



**Launch of
WEF's Global Competitiveness Report 2006-2007
and
CPD's Bangladesh Business Environment Study 2006**

***Press Advisory
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CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H

a civil society think-tank



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I. INTRODUCTION

- **Centre for Policy Dialogue (CPD) in collaboration with the World Economic Forum (popularly known as the *Davos Meeting*) has been assessing business competitiveness environment of Bangladesh since 2001. This is the sixth in the series.**
- **CPD executed the *WEF's Executive Opinion Survey* (based on the questionnaire developed by the WEF), and also conducted the CPD's *Third Rapid Perception Survey* on the current economic issues.**
 - ***Executive Opinion Survey* deals with issues related to macroeconomic stability, public institutions, infrastructure, technology, financial development and environmental situation.**
 - ***Rapid Perception Survey* focused on current issues of Bangladesh economy: interest rate, inflation, investment, employment, production, export situation etc.**



I. INTRODUCTION *(contd.)*

Major objectives of the Press Briefing are:

- **To launch WEF's *Global Competitiveness Report 2006-07* which was globally launched on September 27, 2006 and to report on Bangladesh's relative performance in the global context**
- **To report on the detailed findings of the WEF-CPD study on *Competitive Business Environment in Bangladesh in 2006***
- **To report on findings of the CPD's *Rapid Perception Survey* as regards Bangladesh's economic performance and growth prospects in 2006.**



II. OBJECTIVES, SCOPE AND COVERAGE OF CPD SURVEY

Objectives

- **To elicit information on competitiveness environment in the country for identifying major bottlenecks and impediments which constrain proper functioning of the business sector of the country**
- **To generate information on positive achievements of the country in terms of the trends in the economy with respect to competitive environment for trade and investment**
- **To understand intertemporal changes in competitiveness environment as opined by the executives of the companies based on GCR 2006-07 and GCR 2005-06**
- **To delineate the current perceptions of the business leaders regarding trends in Bangladesh economy.**
- **To provide inputs to the policymakers and stakeholders in their efforts to prioritise the areas for improving economic governance in the country through focused initiatives**



II. OBJECTIVES, SCOPE AND COVERAGE OF CPD SURVEY *(contd.)*

Issues Dealt with in the WEF-CPD Survey

- **Government and Public Sector**
- **Public Institutions**
- **Infrastructure**
- **Technology**
- **Human Resource**
- **Financial System**
- **Domestic Competition**
- **Company Operation and Strategy**
- **Environmental Policy**
- **Macroeconomy**
- **Growth Prospect and Current Issues**

Issues Dealt with in the CPD's Perception Survey

Current Issues of Bangladesh Economy

- **Inflation**
- **Interest rate**
- **Industrial Production**
- **Export**
- **Investment**
- **Employment**
- **SME**
- **SAFTA**
- **WTO**



II. OBJECTIVES, SCOPE AND COVERAGE OF CPD SURVEY *(contd.)*

Coverage of CPD Perception Survey

Sectors	Companies	
	2005	2006
Manufacturing	46 (49%)	56 (47%)
Financial Institution	13 (15%)	18 (15%)
Real Estates & Construction	7 (7%)	8 (7%)
ICT	8 (9%)	9 (8%)
Others	19 (20%)	27 (23%)
Total	93 (100%)	118 (100%)

Survey Period:

2005: February-April

2006: February-April

Spatial Distribution:

2005: 84 (90%)

**companies located in
Dhaka**

2006: 112 (95%)

**companies located in
Dhaka**



III. METHODOLOGY

Survey Design

- **The survey was designed to cover relatively large companies i.e. those having total assets of no less than Tk.10 crores (Tk.100 million).**
- **Number of respondents has substantially increased (27%). It has made the sample unbiased and more representative.**
- **Geographical distribution of companies shows very high (93%) concentration in Dhaka.**
- **Sectoral distribution of companies shows that 47% respondents were from manufacturing sector, 15% from financial institutions, 8% from ICT, 7% from real estate and construction and the rest 23% from other sectors.**
- **The structure of ownership of businesses shows prominent presence of domestic entrepreneurs: about 90% companies are owned by domestic entrepreneurs.**



III. METHODOLOGY *(contd.)*

Statistical Techniques

- ***Executive Opinion Survey* basically relates to qualitative data:**
 - **Three positive response levels (completely agree, largely agree and somewhat agree) and three negative perceptions (completely disagree, largely disagree and somewhat disagree) were clustered into two groups**
- **The analysis has been performed by employing two statistical techniques:**
 - **frequency analysis of the responses**
 - **application of weighted index for each of the questions**
- **Frequency distribution of these three response levels were computed and reported**
- **One of the limitations of the frequency method is that all the three levels of responses are treated with equal weight. To overcome this limitation, a weighted frequency analysis method was deployed.**



III. METHODOLOGY *(contd.)*

Grouping of Average Weighted Response

	Response Levels						
	Completely Disagree	Largely Disagree	Somewhat Disagree	Indifferent	Somewhat Agree	Largely Agree	Completely Agree
Weight	-3	-2	-1	0	+1	+2	+3
Overall perception (Based on average weighted Response)	Overall perception is <u>Negative</u> , when majority disagreed				Overall perception is <u>Positive</u> , when majority agreed		
Group	Worst (-3.0 to -2.01)	Worse (-2.0 to -1.01)	Bad (-1.0 to -0.01)		Good (+0.01 to +1.0)	Better (+1.01 to +2.0)	Best (+2.01 to +3.0)

Various weighted responses are clustered into six groups:

a) *Worst:* (-3.0 to -2.01); b) *Worse:* (-2.0 to -1.01); c) *Bad:* (-1.0 to -0.01)

d) *Good:* (+0.01 to +1.0); b) *Better:* (+1.01 to +2.0); c) *Best:* (+2.01 to +3.0)



III. METHODOLOGY (*contd.*)

From *Growth Competitiveness Index* to *Global Competitive Index*

- **Since 2001, the WEF has been using the Growth Competitiveness Index developed by Jeffrey Sachs and John McArthur.**
 - **Growth Competitiveness Index analyses the potential of the world's economies in attaining sustained economic growth over the medium and long term. The index is anchored on three central components:**
 - *Macroeconomic environment*
 - *Quality of public institutions*
 - *Technology*
 - **Another index, Business Competitiveness Index tries to identify the factors that underpin high productivity. Major components are:**
 - *Sophistication and company operations and strategy*
 - *Quality of business environment*



III. METHODOLOGY (contd.)

From *Growth Competitiveness Index* to *Global Competitive Index*

- In 2005, Professor Xavier Sala-i-Martin developed the *Global Competitiveness Index* (Global CI) which provides a holistic overview of factors that are critical to driving productivity and competitiveness.
 - Growth CI is a subset of the Global CI
- Newly introduced Global Competitiveness Index in 2006 differs from Growth Competitiveness Index in a number of ways
 - Global CI is more comprehensive. It considers nine factors as major pillars: *institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation*
 - Distribution of weights in the Global CI has been revised
 - More perception related issues covered for the purpose of indexing
 - More rigorous grouping of countries has been made

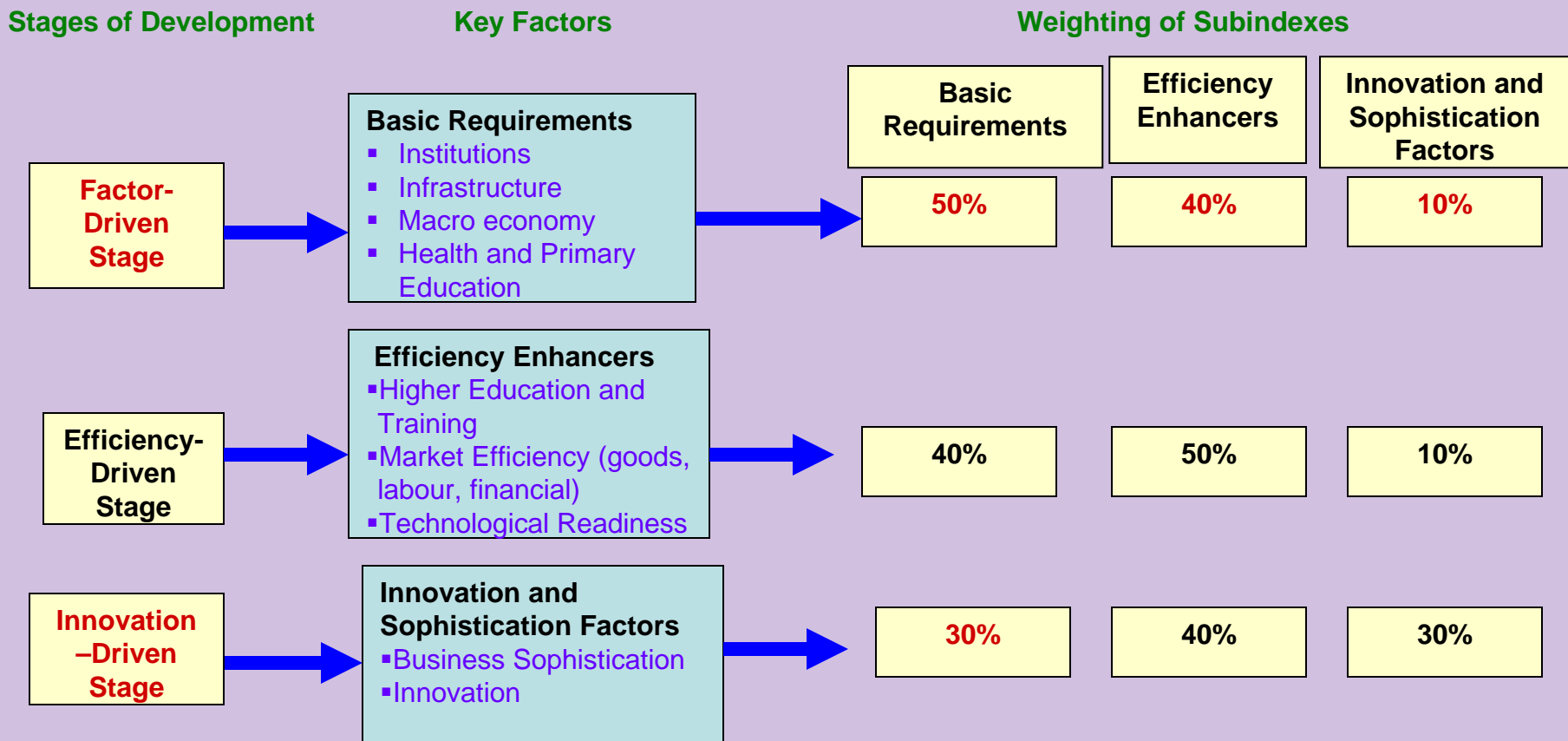


III.METHODOLOGY (contd.)

Global Competitive Index

- The importance of each of the nine pillars depend on a country's particular stage of development. These pillars are organized into three subindexes.

Composition of three sub indexes



IV. GLOBAL COMPETITIVENESS REPORT 2006-2007

Bangladesh in the Global Competitiveness Index Ranking

Indices	Global CI 2005(117)	Global CI 2006(125)
Global CI Rank	98 (110)	99 ▼ (121)
Basic Requirements	95	96 ▼
Institutions	108	121 ▼
Infrastructure	101	117 ▼
Macro economy	68	47 ▲
Health and primary education	94	90 ▲
Efficiency Enhancers	100	108 ▼
Higher education and training	103	108 ▼
Market efficiency	76	83 ▼
Technological Readiness	106	114 ▼
Innovation Factors	90	104 ▼
Business sophistication	86	96 ▼
Innovation	98	109 ▼

- In GCR 2006-2007, a total of **125** countries have been assessed, while the number of countries in 2005 was **117**. New countries and their positions are: Barbados (31), Burkina Faso (116), Burundi (124), Lesotho (112), Mauritania (114), Nepal (110), Suriname (100). Reintroduced countries: Angola (125), Zambia (115)
- Bangladesh's rank has been down by one position between 2005 and 2006. However, if we consider the same set of countries as were included in 2005 (in total 117 countries), her position remain unchanged (2 countries have gone up; one country has gone down)
- Bangladesh's major progress is in macroeconomic management and Health and primary education development.
- Bangladesh's performance was unsatisfactory in institutions, infrastructure, innovation, technological readiness.

IV. GLOBAL COMPETITIVENESS REPORT 2006-2007 *(contd.)*

Change in Bangladesh's Global CI Scores: 2006 vs 2005

	2005	2006	% change
Global CI Score	3.45	3.46	0.29
Basic Requirements	3.92	3.92	0.00
Institutions	2.90	2.88	-0.69
Infrastructure	2.38	2.03	-17.24
Macro economy	4.35	4.72	7.84
Health and primary education	6.03	6.04	0.17
Efficiency Enhancers	2.95	3.01	1.99
Higher education and training	2.68	2.68	0.00
Market efficiency	3.85	3.93	2.04
Technological Readiness	2.31	2.41	4.15
Innovation Factors	3.13	3.01	-3.99
Business sophistication	3.59	3.42	-4.97
Innovation	2.68	2.59	-3.47

- **Perceptible improvement in: Macroeconomic management, Technological readiness, Market efficiency.**
- **No perceptible change in: Health and primary education, higher education,**
- **Notable deterioration in: Infrastructure, Institutions, Business sophistication and Innovation**



IV. GLOBAL COMPETITIVENESS REPORT 2006-2007 (*contd.*)

Bangladesh's Ranking According to the Growth Competitiveness Index

Indices	Growth CI 2005 (117)	Growth CI 2006 (125)
Growth CI Rank	110	121 ▼
<i>Technology Index</i>	<i>101</i>	<i>109 ▼</i>
Innovation sub-index	105	109 ▼
ICT sub-index	112	116 ▼
Technology transfer sub-index	59	92 ▼
<i>Public Institutions Index</i>	<i>117</i>	<i>125 ▼</i>
Contracts and law sub-index	104	111 ▼
Corruption sub-index	117	125 ▼
<i>Macroeconomic Environment Index</i>	<i>83</i>	<i>85 ▼</i>
Macroeconomic stability sub-index	67	57 ▲
Country credit rating	86	96 ▼
Government expenditure/waste	85	99 ▼

- According to Growth CI, Bangladesh's position has come down from 110 in 2005 to 121 in 2006. New countries above Bangladesh: All except Burundi; Barbados (35), Burkina Faso (95), Burundi (124), Lesotho (94), Mauritania (109), Nepal (100), Suriname (96). Reintroduced countries: Angola (117), Zambia (119)
- If the same set of countries is considered as were included in 2005, Bangladesh's position came down to 114.



IV. GLOBAL COMPETITIVENESS REPORT 2006-2007 *(contd.)*

Bangladesh's Ranking According to Business Competitiveness Index (BCI)

	2001 (75)	2002 (80)	2003 (101)	2004 (103)	2005 (113)	2006 (115)
BCI Rank	72	74	90	99	97	108
Company Operations and Strategy Ranking	73	74	90	98	97	110
Quality of the National Business Environment Ranking	73	75	95	99	97	105

- Bangladesh's ranking in terms of BCI has been deteriorating over time. A substantial downfall occurred in 2006 (108) compared to 2005 (97). Fall by 11%.
- This trend holds both for company operations and strategy and quality of business environment.
- If only the original set of countries (in 2005) are considered, even then Bangladesh's position came down from 97 to 106.



V. BUSINESS COMPETITIVENESS ENVIRONMENT 2006

Government and Public Sector: Predominance of the 'worse' scenario continues

Level	2005	2006
Worst (-2.01 to -3.00)	1. Public trust in the financial honesty of politicians is very low (95.6%)	1. Public trust in the financial honesty of politicians is very low(99.1%)
Worse (-1.01 to -2.00)	2. When deciding upon policies & contracts, govt. officials usually favor well connected firms and individual (90.3%) 3. Administrative requirements issued by the govt. in the country is burdensome (80.7%) 4. National Parliament is very ineffective as a law-making & oversight institution (73.9%) 5 The composition of public spending in the country is wasteful (72.7%) 6 Country's tax system is highly complex (74.2%)	2. When deciding upon policies & contracts, govt. officials usually favor well connected firms and individual (88.9%) 3. Administrative requirements issued by the govt. in the country is burdensome (81.9%) 4. National Parliament is very ineffective as a law-making & oversight institution (75.9%) 5 The composition of public spending in the country is wasteful (82.8%) • Firms make facilitating extra payments or bribes to lower-level public servants very commonly. (76.5%) • Illegal donations to political parties are very common.(83.0%) • Tourism marketing is non-existent or completely ineffective to attract inbound tourists.

- Public trust about financial honesty of politicians was found to be very low (less than 1% responding positively). The index has suffered further deterioration in 2006 (average weighted response: -2.64 in 2006 as against -2.46 in 2005 out of 3).
- **Graft:** There is no improvement in the graft situation. Firms very often make extra payments or bribes from top (politicians, senior govt. officials) to bottom. 83% respondents thought that illegal donations to political parties are very common.
- Effectiveness of national parliament is seriously questioned by more than 75% of respondents (-1.35 in 2006 as against -1.33 in 2005).



Government and Public Sector: Predominance of the 'worse' scenario continues

Level	2005	2006
Bad (-0.01 to -1.00)	7. The level of taxes in the country significantly limits the incentives to work or invest. (53.8%) 8. Current government agricultural policy is excessively burdensome for the economy (42%) 9. The government's efforts to reduce poverty and address income inequality are ineffective.(58.1%)	6. Country's tax system is highly complex (61.82%) ▲ 7. The level of taxes in the country significantly limits the incentives to work or invest. (49.6%) 9. The government's efforts to reduce poverty and address income inequality are ineffective.(60.0%) <ul style="list-style-type: none"> • Government subsidies and tax breaks seriously distort competition by favouring specific companies, activities, regions and industries. (57.3%) • Firms are never informed clearly by the government on changes in policies and regulations.(57.6%) • Firms make facilitating extra payments or bribes to high ranking politicians, political parties and senior public servants very commonly.(59.6%) • Legal contributions to political parties have a direct influence on specific public policy outcomes.(53.8%) • Travel and tourism industry is not a priority for the government.(61.2%)
Good (0.01 to 1.00)		8. Current government agricultural policy is excessively burdensome for the economy (38.7%) ▲

- **Tax system** in the country is considered complex by the businessmen (62%); however, the system improved to some extent in 2006 compared to 2005, thanks to various measures to simplify it (reduction of tax slabs).
- **Subsidies and tax breaks** to some extent distort competition, as opined by 57% of the respondents. These only cater to vested interests.
- **Public Spending:** Businessmen have pointed out that overall composition of public spending is to a large extent wasteful; this situation has deteriorated in 2006 (-1.37 in 2006 as against -1.30 in 2005).
- **Poverty reduction:** Government's efforts are considered to be ineffective to a large extent. (-0.79 in 2006 as against -0.71 in 2005) and the situation seems to have deteriorated.
- **Agricultural policy** of the government is considered less burdensome for different stakeholders. Perception about it has significantly improved.



Public Institutions: Disparaging Low Level with Some Mixed Signals

Level	2005	2006
Worst (-2.01 to - 3.00)	1. Economic Policy making in the country is centralized-national government controls almost all important decisions (92.4%)	1. Economic Policy making in the country is centralized-national government controls almost all important decisions (94.8%) 4. Firms make undocumented extra payments or bribes in connection to public utilities (e.g telephone or electricity) (%) ▼
Worse (-1.01 to - 2.00)	2. Police service cannot be relied upon to protect the businesses from criminals (87.1%) 3. Firms make undocumented extra payments or bribes connected with the awarding of public contracts (86.2%) 4. Firms make undocumented extra payments or bribes in connection to public utilities (e.g. telephone or electricity) (89.1%) 5. Firms make undocumented extra payments or bribes connected with annual tax payments (87.8%) 6. Intellectual property protection in the country is weak or non existent (88.9%) 7. Incidence of Common crime & violence imposes significant costs on businesses (75%) 8. Diversion of public funds to companies, individuals or groups due to corruption is common(88.2%) 9. A legal frame work in the country for private businesses to settle disputes and challenge the legality of government actions or regulations is inefficient and subject to manipulations (77.4%) 10. Firms make undocumented extra payments or bribes connected with import & export permits (83.7%) 11.The judiciary of the country is not independent from political influences of members of government citizens or firms (76%)	2. Police service cannot be relied upon to protect the businesses from criminals (82.2%) 3. Firms make undocumented extra payments or bribes connected with the awarding of public contracts (89.5%) 5. Firms make undocumented extra payments or bribes connected with annual tax payments (90.5%) 6. Intellectual property protection in the country is weak or non existent (91.5%) 8. Diversion of public funds to companies, individuals or groups due to corruption is common (81.7%) 9. A legal frame work in the country for private businesses to settle disputes and challenge the legality of government actions or regulations is inefficient and subject to manipulations (75.4%) 10. Firms make undocumented extra payments or bribes connected with import & export permits (81.6%) 11. The judiciary of the country is not independent from political influences of members of government citizens or firms (79.7%)

- **Businessmen strongly disapproved (95%) centralised policy making in the country and government's control over almost all important decisions (-2.37 in 2006 as against -2.28 in 2005).**
- **Independence of judiciary is strongly questioned. 80% of the respondents thought that judiciary is not free from political influence of members of government or of firms (-1.39 in 2006 as against -1.34 in 2005).**
- **Perception about police service in terms of protecting business interests, has shown some improvement, possibly because of some of the recent measures. As a consequence, perception about common crime & violence imposing costs on business, showed some improvement (-0.76 in 2006 as against -1.27 in 2005).**
- **Firms undocumented extra payment for awarding public contracts although high, is on decline; in contrast use of extra payments for the purpose of tax has increased significantly. This points to the need for further improvement in tax administration and strengthening of the position of Tax Ombudsman.**



Public Institutions: Disparaging Low Levels with Some Mixed Signals (Contd.)

Level	2005	2006
Worse	12. Other firms illegal payments to influence govt. policies, laws or regulations impose costs or otherwise have large impact in distorting competition (73.9%)	12. Other firms illegal payments to influence govt. policies, laws or regulations impose costs or otherwise have large impact in distorting competition (70.2%) 15. More than 50% of economic activity is unrecorded (68.4%) ▼
Bad (-0.01 to -1.00)	13. Organized crime imposes significant costs on businesses in the country (68.5) 14. Property rights including over financial assets are poorly defined and not protected by law (50%) 15. More than 50% of economic activity is unrecorded(71.5%)	7. Incidence of Common crime & violence imposes significant costs on businesses (61%) ▲ 13. Organized crime imposes significant costs on businesses in the country (59.0%) 14. Property rights including over financial assets are poorly defined and not protected by law (43%)
Good (0.01 to 1.00)	16. Media can publish/broadcast stories of their choosing without fear of censorship or retaliation. (65.6%)	16. Media can publish/broadcast stories of their choosing without fear of censorship or retaliation. (67.8%)

- **Unrecorded economic activities have increased, possibly because of increasing flow of black money in the economy; situation has been deteriorating over time.**
- **Media's role is well appreciated by the business executives. However, the positive perception shows a marginally declining trend this year.**



Infrastructure: Dearth of Supply, Low Quality and Deteriorating Trend

Level	2005	2006
Worst (-2.01 to -3.00)	1. Internet access in school is very limited (90.3%)	2. Quality of electricity supply in the country is worse than in most other countries (95.8%) ▼
Worse (-1.01 to -2.00)	2. Quality of electricity supply in the country is worse than in most other countries(88.1%) 3. New telephone lines are scarce and difficult to obtain (87.2%) 4. General infrastructure is poorly developed and inefficient (80.6%) 5. Rail roads are underdeveloped (86%) 6. Port facilities & inland waterways are underdeveloped (84.9%) • Postal system is not at all trusted to have a friend mail a small package worth US \$100.	1. Internet access in school is very limited (88.0%) ▲ 3. New telephone lines are scarce and difficult to obtain (78.8%) 4. General infrastructure is poorly developed and inefficient (88.1%) 5. Rail roads are underdeveloped (89.8%) 6. Port facilities & inland waterways are underdeveloped (83.9%) 7. Passengers air transport is infrequent and inefficient (77.1%) ▼

- Quality of electricity supply in the country is worse than in most other countries as perceived by more than 95% of respondents (-2.31 in 2006 as against -1.74 in 2005).
- Respondents are concerned about deteriorating port facilities (-1.55 in 2006 as against -1.38 in 2005). It reflects high congestion in the Chittagong port, indecision regarding introduction of private handling service in port etc.
- Passenger's air transport: infrequent and inefficient; further deterioration is seen in 2006 (-0.95 in 2005 to -1.48 in 2006). However, various airlines have offered better connections with important cities.
- Limited access to internet in school: The situation has marginally improved in 2006 (-1.97 in 2006 as against -2.1 in 2005).



Infrastructure: Dearth of Supply, Low Quality and Deteriorating Trend

Level	2005	2006
Bad (-0.01 to -1.00)	7. Passengers air transport is infrequent, limited and inefficient (72.1%)	<ul style="list-style-type: none">• Roads are underdeveloped.(69.5%)• The national transport network does not offer efficient, accessible transportation to a wide range of travellers to key business centres and tourist attractions.(53.0%)
Good (0.01 to 1.00)		<ul style="list-style-type: none">• The air transport network offer good connections to all of key business markets.(47.4%)
Better (1.01 to 2.00)	8. Mobile or cellular telephones are accessible and affordable as in the worlds most technologically advanced countries (91.4%)	
Best (2.01 to 3.00)		8. Mobile or cellular telephones are accessible and affordable as in the worlds most technologically advanced countries (95.8%) ▲

- **Road transport network needs to be improved. More than 50% respondents opined about this as inefficient in terms of providing services for wide range of travellers.**
- **79% of the respondents thought that new telephone lines are very difficult to obtain, although the situation has marginally improved.**
- **In contrast, mobile telecommunication network has developed well. More than 96% respondents opined it as most accessible and affordable technology and as something which is comparable to developed countries. Telecom companies are offering a number of packages of services as per the demand of different types consumers such as corporate executives, students etc.**



Human Resources: Lack of Institutional Facilities and Continuation of Brain Drain

Level	2005	2006
Worst (-2.01 to -3.00)	1. In the country, government-provided childcare is non existent or very limited (92.5%)	1. In the country, government-provided childcare is non existent or very limited (94.9%)
Worse (-1.01 to -2.00)	2. Quality of the public school are poor (90.3%) 3. The educational system of the country does not meet the needs of a competitive economy (84.9%) 4. Country's talented people normally leave to opportunities in other countries (90.4%)	2. Quality of the public school are poor (91.5%) 3. The educational system of the country does not meet the needs of a competitive economy (74.4%) 4. Country's talented people normally leave to opportunities in other countries (88.9%) 5. Math & science education in schools lags far behind most other countries (72.9%) ▼
Bad (-0.01 to -1.00)	5. Math & science education in schools lags far behind most other countries (67.7%) 6. Management or business schools in the country are limited or of poor quality(63.0%) 7. Pay is not related to worker productivity (61.3%) 8. In the country, for similar work, wages for women are significantly below those of men (57%) 9. Labor regulation in the country prevent company from employing foreign labor (55%)	6. Management or business schools in the country are limited or of poor quality.(59.3%) 7. Pay is not related to worker productivity (52.5%) 8. In the country, for similar work, wages for women are significantly below those of men (74.6%) 9. Labor regulation in the country prevent company from employing foreign labor (45.2%) • Businesses do not provide women the same opportunities as men to rise to positions of leadership.(47.4%) • The government is taking no steps to minimize the health risks and disruptions to business/travel potentially caused by pandemics.(64.7%)

- **Educational system** of the country does not meet the demand of the competitiveness of the economy, although some improvement was observed in 2006 (-1.24 in 2006 as against -1.57 in 2005). Government's initiative of 'one-way' education system was criticized.
- **Math & science education:** More than 70% respondents thought that math and science education is still lagging behind most other countries.
- **Management and business schools** are of poor quality; response shows insignificant improvement in 2006. Scientists and engineers are available to some extent, but this availability does not match growing demand.
- **Brain drain effect:** Continuing; marginal improvement is observed in 2006.



Human Resources: Lack of Institutional Facilities and Continuation of Brain Drain

Level	2005	2006
Good (0.01 to 1.00)	10. Hiring & firing of workers are somewhat flexibly determined by employers (40.9%) 11. Labor-employer relations are cooperative (49.5%) 12. Scientists & engineers are widely available (52.2%) • In the country, maternity laws are not a hindrance of hiring women (53.7%)	10. Hiring & firing of workers are somewhat flexibly determined by employers (56.8%) 11. Labor-employer relations are cooperative (59.8%) 12. Scientists & engineers are widely available (51.3%)
Better (1.01 to 2.00)	13. Wages are set up to each individual company (74.2%)	13. Wages are set up to each individual company (83.9%)

- **Cooperative labour-employer relation:** Entrepreneurs opined that labour-employer relation has improved (50%). 57% employers thought that hiring and firing of workers are flexibly determined by employers. It is expected that labour unrest in RMG sector will be eased through an acceptable solution on wage issue between entrepreneurs and workers.
- **Wage-productivity relation:** Wage-productivity relation is not very strong; however, the situation has improved.
- **Gender discrimination** in the context of wages in workplace and scope and context of jobs, arbitrary determination of wages etc. by individual companies is still continuing (-1.0 in 2006 as against -0.48 in 2005). (This is considered positive by the entrepreneurs)
- **About 50% entrepreneurs thought that opportunity for women to rise in top business positions is limited (-0.08 in 2006)**



Technology: Slow Progress in Technological Readiness; Deterioration in Use of ICT

Level	2005	2006
Worst (-2.01 to -3.00)	1. Online govt. services such as personal tax, car registration, passport, business permit and e-procurement are not available(92.3%)	1. Online govt. services such as personal tax, car registration, passport, business permit and e-procurement are not available(94.1%)
Worse (-1.01 to -2.00)	2. Laws relating to the use of information technology are non existent (83.6%) 3. In its R&D activity, business collaboration with local universities is minimal or non existent (83.8%) 4. Companies do not spend money for research and development (82.8%) 5. The country's level of technological readiness generally lags behind most other countries (86%) 6. The ICT use of the government has not improved efficiency (72.2%) 7. Companies do not use the internet extensively for buying /selling goods and services(79.6%)	2. Laws relating to the use of information technology are non existent (77.9%) 3. In its R&D activity, business collaboration with local universities is minimal or non existent (85.5%) 4. Companies do not spend money for research and development (83.1%) 5. The country's level of technological readiness generally lags behind most other countries (80.5%) 8. The Presence of ICT in government offices in the country are rare (72.4%) ▼

- Technological readiness lags behind most other countries, although some improvement is observed (80.5% respondents in 2006).
- Priority of ICT in Government Policy is only on paper. Respondents opined that government does not have a clear implementation plan for utilizing ICT and the perception about it has deteriorated.
- ICT use in the government office is not very common. More budgetary allocation needed to develop skilled IT professionals in the public sector. Practice of e-governance is rare.
- Application of ICT at company level is not very common (-0.81 in 2006 as against -1.51 in 2005). Companies are lagging behind in terms of spending money on R&D. Collaborative research with local universities is rather uncommon.



Technology: Slow Progress in Technological Readiness; Deterioration in Use of ICT

Level	2005	2006
Bad (-0.01 to -1.00)	8. The Presence of ICT in government offices in the country are rare (57.7%) 9. Govt. purchase decisions for procurement of advanced technology products are based solely on price (57.9%) 10. Scientific research institution in the country is non existent (59.7%) 11. Govt. programmes promoting the use of ICT are not very successful (68.5%) 12. Licensing of foreign technology is uncommon (46.2%) 13. The companies in the country are aggressive in absorbing new technology (51.7%) 14. The government does not have a clear implementation plan for utilizing ICT (41.5%)	6. The ICT use of the government has not improved efficiency (51.7%) ▲ 7. Companies do not use the internet extensively for buying /selling goods and services(61.0%) ▲ 9. Govt. purchase decisions for procurement of advanced technology products are based solely on price (60.0%) 10. Scientific research institution in the country is non existent (60.2%) 11. Govt. programmes promoting the use of ICT are not very successful (55.6%) 12. Licensing of foreign technology is uncommon (43.6%) 14. The government does not have a clear implementation plan for utilizing ICT (53.0%)
Good (0.01 to 1.00)	15. There is sufficient competition among ISP in the country to ensure high quality, infrequent interruptions & low prices (47.3%) 16. Foreign direct investment brings is an important source of new technology (51.6%) 17. ICT are an overall priority for the govt (57%)	13. The companies in the country are aggressive in absorbing new technology (50.8%) ▲ 15. There is sufficient competition among ISP in the country to ensure high quality, infrequent interruptions & low prices (47.3%) 16. Foreign direct investment brings is an important source of new technology (60.2%) 17. ICT are an overall priority for the govt (63.6%)

- Companies are increasingly absorbing new technologies (0.36 in 2006 as against -0.49 in 2005) in order to be competitive in the global value chain (e.g. RMG).
- 60% entrepreneurs felt that FDI is an important source for bringing new technology. However, licensing of foreign technology is not so common (-0.01 in 2006 as against -0.19 in 2005).
- About 50% respondents opined that competition among the ISP providers is high, which ensures high quality services, less interruptions and low prices; however, situation has somewhat deteriorated in 2006.



Finance and Openness: Weak Financial Management

Level	2005	2006
Worse (-1.01 to -2.00)	<ol style="list-style-type: none">1. Entrepreneurs with innovative but risky project cannot generally find venture capital in the country (81.4%)2. It is impossible to obtain a bank loan with a good business plan & no collateral (78.6%)3. The level of sophistication of financial markets of the country is lower than international norms (80.5%)	<ol style="list-style-type: none">1. Entrepreneurs with innovative but risky project cannot generally find venture capital in the country (80.2%)2. It is impossible to obtain a bank loan with a good business plan & no collateral (76.3%)3. The level of sophistication of financial markets of the country is lower than international norms (81.9%)
Bad (-0.01 to -1.00)	<ol style="list-style-type: none">4. Financial auditing & reporting standards regarding company financial performance in the country are extremely weak (44.5%)	<ol style="list-style-type: none">4. Financial auditing & reporting standards regarding company financial performance in the country are extremely weak (52.6%) <ul style="list-style-type: none">• Foreign firms make facilitating extra payments or bribes to lower level public servants very commonly.(50.5%)

- Perception about financial sophistication of banks deteriorated. It is difficult to get loans from banks; innovative but risky projects are less attractive for funding.
- Corporate Governance: Weak financial auditing and reporting standards (-0.34 in 2006). SEC's initiative to improve auditing system is yet to show expected results. Interest of the minority shareholders are to some extent protected by law; however the situation has deteriorated (0.02 in 2006 as against 0.03 in 2005).
- Government policies are well in favour of FDI. However, there are increasing allegations against foreign companies as regards making undocumented extra payments or bribes (50% of the respondents in 2006). Strong allegations against investors from China, Hong Kong, India, Korea, Russia, Taiwan. This kind of illegal practices distort competition in the market.



Finance and Openness: Weak Financial Management

Level	2005	2006
Good (0.01 to 1.00)	5. Money laundering through the formal banking system in the country is rare (44.8%) 6. Interests of minority shareholders of the country are protected by law and actively enforced (46.7%) 7. Banks in the country are generally healthy (70%) 8. During the past year, obtaining credit for our company has become easier (49.4%) 9. Tariff and non-tariff barriers do not significantly reduce the ability of imported goods to compete in the domestic market (56.1%)	5. Money laundering through the formal banking system in the country is rare (46.9%) 6. Interests of minority shareholders of the country are protected by law and actively enforced (42.1%) 7. Banks in the country are generally healthy (66.1%) 8. During the past year, obtaining credit for our company has become easier (45.5%) 9. Tariff and non-tariff barriers do not significantly reduce the ability of imported goods to compete in the domestic market (48.3%) • Undocumented extra payments or bribes to high ranking politicians, political parties and senior public servants to secure business never occur. (42.0%)
Better (1.01 to 2.00)	10. Rules governing foreign direct investment in the country are beneficial and encourage foreign direct investment. (80.5%) 11. Foreign ownership of companies in the country is prevalent and encouraged (74.8%) 12. Raising money by issuing shares on the local stock market is quite possible for a good company (78.3%)	10. Rules governing foreign direct investment in the country are beneficial and encourage foreign direct investment. (86.1%) 11. Foreign ownership of companies in the country is prevalent and encouraged (76.3%) 12. Raising money by issuing shares on the local stock market is quite possible for a good company (73.0%)

- **66% respondents opined that banks' financial situation was perceived to be very strong (0.69 in 2006 as against 0.89 in 2006). Banks are increasingly seeking fund from different sources taking initiatives such as offering higher interest rate, shifting fund from capital market etc.**
- **Money laundering system is working well but is becoming weak in 2006 (0.32) as against 0.34 in 2005.**
- **About 50% respondents opined that tariff and non-tariff barriers do not significantly reduce the ability of imported goods to compete in the domestic market. However, the situation has deteriorated.**



Domestic Competition: Lack of Policy and Poor Level of Sophistication

Level	2005	2006
Worst (-2.01 to -3.00)	1. Specialized process equipment and machinery specific to firm's field are almost always imported (90.7%)	1. Specialized process equipment and machinery specific to firm's field are almost always imported (92.8%)
Worse (-1.01 to -2.00)	2. Specialized research & training services are not available in the country (74.1%) 3. Corporate activity in the country is dominated by few business groups (83.7%) 4. Anti-monopoly policy is lax and not effective at promoting competition (64.7%)	2. Specialized research & training services are not available in the country (77.4%) 3. Corporate activity in the country is dominated by few business groups (74.4%) 4. Anti-monopoly policy is lax and not effective at promoting competition (73.9%)
Bad (-0.01 to -1.00)	5. Standards on product/service quality, energy and other regulations (outside environmental regulations) in the country are lax or non-existent (71.2%) 6. Buyers in the country are unsophisticated and make choices based on the lowest price (63.1%) 7. The quality of local suppliers is poor as they are inefficient and have little technological capability (43.5%)	5. Standards on product/service quality, energy and other regulations (outside environmental regulations) in the country are lax or non-existent (69.8%) 6. Buyers in the country are unsophisticated and make choices based on the lowest price (57.8%) 7. The quality of local suppliers is poor as they are inefficient and have little technological capability (52.6%) 8. Strong and deep clusters are not widespread through out the economy. (53.0%) ▼ • Starting a new business in the country is generally extremely difficult(50.4%)
Good (0.01 to 1.00)	8. Strong and deep clusters are not widespread through out the economy. (55.9%) 9. Local suppliers are somewhat numerous (60%) 10. Competition in the local market is intense in most industries as market leadership changes overtime(54.4%)	9. Local suppliers are somewhat numerous (61.5%) 10. Competition in the local market is intense in most industries as market leadership changes overtime(67.0%)

- **Starting a new business is difficult.** Both financial and non-financial constraints are found equally responsible. Delay in registration process, clearance from government offices, undocumented payments to government officials
- **79% respondents opined that competition in the local market has gradually intensified.** However, corporate activity is still dominated by few business groups (88.7%).
- **Lack of Anti-Monopoly Policy:** Businessmen were increasingly apprehensive that lax and non-effective anti-monopoly policy are having negative impact on business environment. Government is unable to break the collusion of big business groups in the market.
- **Standards on product/service quality:** Although very poor, some improvement were observed (-0.91 in 2006 against -0.92 in 2005) perhaps due to government's initiatives against defective/poor quality consumer products.



Company Operations and Strategy: Slow Progress Observed

Level	2005	2006
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> 1. Competitiveness of the countries' companies in international market is primarily due to low cost and local natural resources (91.1%) 2. Companies obtain technology exclusively from licensing or imitating foreign companies (79.9%) 3. Willingness to delegate authority to subordinates is low- top management controls all important decisions (80.5%) 4. Production processes use labor-intensive methods or previous generations of process technology (85.9%) 5. Export from the country to neighboring countries are limited (80.4%) 6. The general approach of companies in the country towards human resources is to invest little in training and employee development (85.8%) 	<ol style="list-style-type: none"> 1. Competitiveness of the countries' companies in international market is primarily due to low cost and local natural resources (88.7%) 2. Companies obtain technology exclusively from licensing or imitating foreign companies (88.7%) 3. Willingness to delegate authority to subordinates is low- top management controls all important decisions (82.8%) 4. Production processes use labor-intensive methods or previous generations of process technology (83.8%) 5. Export from the country to neighboring countries are limited (68.7%) 6. The general approach of companies in the country towards human resources is to invest little in training and employee development (86.2%) 7. Cash compensation of management in the country is based exclusively on salary (71.3%) ▼ 10. The corporate ethics of country's firms in the industry are among the world's worst (70.9%) ▼

- **Major competing factors in international markets: Low cost labour and natural resources continue to be major competing factors. Production processes primarily use labour intensive methods (83.8 %), but significant deterioration is observed in 2006 (-1.54 in 2006 as against -1.48 in 2005).**
- **Corporate Governance: Lack of accountability of management to investors and Boards of Directors. Recruitment process has marginally improved; instead of recruiting relatives senior management positions are increasingly filled up by qualified personnel.**
- **More than 70% respondents opined that corporate ethics of firms in the industry are very poor; substantial deterioration is observed in 2006 (-1.13 in 2006 as against -0.69 in 2004)**

Company Operations and Strategy: Slow Progress Observed (Contd.)

Level	2005	2006
Bad (-0.01 to -1.00)	<p>7. Cash compensation of management in the country is based exclusively on salary (68.2%)</p> <p>8. Exporting companies are primarily involved in resource extraction or production (65.6%)</p> <p>9. International distribution & marketing from the country take place through foreign companies (51.1%)</p> <p>10. The corporate ethics of country's firms in the industry are among the world's worst (57.2%)</p> <p>11. The extent of marketing in the country is limited and primitive (68.5%)</p> <p>12. Corporate governance by investors and board of directors in the country is characterized by little accountability of the management (43.9%)</p> <p>13. Senior management positions in our country are usually held by relatives (50%)</p>	<p>8. Exporting companies are primarily involved in resource extraction or production (63.2%)</p> <p>9. International distribution & marketing from the country take place through foreign companies (56.3%)</p> <p>11. The extent of marketing in the country is limited and primitive (60.9%)</p> <p>12. Corporate governance by investors and board of directors in the country is characterized by little accountability of the management (43.4%)</p> <p>13. Senior management positions in our country are usually held by relatives (43.1%)</p> <ul style="list-style-type: none"> • Undocumented extra payments or bribes from one private firm to another to secure business are very common(49.1%)
Good (0.01 to 1.00)	<p>14. Customer orientation: firms in our country are highly responsive to customers and customers retention (58.7%)</p>	<p>14. Customer orientation: firms in our country are highly responsive to customers and customers retention (50.0%)</p> <ul style="list-style-type: none"> • Companies implement anti-corruption measures, such as staff training, whistle blower protection, and procurement policies are non-existent or very limited(57.9%)

- **56% respondents opined that international distribution and marketing from the country takes place through foreign companies. More local entrepreneurs should enter marketing business at international level.**
- **50% entrepreneurs thought that firms are highly responsive to customers and interested customers retention; however the situation has deteriorated. (0.28 in 2006 as against 0.43 in 2005)**



Environmental and Social Responsibility: Lax Regulations

Level	2005	2006
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> 1. Environmental regulations in the country are confusing and enforced erratically (72.1%) 2. Companies that harvest or process natural resources such as food, forest and fishery products , rarely concerns themselves with the degradation of ecosystems(68.6%) <ul style="list-style-type: none"> • Corporate environmental reporting is non existent in the country (89.1%) • Government mandated disclosure of environmental performance and pollutant release is non existent in the country (69.3%) 	<ol style="list-style-type: none"> 1. Environmental regulations in the country are confusing and enforced erratically (75.9%) 2. Companies that harvest or process natural resources such as food, forest and fishery products , rarely concerns themselves with the degradation of ecosystems(78.1%) 3. The country's overall environmental regulation is lax compared to most countries (69.2%) ▼
Bad (-0.01 to -1.00)	<ol style="list-style-type: none"> 3. The country's overall environmental regulation is lax compared to most countries (65.6%) 4. The incidence of environmental disasters significantly impacts the company's operations or decisions on expanding local business activities.(61.9%) <ul style="list-style-type: none"> • Energy efficiency and transition to the new and renewable sources of energy is a low priority in the country (57.6%) • Corporate codes of conduct and other aspect of corporate social responsibility are rare or non existent in the country (63%) • Business planning in the country now consider long-term factors such as global climate change and other environmental risks as unimportant (53.3%) • In the country the governments efforts to reduce poverty and address income inequality are ineffective • Complying with environmental standards significantly reduces competitiveness in the country (41.2%) 	<ol style="list-style-type: none"> 4. The incidence of environmental disasters significantly impacts the company's operations or decisions on expanding local business activities.(65.5%)
Good (0.01 to 1.00)	<ol style="list-style-type: none"> 5. Lack of clean water or clean air does not have significant impacts on company's operations or decisions(39.2%) <ul style="list-style-type: none"> • Companies in the country consider cleaner production, material flow management, waste reduction and recycling and life cycle management of products to be irrelevant (48.3%) 	<ol style="list-style-type: none"> 5. Lack of clean water or clean air does not have significant impacts on company's operations or decisions(42.6%) <ul style="list-style-type: none"> • Development of the tourism and travel sector does not take into account issues related to environmental protection and sustainable development(58.3%)

- **Environmental Regulation: Strong negative perception observed as regards overall environmental regulations, which was perceived to be lax (-1.13 in 2006 as against -0.01 in 2005).**
- **Regulations are confusing and enforced erratically; perception about it shows some deterioration (-1.34 in 2006 as against -1.17 in 2005). More budgetary and administrative efforts needed for industrial waste control.**



Other Issues

- Most of the respondents (88% in 2006) strongly maintained that current political unrest in the country imposes significant costs on businesses (-1.64).
- 64% of the top business executives in 2006 agreed to some extent with the perception that agreement on SAFTA will enhance Bangladesh's export in South Asia (0.69).
 - SAFTA will increase intra-regional investment in Bangladesh.
- 84% respondents strongly perceived that Bangladesh has not gained from the WTO Hong Kong Ministerial (-1.82).
- More than half of the respondents agreed to some extent that compliance with international labour standards is increasing in the country (0.30). This will help to enhance competitiveness in global market.
- Major potential sectors for developing SMEs in the country were perceived to be:
 - Agro based (28.1%), ICT(13.8%), light engineering(14.8%), RMG(11.2%), handicrafts and leather(7.7%), livestock and fisheries(5.1%), pharmaceuticals(0.5%), services(9.2%) and others(9.7%).



Improvement of Business Environment in 2006

Factors	Indicators	Level of Improvement
Government and Public Sector	Complexity of Country's tax system	Worse → Bad
	Burdensomeness of current government agricultural policy	Bad → Good
Public Institutions	Cost of incidence of Common crime & violence for businesses	Worse → Bad
Infrastructure	Internet access in school	Worst → Worse
	Accessibility of Mobile or cellular telephones	Better → Best
Technology	Improvement in the efficiency of government officials by way of ICT use	Worse → Bad
	Use of internet for buying /selling of goods and services by companies	Worse → Bad
	Absorption of new technology by domestic companies	Bad → Good



Business Environment of Bangladesh: Good, Better, Best

Factors	Performance		
	Good	Better	Best
Government and Public Sector	Current government agricultural policy is excessively burdensome for the economy (38.7%)		
Public Institutions	Media can publish/broadcast stories of their choosing without fear of censorship or retaliation. (67.8%)		
Infrastructure			Mobile or cellular telephones are accessible and affordable as in the worlds most technologically advanced countries (95.8%)
Human Resource		Hiring & firing of workers are somewhat flexibly determined by employers (56.8%)	Wages are set up to each individual company (83.9%)
		Labor-employer relations are cooperative (59.8%)	
		Scientists & engineers are widely available (51.3%)	
Technology	The companies in the country are aggressive in absorbing new technology (50.8%)		
	There is sufficient competition among ISP in the country to ensure high quality, infrequent interruptions & low prices (47.3%)		
	Foreign direct investment brings is an important source of new technology (60.2%)		
	ICT are an overall priority for the govt (63.6%)		



Business Environment of Bangladesh: Good, Better, Best

Factors	Performance		
	Good	Better	Best
Finance and Openness	Money laundering through the formal banking system in the country is rare (46.9%)	Rules governing foreign direct investment in the country are beneficial and encourage foreign direct investment. (86.1%)	
	Interests of minority shareholders of the country are protected by law and actively enforced (42.1%)	Foreign ownership of companies are in the country is prevalent and encouraged (76.3%)	
	Banks in the country are generally healthy (66.1%)	Raising money by issuing shares on the local stock market is quite possible for a good company (73.0%)	
	During the past year, obtaining credit for our company has become easier (45.5%)		
	Tariff and non-tariff barriers do not significantly reduce the ability of imported goods to compete in the domestic market(48.3%)		
	Undocumented extra payments or bribes to high ranking politicians, political parties and senior public servants to secure business never occur.(42.0%)		
Domestic Competition	Local suppliers are somewhat numerous (61.5%)		
	Competition in the local market is intense in most industries as market leadership changes overtime(67.0%)		



Business Environment of Bangladesh: Good, Better, Best

Factors	Performance		
	Good	Better	Best
Company Operations and Strategy	Customer orientation: firms in our country are highly responsive to customers and customers retention (50.0%)		
	Companies implement anti-corruption measures, such as staff training, whistle blower protection, and procurement policies are non-existent or very limited(57.9%)		
Environmental and Social Responsibility	Lack of clean water or clean air does not have significant impacts on company's operations or decisions(42.6%)		
	Development of the tourism and travel sector does not take into account issues related to environmental protection and sustainable development(58.3%)		
Other Issues	agreement on SAFTA will enhance Bangladesh's export in South Asia (0.69).		
	SAFTA will increase intra-regional investment in Bangladesh		
	compliance with international labour standards is increasing in the country (0.30).		



VI. IDENTIFICATION OF THE LEAD DETERMINING FACTORS



Rank	Lead Determining Factors in 2005	Lead Determining Factors in 2006	
1	Corruption (24.7)	Corruption(18.4) —	
2	Inefficient govt. bureaucracy (16.9)	Inadequate supply of infrastructure(14.3)	▼
3	Inadequate supply of infrastructure (13.6)	Inefficient govt. bureaucracy(14.1)	▲
4	Policy instability (11.5)	Policy instability(12.2) —	
5	Crime & theft (10.8)	Access to financing(9.4)	▼
6	Access to financing (6.9)	Inadequately educated workforce(5.8)	▼
7	Govt. instability/coups (4.5)	Tax regulations(5.3)	▼
8	Inadequately educated workforce (2.6)	Crime & theft(4.2)	▲
9	Tax regulations (2.5)	Inflation(4.1)	▼
10	Poor work ethic in national labour force (1.9)	Govt. instability/coups(3.7)	▲
11	Foreign currency regulations (1.3)	Foreign currency regulations(3.2) —	
12	Tax rates (1.1)	Poor work ethic in national labour force(2.5)	▲
13	Inflation (0.8)	Tax rates(2.3)	▲
14	Restrictive labour regulations (0.7)	Restrictive labour regulations(0.5) —	

- In 2006, most of the respondents cited corruption as the most important determining factor affecting the business environment (same as in 2005). Inadequate supply of infrastructure came out as the second most important concern for business environment, followed by inefficient bureaucracy and policy instability.
- Some lead determining factors in descending order were as follows: Corruption, Inadequate supply of infrastructure, Inefficient govt. bureaucracy, policy instability and access to financing. inadequately educated workforce, and inflation.



VII. PERFORMANCE AND GROWTH PROSPECT

Economic Performance: Fall in Optimism, Intensified with the Cost associated with Terrorism

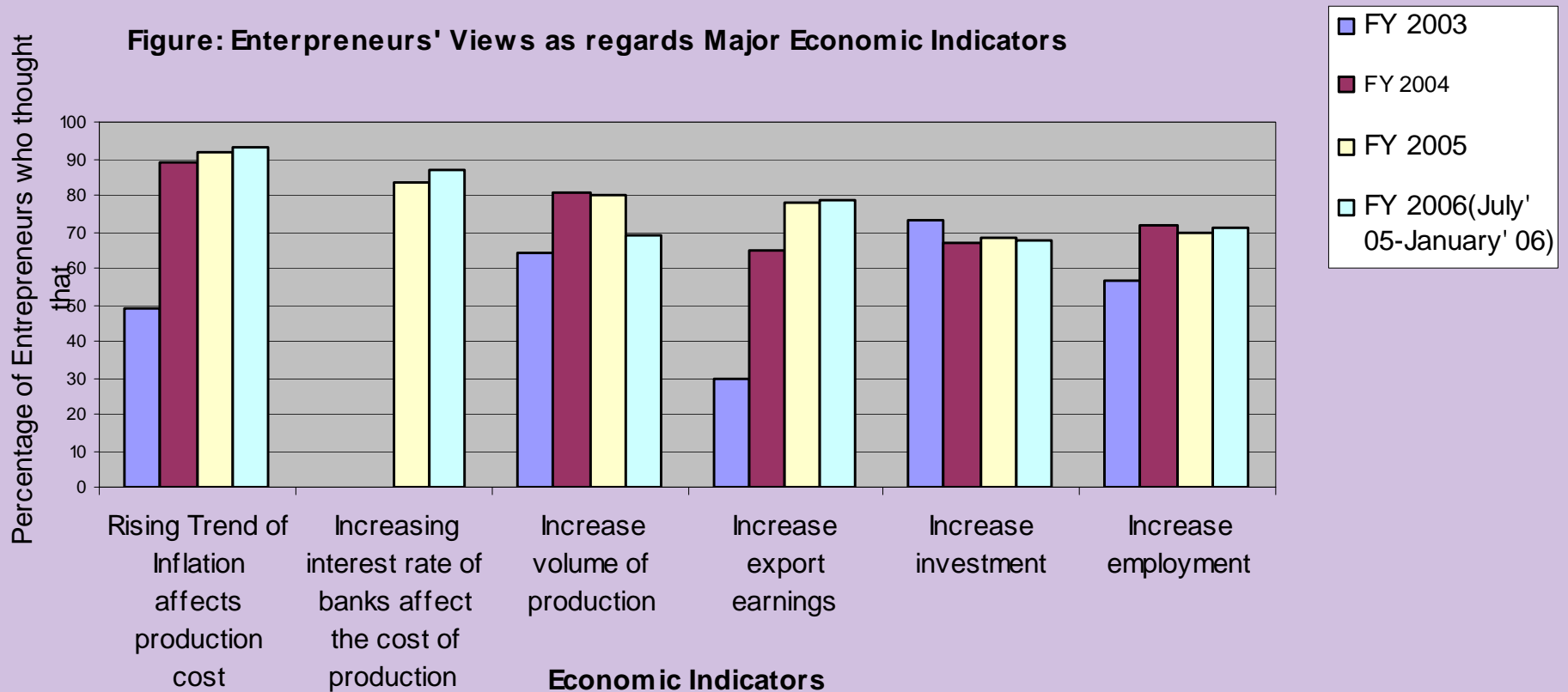
Level	2005	2006
Bad (-0.01 to -1.00)	1. The threat of terrorism in the country imposes significant cost on business	1. The threat of terrorism in the country imposes significant cost on business 
Good (0.01 to 1.00)	2. Country's economy will have strong growth in the next 12 months	2. Country's economy will have strong growth in the next 12 months 

- Perception as to whether economic performance over the next 12 months will improve, showed a declining trend (0.17 in 2006 as against 0.20 in 2005).
- Threat of terrorism in the country imposes significant cost on business: marginal improvement compared to last year; however, overall situation is bad.



VIII. Company Performance with respect to Major Economic Indicators

Figure: Entrepreneurs' Views as regards Major Economic Indicators



- Business environment in 2006 is not so business-friendly compared to previous years.
- Rising trend of inflation affected production cost more in 2006 (more than 90% in 2006) compared to 2005.
- Increasing rate of banks interest affected cost of production more in 2006 (86.9%) than 2005 (83.7%).
- Less respondents in 2006 perceived that there has been an increase in volume of production over 2005.
- Export and employment situation is relatively better in 2006 compared to 2005.



IX. Is GCR Telling a Different Story?

- There is marginal difference between GCR and UNCTAD's World Investment Report (WIR) as regards Bangladesh's ranking. In World Bank's "Cost of Doing Business" study Bangladesh fares somewhat better.

LDC Countries	Global CI Ranking (2006) (125 countries)	WIR Ranking (2004) (140 countries)		WB ranking (2006) (155 countries)
		FDI Performance Index	FDI Potential Index, 2003	
Angola	125 (100)	4 (3)	76 (54)	135 (87)
Equatorial Guinea	not included	85 (61)	124 (89)	144 (93)
Sudan	not included	18 (13)	116 (83)	151 (97)
Congo	not included	10 (7)	99 (71)	155 (100)
Ethiopia	120 (96)	24 (17)	121 (86)	101 (65)
Chad	123 (98)	-	-	152 (98)
Tanzania	104 (83)	36 (26)	126 (90)	140 (90)
<i>Bangladesh</i>	<i>99 (79)</i>	<i>122 (87)</i>	<i>115 (82)</i>	<i>65 (42)</i>

Source: GCR2005-06, WIR 2005 and Doing Business (WB) 2006

IX. Is GCR Telling a Different Story? (contd.)

Present vs Future

Bangladesh's Ranking in FDI Potential Index							
	1990	1995	2000	2001	2002	2003	2004
Inward FDI Performance Index	103	128	125	127	127	132	122
Inward FDI Potential Index	102	118	107	117	113	115	n.a.

Source: UNCTAD-WIR 2005

- **Bangladesh's performance in terms of FDI Potential Index has gone down over time between 1990 to 2004**
- **FDI Potential Index incorporates social, political and institutional factors, taking the average of the scores of eight variables of each country, namely per capita GDP, real GDP growth, exports as a percentage of GDP, number of telephone lines per 1000 inhabitants, commercial energy use per capita, R&D expenditures, students in tertiary education and country risk. Interestingly, most of these variables are also considered under the Global CI for calculating country ranking**
- **Since Bangladesh's performance in most of these indicators is relatively poor compared to other countries, its FDI potentiality remains weak.**

IX. Is GCR Telling a Different Story? (contd.)

Bangladesh in much vaunted Goldman Sachs's Report

Bangladesh has been included in the GS's "Next Eleven"

However, it performed poorly in the Growth Environment Score (GES)

**Goldman
Sachs**

Global Economics Paper No: 134

GS GLOBAL ECONOMIC WEBSITE
Economic Research from the GS Institutional Portal
at <https://portal.gs.com>

How Solid are the BRICs?

- Since we began writing on the BRICs, each country has grown more strongly than our initial projections. Our updated forecasts suggest the BRICs can realise the 'dream' more quickly than we thought in 2003.
- The case for including the BRICs directly in global economic policymaking is now overwhelming.
- We present the prospects for another set of developing countries, a group we call the N-11—the Next Eleven. Of them, only Mexico and perhaps Korea have the capacity to become as important globally as the BRICs.
- We introduce a Growth Environment Score (GES), which aims to summarize the overall structural conditions and policy settings for countries globally. Improving long-term foundations is key to converting potential into reality.
- Encouragingly, the BRICs themselves are all in the top half of the rankings for developing countries. While the BRICs are generally progressing, there is a need for considerable further policy improvement in each.

Important disclosures appear at the back of this document

Jim O'Neil, Dominic Wilson, Roopa
Purushothaman and Anna Stupnyska

1st December 2005

- We present the prospects for another set of developing countries, a group we call the N-11—the Next Eleven. Of them, only Mexico and perhaps Korea have the capacity to become as important globally as the BRICs.

Source: Goldman Sachs Economic Paper (2005)

Source: BOI EC's Presentation on 06.08.06



Appendix 3: The GES Across All Countries

Countries	Index	Ranking	Countries	Index	Ranking	Countries	Index	Ranking
Luxembourg	8.0	1	Mauritius	4.7	58	Sao Tome and Principe	3.4	115
Switzerland	7.9	2	Mexico	4.8	59	Guyana	3.4	116
Sweden	7.7	3	Panama	4.6	60	Guatemala	3.3	117
Hong Kong	7.7	4	Azerbaijan	4.6	61	Nicaragua	3.3	118
Norway	7.6	5	Romania	4.6	62	Senegal	3.3	119
Iceland	7.6	6	Vietnam	4.8	63	Mauritania	3.3	120
Singapore	7.6	7	Fiji	4.6	64	Honduras	3.3	121
Canada	7.6	8	Jordan	4.5	65	Serbia and Montenegro	3.3	122
Australia	7.6	9	Saudi Arabia	4.5	66	Bolivia	3.2	123
United States	7.4	10	Vanuatu	4.4	67	Yemen	3.2	124
Denmark	7.4	11	Belize	4.4	68	Tajikistan	3.2	125
New Zealand	7.4	12	Tunisia	4.4	69	Pakistan	3.2	126
Finland	7.3	13	Jamaica	4.3	70	Gabon	3.2	127
Netherlands	7.2	14	Ukraine	4.3	71	Burkina Faso	3.2	128
Austria	7.1	15	Morocco	4.3	72	Benin	3.1	129
Germany	7.0	16	Belarus	4.3	73	Lebanon	3.1	130
Korea	6.9	17	Cape Verde	4.2	74	Paraguay	3.1	131
Ireland	6.7	18	Mongolia	4.2	75	Kyrgyz Republic	3.1	132
Belgium	6.5	19	Botswana	4.2	76	Uzbekistan	3.1	133
Cyprus	6.4	20	Dominica	4.2	77	Bangladesh	3.1	134
United Kingdom	6.4	21	Tonga	4.2	78	Mali	3.1	135
Malta	6.3	22	Uruguay	4.2	79	Venezuela	3.0	136
Estonia	6.2	23	South Africa	4.2	80	Papua New Guinea	3.0	137
Japan	6.2	24	Russia	4.2	81	Tanzania	3.0	138
France	6.2	25	Armenia	4.1	82	Ghana	2.9	139
Slovenia	6.1	26	Macedonia	4.1	83	Gambia	2.8	140
Czech Republic	5.9	27	Suriname	4.1	84	Nepal	2.8	141
Barbados	5.9	28	Bosnia and Herzegovina	4.1	85	Togo	2.8	142
Spain	5.8	29	Iran	4.1	86	Congo	2.7	143
Macao	5.8	30	Lesotho	4.0	87	Guinea-Bissau	2.7	144
Qatar	5.8	31	Albania	4.0	88	Eritrea	2.7	145
Portugal	5.7	32	Sri Lanka	4.0	89	Cameroon	2.7	146
United Arab Emirates	5.6	33	Kazakhstan	3.9	90	Nigeria	2.6	147
Malaysia	5.6	34	Egypt	3.8	91	Kenya	2.6	148
Oman	5.6	35	Syrian Arab Republic	3.8	92	Niger	2.6	149
Chile	5.5	36	Algeria	3.8	93	Lao PDR	2.5	150
Italy	5.4	37	Chad	3.8	94	Mozambique	2.5	151
Lithuania	5.3	38	Brazil	3.8	95	Uganda	2.5	152
Slovak Republic	5.3	39	Philippines	3.8	96	Haiti	2.5	153
Latvia	5.3	40	India	3.7	97	Rwanda	2.5	154
Israel	5.3	41	El Salvador	3.7	98	Cote d'Ivoire	2.5	155
Hungary	5.3	42	Libya	3.7	99	Ethiopia	2.5	156
Costa Rica	5.3	43	Georgia	3.7	100	Tanzania	2.5	157
Grenada	5.2	44	Peru	3.7	101			
Kuwait	5.2	45	Namibia	3.7	102			
Greece	5.2	46	Colombia	3.6	103			
Bahrain	5.1	47	Ecuador	3.6	104			
Croatia	5.1	48	Swaziland	3.6	105			
Bulgaria	5.0	49	Dominican Republic	3.6	106			
French Polynesia	5.0	50	Cuba	3.6	107			
Bhutan	5.0	51	Turkmenistan	3.6	108			
Poland	5.0	52	Moldova	3.5	109			
China	5.0	53	Madagascar	3.5	110			
Trinidad and Tobago	4.9	54	Cambodia	3.5	111			
Seychelles	4.8	55	Turkey	3.6	112			
Maldives	4.7	56	Argentina	3.4	113			
Thailand	4.7	57	Indonesia	3.4	114			

According to Goldman-Sachs's Growth Environment Scores (GES):

Bangladesh ranked 134th among all (170) countries

(i.e. 79th among 100)

(December 2005)

Countries	Index	Ranking
Bangladesh	3.1	134
Mali	3.1	135



IX. Is GCR Telling a Different Story? (contd.)

Bangladesh in much vaunted Goldman Sachs's Report



Goldman Sachs Economic Research

Global Economics Paper

Appendix 3: The GES Across Developing Countries

Countries	Index	Ranking	Countries	Index	Ranking
Barbados	5.9	1	Siwaziland	3.5	68
Bahamas	5.8	2	Dominican Republic	3.5	69
Bahrain	5.8	3	Cuba	3.5	70
United Arab Emirates	5.6	4	Turkmenistan	3.5	71
Malaysia	5.6	5	Moldova	3.5	72
Oman	5.6	6	Madagascar	3.5	73
Chile	5.5	7	Cambodia	3.5	74
Costa Rica	5.3	8	Turkey	3.5	75
Grenada	5.2	9	Argentina	3.4	76
Kuwait	5.2	10	Indonesia	3.4	77
Bahrain	5.1	11	Sao Tome and Principe	3.4	78
Croatia	5.1	12	Guyana	3.4	79
Bulgaria	5.0	13	Guatemala	3.3	80
French Polynesia	5.0	14	Nicaragua	3.3	81
Bhutan	5.0	15	Senegal	3.3	82
China	5.0	16	Mauritania	3.3	83
Trinidad and Tobago	4.9	17	Honduras	3.3	84
Seychelles	4.8	18	Serbia and Montenegro	3.3	85
Maldives	4.7	19	Bolivia	3.2	86
Thailand	4.7	20	Yemen	3.2	87
Mauritius	4.7	21	Tajikistan	3.2	88
Mexico	4.6	22	Pakistan	3.2	89
Panama	4.6	23	Gabon	3.2	90
Azerbaijan	4.6	24	Burkina Faso	3.2	91
Romania	4.6	25	Benin	3.1	92
Vietnam	4.6	26	Lebanon	3.1	93
Fiji	4.6	27	Paraguay	3.1	94
Jordan	4.5	28	Kyrgyz Republic	3.1	95
Saudi Arabia	4.5	29	Uzbekistan	3.1	96
Vanuatu	4.4	30	Bangladesh	3.1	97
Belize	4.4	31	Mali	3.1	98
Tunisia	4.4	32	Venezuela	3.0	99
Jamaica	4.3	33	Papua New Guinea	3.0	100
Ukraine	4.3	34	Tanzania	3.0	101
Morocco	4.3	35	Ghana	2.9	102
Belarus	4.3	36	Gambia	2.8	103
Cape Verde	4.2	37	Nepal	2.8	104
Mongolia	4.2	38	Togo	2.8	105
Botswana	4.2	39	Congo	2.7	106
Dominica	4.2	40	Guinea-Bissau	2.7	107
Tonga	4.2	41	Eritrea	2.7	108
Uruguay	4.2	42	Cameroon	2.7	109
South Africa	4.2	43	Nigeria	2.6	110
Russia	4.2	44	Kenya	2.6	111
Armenia	4.1	45	Niger	2.6	112
Macedonia	4.1	46	Lao PDR	2.5	113
Suriname	4.1	47	Mozambique	2.4	114
Bosnia and Herzegovina	4.1	48	Uganda	2.4	115
Iran	4.1	49	Haiti	2.4	116
Lesotho	4.0	50	Rwanda	2.3	117
Albania	4.0	51	Cote d'Ivoire	2.2	118
Sri Lanka	4.0	52	Ethiopia	2.1	119
Kazakhstan	3.9	53	Zambia	2.1	120
Egypt	3.9	54	Angola	2.1	121
Syrian Arab Republic	3.8	55	Sierra Leone	2.1	122
Algeria	3.8	56	Mali	2.1	123
Chad	3.8	57	India	2.0	124
Brazil	3.8	58	Central African Republic	1.8	125
Philippines	3.8	59	Sudan	1.6	126
India	3.7	60	Guinea	1.6	127
El Salvador	3.7	61	Congo	1.6	128
Lithuania	3.7	62	Comoros	1.5	129
Georgia	3.7	63	Afghanistan	1.5	130
Peru	3.7	64	Liberia	1.4	131
Namibia	3.7	65	Burundi	1.2	132
Colombia	3.6	66	Zimbabwe	1.1	133
Ecuador	3.6	67			

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1st December 2005

According to Goldman-Sachs's Growth Environment Scores (GES):

Bangladesh ranked 97th among developing (133) countries

(i.e. 73rd among 100)

(December 2005)

Countries	Index	Ranking
Bangladesh	3.1	97



IX. Is GCR Telling a Different Story? (contd.)

Bangladesh: Trends in Growth Competitiveness Index

Index	2001	2002	2003	2004	2005	2006	Trend of change in the score
Growth CI Score	3.04	3.12	2.79	2.84	2.86	2.88	-1.47
<i>Technology Index</i>	2.83	2.6	2.68	2.62	2.6	2.67	-0.90
Innovation subindex	1.57	1.59	1.58	1.57	1.61	1.63	0.62
ICT subindex	1.96	1.71	1.86	1.81	1.73	1.75	-1.6
Technology transfer subindex	4.41	4.13	4.14	4.05	4.1	4.23	-0.72
<i>Public Institutions Index</i>	2.48	2.56	2.48	2.47	2.55	2.48	-45.09
Contracts and law subindex	2.84	2.93	2.93	2.76	2.88	2.91	29.53
Corruption subindex	2.13	2.2	2.04	2.19	2.22	2.06	-0.20
<i>Macroeconomic Environment Index</i>	3.81	4.21	3.2	3.42	3.43	3.5	-2.78
Macroeconomic stability subindex	3.62	4.28	4.19	4.27	4.36	4.57	3.54
Country credit rating	1.85	2.06	2.24	2.42	2.3	2.29	4.21
Government expenditure/waste	6.13	6.19	2.18	2.72	2.68	2.56	-19.02



IX. Is GCR Telling a Different Story? (contd.)

Ranking of Bangladesh and Other Newly Included Countries in the GCR, 2005-2006

Year	Global CI			BCI		
	Bangladesh's Rank	Other Newly Included Countries		Bangladesh's Rank	Rank of Other Newly Included Countries	
		No. of countries ranked above Bangladesh	No. of countries ranked below Bangladesh		No. of countries ranked above Bangladesh	No. of countries ranked below Bangladesh
2005	98 (out of 117 countries) <u>Net extra 13</u>	10	5	97 (out of 113 countries) <u>Net extra 14</u>	8	6
2006	99 (↓1) (out of 125 countries) <u>Net extra 9</u>	8	1	108 (↓11) (out of 115 countries) <u>Net extra 2</u>	2	0

- **Why Bangladesh is always falling behind?:** New countries are included in the GCR. Most of these countries have similar economic situation compared to Bangladesh. However, in terms of a large number of perception indices their performance is better, because of which they are able to receive higher ranking compared to Bangladesh.
- **Evidence from other studies dealing with ranking suggests that Bangladesh's ranking as per those is not significantly different from that of GCR. GCR is based on a mix of objective measures and stakeholder perceptions.**
- **To improve ranking:** We need to make real and rapid advances as regards relevant indicators. We need to bring changes in reality in order to bring prompt changes in perception. With respect to some indicators we are indeed making some progress. These successes need to be consolidated and further improved.
- **New entrants to the global market and our new competitors are making improvements at a faster rate. Our pace of positive change thus has to be faster than these countries.**



Summary

- **Unsatisfactory performance in the global context**
 - **No significant change in global ranking: Compared to similar set of countries (as of 2005), Bangladesh's rank has fallen marginally**
 - **Deteriorating trend in BCI ranking: Compared to similar set of countries (as of 2005), Bangladesh's rank has substantially fallen**
 - **Marginal improvement in Global CI scores, primarily relating to macroeconomic management and achievements by health and education sectors**
 - **Deteriorating performance of infrastructure, institutions**
- **Relatively poor scenario as regards domestic business environment**
 - **Poor performance of government and public sector, institutions, infrastructure, financial management**
 - **Some positive changes in telecommunication, absorbing new technologies, and increasing competition in the local markets, agricultural policy**
 - **Improved performance in terms of technological readiness, company operations and strategy**
 - **Use of ICT needs to be enhanced in government activities**
 - **Investment in human resource development needs to be increased**
- **Company Performance**
 - **Less expansionary in terms of investment and production**
- **Growth prospect**
 - **Less strong optimism about country's economic performance**
 - **Threat of terrorism appearing as a major factor of uncertainty**
 - **Increasing disquiet as regards political unrest and its potential negative impact**



Thank You
for
Your Attention