>
<td>50.83</td>
<td>58.54</td>
<td>53.65</td>
<td>64.70</td>
</tr>
<tr>
<td>High Interest Rates</td>
<td>55.79</td>
<td>53.52</td>
<td>69.37</td>
<td>77.72</td>
</tr>
<tr>
<td>Non-Availability of Bank Credit</td>
<td>53.37</td>
<td>49.48</td>
<td>65.41</td>
<td>62.39</td>
</tr>
<tr>
<td>Non-Availability of Credit from other Financial Sources</td>
<td>47.97</td>
<td>47.77</td>
<td>67.41</td>
<td>65.03</td>
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<tr>
<td>Non-Availability of Foreign Exchange</td>
<td>50.53</td>
<td>56.42</td>
<td>61.88</td>
<td>61.25</td>
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<tr>
<td>Finance and Credit Markets</td>
<td>51.92</td>
<td>51.80</td>
<td>66.02</td>
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<tr>
<td>Taxes</td>
<td>85.78</td>
<td>70.76</td>
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<tr>
<td>Inflation</td>
<td>90.23</td>
<td>78.25</td>
<td>84.69</td>
<td>72.44</td>
</tr>
<tr>
<td>Exchange Rate Instability</td>
<td>82.52</td>
<td>69.37</td>
<td>76.05</td>
<td>72.43</td>
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<td>Macroeconomic Factors</td>
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<td>72.80</td>
<td>82.80</td>
<td>74.03</td>
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<tr>
<td>Effect of Corruption</td>
<td>44.36</td>
<td>46.72</td>
<td>47.43</td>
<td>48.46</td>
</tr>
<tr>
<td>Effect of Crime</td>
<td>44.36</td>
<td>44.92</td>
<td>47.43</td>
<td>44.64</td>
</tr>
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<td>Effect of Bureaucracy</td>
<td>41.61</td>
<td>37.65</td>
<td>47.70</td>
<td>51.85</td>
</tr>
<tr>
<td>Effect of Internal Political Climate</td>
<td>37.15</td>
<td>38.76</td>
<td>53.22</td>
<td>53.67</td>
</tr>
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<td>Governance Factors Summary</td>
<td>41.87</td>
<td>42.01</td>
<td>48.95</td>
<td>49.66</td>
</tr>
<tr>
<td>Overall Business Confidence Index</td>
<td>59.17</td>
<td>68.85</td>
<td>57.14</td>
<td>65.33</td>
</tr>
</tbody>
</table>
APPENDIX B:

SIERRA LEONE BUSINESS CONFIDENCE PRESS RELEASES
BUSINESS CONFIDENCE INDEX (BCI) FIRST QUARTER 2011, SUMMARY REPORT

Released on Wednesday April 20, 2011 at 12; 00 Noon
Business confidence as at March 2011 was 10.37 points above normal

The Sierra Leone Business confidence Index for the first quarter of 2011 was 60.37 index points which was 10.37 points above normal. The overall index for the first quarter of 2011 is above the fourth quarter of 2010 estimated at 59.26, which represents a 1.09 percentage point increase over the quarter 4, 2011, estimate. This implies that business sentiments, improved between quarter 4, 2010 and quarter 1, 2011. This means that sentiments were stronger in quarter 1, 2011 than in quarter 4, 2010. Although the past /current performance index declined from 59.15% in quarter 4,2010 to 55.28% in quarter 1,2011, the expected business outlook index improved from 59.41% in quarter 4 2010 to 65.46% in quarter 1,2011, thus leading to an improvement in the overall index. The improvement in the expected business outlook index is a result of improvement in the macroeconomic and governance indices, which is the result bureaucracy and corruption indices. As the macro and governance environment became stable, business people became more and more confident to predict about impact of these factor on their business operations in the future.

When analyzed by sector, the overall index for construction improved from 60.9 in quarter 4, 2010 to 64.3 in quarter 1, 2011. However the index for wholesale/retail trade declined from 58.6 in quarter 4, 2010 to 53.9 in quarter 1, 2011 (see table below).

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Construction</th>
<th>Manufacturing</th>
<th>Other service</th>
<th>W/R Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter 3,2010</td>
<td>64.9</td>
<td>58.6</td>
<td>66.6</td>
<td>57.6</td>
</tr>
<tr>
<td>Quarter 4,2010</td>
<td>60</td>
<td>60.1</td>
<td>59.7</td>
<td>58.6</td>
</tr>
<tr>
<td>Quarter 1,2011</td>
<td>64.3</td>
<td>55.4</td>
<td>66.7</td>
<td>53.9</td>
</tr>
</tbody>
</table>

By size of establishments, the past/current outlook index improved considerably across the size of establishment from quarter 4, 2010 to quarter 1, 2011, which means that sentiments were more favourable in quarter 1, 2011.
The Sierra Leone Business confidence Index for the second quarter of 2011 was 59.69 index points which was 9.69 points above normal. The overall index for the second quarter of 2011 is below the quarter 1of 2011 estimated at 60.37, which represents a 0.68 percentage point decline over quarter 1estimate. This implies that business sentiments, although remain positive, declined between quarter 1 and quarter 2 2011, which means that sentiments were weaker in quarter 2, 2011 than in quarter 1. The decline in the expected business outlook (Table 1) accounts for this decline in the overall index.

The main reason for the decline in the expected business outlook index could be attributed mainly to the confusion rounding the change from imperial system of measurement to the metric system in May 2011, which was accompanied by an increase in the pump price of all petroleum products in the country. The misunderstanding of the new system as well as the hoarding of fuel brought about pandemonium in the market, thereby creating an environment of insecurity in the business sector. Thus both the hoarding and the increase in the fuel pump price heighted inflation expectations in the market, which in turn undermined the confidence of business executives in the medium term.

Figure 1: Overall Business Confidence

When analyzed by type, the past/current business confidence index has remained stable at around 55% index point between quarter 1 and quarter 2; however, the expected business outlook index has declined by one percentage point over the same period (see table1 below).

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Past/Current Business Outlook</th>
<th>Expected Business Outlook</th>
<th>Overall Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter 4, 2010</td>
<td>59.15</td>
<td>59.41</td>
<td>59.28</td>
</tr>
<tr>
<td>Quarter 1,2011</td>
<td>55.28</td>
<td>65.46</td>
<td>60.37</td>
</tr>
<tr>
<td>Quarter 2,2011</td>
<td>55.03</td>
<td>64.36</td>
<td>59.69</td>
</tr>
</tbody>
</table>
The Sierra Leone Business confidence Index for the third quarter of 2011 was 62.01 index points which was 12.01 points above normal. The overall index for the third quarter of 2011 is above quarter 2 of 2011 estimated at 59.65, which represents a 2.36 percentage point improvement over quarter 2 estimate. This implies that business sentiments, improved considerably between the two quarters, which means that sentiments were stronger in quarter 3, 2011 than in quarter 2. The improvement in the expected business outlook (Figure 2) accounts for this stronger sentiment in the over all index.

The main reason for the strong sentiment expressed by the expected business outlook index could be attributed to the stable sentiment expressed about the impact of macro economic factors (e.g. inflation, taxes, etc) and governance factors on the business operations in the country. This in turn, improved the rating of the confidence building factors such as the investment, employment and the overall economy performance indicators while quarter 2 witnessed the confusion surrounding the change from imperial system of measurement to the metric system in May 2011, which was accompanied by an increase in the pump price of all petroleum products in the country, and hence heightened inflation fears in the market. Unlike in quarter 2, in quarter 3 such fears had disappeared from the market; and hence the index is enhanced, reflecting stronger sentiments in the market.

When analyzed by industry, the index shows improvement from quarter 2 to quarter 3 for all the industries as seen in Table 1 below. The highest improvement is recorded in the construction industry from 59.4% to 66.2% in quarter 3.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Construction</th>
<th>Manufacturing</th>
<th>Other services</th>
<th>W/R Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quarter 1,2011</td>
<td>64.28</td>
<td>55.40</td>
<td>66.67</td>
<td>53.88</td>
</tr>
<tr>
<td>Quarter 2,2011</td>
<td>59.43</td>
<td>54.64</td>
<td>66.11</td>
<td>55.03</td>
</tr>
<tr>
<td>Quarter 3,2011</td>
<td>66.17</td>
<td>56.42</td>
<td>68.35</td>
<td>55.67</td>
</tr>
</tbody>
</table>
The Sierra Leone Business confidence Index for the third quarter of 2011 was 64.0 index points which was 14.0 points above normal. The overall index for the fourth quarter of 2011 is above the quarter 3 of 2011 estimated at 62.0, which represents a 2.0 percentage point improvement over quarter3 estimate. This implies that business sentiments, improved slightly between the two quarters, which means that sentiments (notwithstanding the shortage of liquidity during the festive season) were stronger in quarter 4, 2011 than in quarter 3. The improvement in the expected business outlook (Figure 2) accounts for this stronger sentiment in the over all index.

The main reason for the strong sentiment expressed by the expected business outlook index could be attributed to the improved sentiment expressed about the impact of macro economic factors (e.g. inflation, taxes, etc) and governance factors on the business operations in the country. This in turn, improved the rating of the confidence building factors such as the investment, sales volume, employment and the overall economy performance indicators. In quarter 4, both inflation and exchange rates were stable, and the concerns for insecurity among business executives were rated low, which could be a direct effect of strategic policing by the Sierra Leone Police during the festive season. These improvements contributed positively to the overall index.

When analyzed by industry, the index shows improvement from quarter 3 to quarter 4 for all the sectors except for construction sector. Highest improvement is recorded in the trade sector from 55.7% in quarter 3 to 58.9% in quarter 4, followed by the other services sector as seen in Table 1 below. The festive season could be the reason behind this recorded improvement due to increased demand expectation during this period.

| Table 1: Type of Business Confidence Index by Industry |
|-----------------------------|----------------|----------------|-----------------------|----------------|
| Quarter 1,2011 | 64.28 | 55.40 | 66.67 | 53.88 |
| Quarter 2,2011 | 59.43 | 54.64 | 66.11 | 55.03 |
| Quarter 3,2011 | 66.17 | 56.42 | 68.35 | 55.67 |
| Quarter 4,2011 | 65.49 | 56.84 | 69.73 | 58.86 |

APPENDIX B4: QUARTER 4, PRESS RELEASE
APPENDIX C: SAMPLE OF ONE OF THE FOUR QUESTIONNAIRES USED IN THE SURVEY

SIERRA LEONE BUSINESS CONFIDENCE INDEX (SLBCI)

MANUFACTURING SURVEY QUESTIONNAIRE

<table>
<thead>
<tr>
<th>Company Name:</th>
<th>Address:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact Phone</td>
<td>Email Address</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondent Name</th>
<th>Enumerator’s Name</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Resp. Designation</th>
<th>Supervisor Name</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Resp. Signature</th>
<th>Type of Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Sector ISIC Code</td>
</tr>
</tbody>
</table>

Note to Respondent: For ALL Questions below kindly circle the CORRECT response after giving a careful thought to the various choices as they apply to your business situation

1: Classification of establishment
(i) Approximately how many people do your business /organisation employ?
   (1) Less than 10   (2) 10-49   (3) 50+

2: General Economic Conditions
(i) How do you expect the national economy to perform in the next six months?
   (1) Better   (0) Unchanged   (-1) Worse

(ii) How do you rate current Business conditions/Prospects in the Manufacturing industry?
    (1) Better   (0) Unchanged   (-1) Worse

(iii) How do you expect Business conditions/Prospects in Manufacturing to be like in the next six months?
     (1) Better   (0) Unchanged   (-1) Worse

3: Production
(i) Excluding normal seasonal changes, what has been your company’s experience with regard to volume of production during the past three to four months?
    (1) Up   (0) Unchanged   (-1) Down

(ii) Excluding normal seasonal changes, what changes do you expect in the next three months with regard to volume of production?
    (1) Up   (0) Unchanged   (-1) Down

(iii) Excluding normal seasonal changes, do you consider that your present level of stocks of finished goods in volume terms is;
    (1) Above normal   (0) Unchanged   (-1) Below normal
4 : Turnover/Selling Prices

4A: Excluding for seasonal changes, did activity level for the past three months in the following areas increase, remain the same or decrease; Please tick the appropriate response in the column and row against it.

<table>
<thead>
<tr>
<th>Item</th>
<th>Increased (1)</th>
<th>Same (0)</th>
<th>Decreased (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Profitability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Total Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Average selling prices</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4B: Excluding for seasonal changes, what changes do you expect to see in the next three months with regard to your; Please tick the appropriate response in the column and row against it.

<table>
<thead>
<tr>
<th>Item</th>
<th>Increased (1)</th>
<th>Same (0)</th>
<th>Decreased (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Profitability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Total Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Average selling prices</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5A: Investment Plans

(i) Did your company change in capacity (e.g. made new investments or increase space, additional outlets, expand to new location, working capital, computerization or distribution network) during the past three months compared to the same period the previous year?

(1) Increased (0) Unchanged (-1) Decreased

(ii) What changes in the level of your capital investment expenditure or capacity (i.e. increase space, additional outlets, location, working capital, computerization or distribution network) do you expect over the next three months?

(1) Increased (0) No change (-1) Decreased

5B: Capacity Utilisation

(iii) How do you assess your current level of operations relative to optimal capacity?

(1) Above normal (0) Unchanged (-1) Below normal

(iv) How do you assess your expected level of operations in the next three Months relative to optimal capacity?

(1) Expected to increase (0) Normal (-1) Expected decrease

6: Employment

(i) How was the number of employees of your company during the past three months compared to the same period of the previous year?

(1) Increased (0) Same (-1) Decreased

(ii) How do you expect it to be in the coming period compared to the same period of the previous year?

(1) Increased (0) Same (-1) Decreased

7: Finance and Credit Markets

A: How did the following financial and monetary factors affect your business in the last quarter? Please tick the appropriate response in the column and row against it.

<table>
<thead>
<tr>
<th>Item</th>
<th>Greatly (1)</th>
<th>No effect (0)</th>
<th>Less extent (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) High Interest rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Non-availability of banking credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Non-availability of other financial alternative sources of credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Non-availability of Foreign currency</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
B: To what extent do you anticipate the following financial and monetary factors will affect your business in the next quarter? Please tick the appropriate response in the column and row against it

<table>
<thead>
<tr>
<th>Item</th>
<th>Greatly (1)</th>
<th>No effect (0)</th>
<th>Less extent (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) High Interest rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Non-availability of banking credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Non-availability of other financial alternative sources of credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Non-availability of Foreign currency</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8: Macroeconomic Factors

A: To what extent did the following macroeconomic factors affect your business in the last quarter? Please tick the appropriate response in the column and row against it

<table>
<thead>
<tr>
<th>Item</th>
<th>Greatly (1)</th>
<th>No effect (0)</th>
<th>Less extent (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Inflation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Instability of the Leone (Le)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Low Market Demand</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B: To what extent do you think the following macroeconomic factors will affect your business in the next quarter? Please tick the appropriate response in the column and row against it

<table>
<thead>
<tr>
<th>Item</th>
<th>Greatly (1)</th>
<th>No effect (0)</th>
<th>Less extent (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Inflation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Instability of the Leone (Le)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Low Market Demand</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9: Governance Factors

A: To what extent did the following governance factors affect your business in the last quarter? Internal political situation? Please tick the appropriate response in the column and row against it

<table>
<thead>
<tr>
<th>Item</th>
<th>Greatly (1)</th>
<th>No effect (0)</th>
<th>Less extent (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Corruption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Crime/Theft</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Bureaucracy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Internal Political Climate/Good Governance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B: To what extent do you anticipate the following governance factors will affect your business in the next quarter? Please tick the appropriate response in the column and row against it

<table>
<thead>
<tr>
<th>Item</th>
<th>Greatly (1)</th>
<th>No effect (0)</th>
<th>Less extent (-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Corruption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Crime/Theft</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Bureaucracy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Internal Political Climate/Good Governance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>