



Launch of
WEF's Global Competitiveness Report 2007-2008
and
CPD's Bangladesh Business Environment Study

Press Advisory
Dhaka: October 31, 2007



CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think-tank



CPD Study Team

Study Coordinator
Khondaker Golam Moazzem

Research Team
Mustafizur Rahman
Debapriya Bhattacharya
Annisatul Fatema Yusuf
Uttam Deb
Fahmida Khatun
Wasel Bin Shadat
Mahjabeen Quader
Khaleda Akter

Data Collection and Data Entry Operation

Muhammad Mosaddek Hossain
Shanker Chandra Saha
Faiz Ahmed Chowdhury

Secretarial Support
A.H.M. Ashrafuzzaman
Meer Ahsan Habib
Rony Akther



CONTENTS

- I. Introduction
- II. Objective, Scope and Coverage of CPD-WEF Survey
- III. Methodology
 - Survey Design
 - Statistical Technique
 - Global Competitiveness Index (GCI)
 - Business Competitiveness Index (BCI)
- IV. Global Competitiveness Report (GCR) 2007-2008
 - Global Competitiveness Index (GCI)
 - Performance of Selected Economies in GCI
 - Bangladesh in GCI Ranking
 - Change in Bangladesh's GCI Scores
 - Business Competitiveness Index (BCI)
 - Performance of Selected Economies in BCI
 - Bangladesh in BCI Ranking
- V. Bangladesh's Business Environment in 2006-2007
- VI. Growth Prospect for 2007-2008
- VII. Identification of Lead Determining Factors
- VIII. Major Business Indices on Bangladesh's Business Competitiveness
- IX. Summary

3



I. INTRODUCTION

- Centre for Policy Dialogue (CPD) in collaboration with the World Economic Forum has been assessing business competitiveness environment of Bangladesh since 2001. This is the seventh 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 fourth *Rapid Perception Survey* on the current economic issues.
 - *Executive Opinion Survey* deals with issues related to government and public institutions, infrastructure, innovation and technology, financial environment, business operation and sophistication, education and human capital, corruption, ethics and social responsibility, travel and tourism, environment, and health.
 - *Rapid Perception Survey* focused on current issues of Bangladesh economy: interest rate, inflation, investment, employment, production, export situation, potential sectors for export, labour standard, NRB's investment in Bangladesh, investment of Bangladeshi nationals abroad etc.

4



I. INTRODUCTION *(contd.)*

Major objectives of the Press Briefing are:

1. To launch WEF's *Global Competitiveness Report 2007-2008* which is globally launched today (October 31, 2007) and to report on Bangladesh's relative performance in the global context
2. To report on the detailed findings of the WEF-CPD study on *Competitive Business Environment in Bangladesh in 2006*
3. To report on findings of the CPD's *Rapid Perception Survey* as regards Bangladesh's economic performance and growth prospects in 2007-2008.

5



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 executives of the companies based on GCR 2007-2008 and GCR 2006-2007.
- To know about 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

6



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

Issues Dealt with in the WEF-CPD Perception Survey

- Government and Public Institutions
- Infrastructure
- Innovation and Technology
- Financial Environment
- Business Operation and Sophistication
- Education and Human Capital
- Corruption, Ethics and Social Responsibility
- Travel and Tourism
- Environment
- Health

Issues Dealt with in the CPD's Perception Survey

- Company operations influenced by Inflation and Interest rate
- Companies' production, export, investment and employment
- Potential sectors for export growth
- Labour standard in the country
- NRB investment in Bangladesh
- Bangladeshi investment abroad
- Perception as regards various business Indicators

7



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

Coverage of CPD Perception Survey

Sectors	Companies	
	2006	2007
Manufacturing (RMG, pharmaceuticals, others manufacturing)	56 (47%)	58 (59%)
Financial Institution	18 (15%)	17 (17%)
Real Estates & Construction	8 (7%)	6 (6%)
ICT	9 (8%)	8 (8%)
Others	27 (23%)	10 (10%)
Total	118 (100%)	99 (100%)

Survey Period:

2006: February-April

2007: January-March

Spatial Distribution:

2006: 112 (95%) companies located in Dhaka

2007: 79 (80%) companies located in Dhaka

- This year's perception survey was initiated on 23 January, 2007 and completed towards the end of March, 2007. It is important to note here that the current Caretaker Government (CTG) assumed power on 11 January, 2007.
 - The survey results mainly reflect the perception of the respondents based on their impressions for the preceding one year, which covered both the last year of the past government and the first CTG.
 - It should be recognised that the survey could not capture perceptions about performance indicators for the period under the current CTG.
- However, business executives provided their perception as regards growth prospect of the country for the year 2007.

8



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 in this year's survey was 99. Last year it was 118.
- Geographical distribution of companies shows very high concentration (80%) in Dhaka.
- Sectoral distribution of companies shows that 59% respondents were from manufacturing sector (RMG, pharmaceuticals, other manufacturing sectors), 17% from financial institutions, 8% from ICT, 6% from real estate and construction and the rest 10% from other sectors.
- The structure of ownership of businesses shows prominent presence of domestic entrepreneurs: about 83% companies are owned by domestic entrepreneurs; the rest 17% foreign owned or joint ventures.

9



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 six 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.

10

Centre for Policy Dialogue (CPD)

III. METHODOLOGY (contd.)

'Average Weighted Response' for Assessment of Business Environment of Bangladesh

	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)	Neutral	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) e) **Better**:(+1.01 to +2.0) f) **Best**:(+2.01 to +3.0)

Indexes Used to Assess Competitiveness of Countries of the World

- Competitiveness as defined by the GCR is the combination of a set of institutions, policies and factors that determine the level of productivity of a country.
- Global Competitiveness Report (GCR) presents two indexes to assess competitiveness of countries. Based on these indexes countries are ranked. These are:
 - Global Competitiveness Index (GCI)
 - Business Competitiveness Index (BCI)

11

Centre for Policy Dialogue (CPD)

III. METHODOLOGY (contd.)

Global Competitiveness Index (GCI)

- GCI is based on 12 different pillars, each of which reflects the complexities from a different perspective.
- The relative importance of each of the twelve pillars depend on a country's particular stage of development. These pillars are organized into three subindexes.

I. Basic Requirements

1. Institutions
2. Infrastructure
3. Macro economic stability
4. Health and Primary Education

II. Efficiency Enhancers

5. Higher Education and Training
6. Goods market efficiency
7. Labor market efficiency
8. Financial market sophistication
9. Technological readiness
10. Market size

III. Innovation and Sophistication Factors

11. Business Sophistication
12. Innovation

Factor-Driven Stage (GDP < US\$2000)	60%	35%	5%
Efficiency-Driven Stage (GDP US\$3000-9000)	40%	50%	10%
Innovation - Driven Stage (GDP > US\$17000)	20%	50%	30%

14



III. METHODOLOGY (contd.)

□ Global Competitiveness Index (GCI)

- **Adjustment to the Global Competitiveness Index this year**
 - **Country coverage: Six new countries have been included**
 - **Adjustment to the Model: single pillar 'market efficiency' has been broken into three sub-components; 'market size' included as a separate pillar; better data proxies for some variables**
 - **Modification to the criteria for stages and weighting scheme**
 - **Modification to the survey data process**
- **It is to be noted that country ranking of 2006-07 were revised following the above mentioned adjustments. For example, after adjustment, Bangladesh's rank was determined at 92 for GCI 2006 instead of the earlier reported 99.**
- **However, it should be taken into cognisance that the weighted score and the consequent ranking also consider, besides the perception survey results, actual performance of the economy during the survey period.**



III. METHODOLOGY (contd.)

□ Business Competitiveness Index (BCI)

- **Business Competitiveness Index is based on factors which influence productivity. BCI integrates two subindexes:**
 - **Quality of National Business Environment (NBE)**
 - **Company Operations and Strategy (COS)**
- **Adjustment in BCI: recalculated all the weights and factor loadings using weighted averages of two most recent years, with the weights given by the relative number of responses in each year.**
 - **It is to be noted that country ranking of previous years were revised following the above mentioned adjustments. For example, after adjustment, Bangladesh's rank was determined at 99 for BCI 2006 instead of the earlier reported 108.**



Global Competitiveness Report 2007-2008 Major Findings



IV. GLOBAL COMPETITIVENESS REPORT 2007-2008

□ Global Competitiveness Index (GCI)

- In GCR 2007-2008, a total of **131** countries have been assessed, while the number of countries in last year's survey was **125**.
 - Six new countries have been included in this year's survey. New countries and their positions are: Libya (88), Oman (42), Puerto Rico (36), Saudi Arabia (35), Syria (80) and Uzbekistan(62). All these countries are better performers compared to Bangladesh.
- USA retains the top rank in GCI 2007-08 followed by Switzerland, Denmark, Sweden, Germany, Finland, Singapore, Japan, UK and Netherlands. USA is endowed with a winning combination of highly sophisticated and innovative companies operating in very efficient factor markets. Other contributing factors: excellent university system, strong collaboration between educational and business sectors, and scale opportunities.
- Ranking of India and Pakistan has slid down, while those of Sri Lanka and China has improved. Ranking of LDCs mentioned in the table, has deteriorated in this year's survey except for Gambia.

Top Performers in GCI 2007-2008

Economy	GCI 2006-2007 rank (125)	GCI 2007-2008 rank (131)	Change
United States	1	1	↔
Switzerland	4	2	↑
Denmark	3	3	↔
Sweden	9	4	↑
Germany	7	5	↑
Finland	6	6	↔
Singapore	8	7	↑
Japan	5	8	↓
United Kingdom	2	9	↓
Netherlands	11	10	↑

GCI Rankings of Selected Countries

Economy	GCI 2006-2007 rank (125)	GCI 2007-2008 rank (131)	Change	2007 (same set of countries of 2006)
Asian Countries				
Bangladesh	92	107	↓	98
India	42	48	↓	45
Pakistan	83	92	↓	84
Sri Lanka	81	70	↑	66
China	35	34	↑	34
Vietnam	64	68	↓	64
LDCs				
Benin	107	108	↓	99
Ethiopia	116	123	↓	114
Gambia	103	102	↑	93
Madagascar	111	118	↓	109
Mali	115	115	↔	106
Mozambique	119	128	↓	119
Uganda	110	120	↓	111
Tanzania	97	104	↓	93



□ [Global Competitiveness Index \(GCI\) \(contd...\)](#)

Ranking of Bangladesh in the GCI

Indices	GCI 2006 (125)	GCI 2007 (131)
GCI	92	107 ▼
Basic Requirements	98	111 ▼
Institutions	115	126 ▼
Infrastructure	100	120 ▼
Macro economic stability	69	87 ▼
Health and primary education	97	105 ▼
Efficiency Enhancers	78	91 ▼
Higher education and training	111	126 ▼
Goods market efficiency	78	93 ▼
Labor market efficiency	70	76 ▼
Financial market sophistication	56	75 ▼
Technological Readiness	116	125 ▼
Market size	33	36 ▼
Innovation and sophistication Factors	94	111 ▼
Business sophistication	87	102 ▼
Innovation	100	117 ▼

15



□ [Global Competitiveness Index \(GCI\) \(contd...\)](#)

- **Bangladesh was ranked 107 out of 131 countries. Bangladesh's position came down by 15 places in 2007 compared to that of 2006 (GCI rank was 92 out of 125 countries).**
 - If the comparison was made with the same set of countries which was covered by GCR 2006-07 Bangladesh's position would decline by 6 positions (98 in 2007). Thus Bangladesh's poor performance cannot be explained by inclusion of 6 new countries in 2007 (all ranked higher than Bangladesh), but also related with its relatively poor business environment compared to some of the countries which were ranked lower than Bangladesh in GCI 2006-07.
- **In terms of all indicators, Bangladesh's ranking has slid down considerably. Bangladesh is among the bottom ten countries in case of institutions (126), higher education and training (126), and technological readiness (125). Bangladesh's rank is relatively better in case of market size (36), financial market sophistication (75) and labour market efficiency (76), although here also her ranking has come down.**
- **According to world Economic forum "... these countries must make efforts in all areas measured by the GCI to improve their competitive standing, most urgently by improving health and educational standards, upgrading infrastructure and technology, and creating market-friendly business environments." (GCR 2007-2008, Page 31)**

15



□ Global Competitiveness Index (GCI) (contd...)

Change in Bangladesh's GCI Scores: 2006 vs 2007

	2006	2007	% change
Global CI Score	3.71	3.55	-4.31
Basic Requirements	3.82	3.60	-5.76
Institutions	2.85	2.87	0.70
Infrastructure	2.31	2.19	-5.19
Macro economic stability	4.86	4.62	-4.94
Health and primary education	5.25	4.71	-10.29
Efficiency Enhancers	3.62	3.55	-1.93
Higher education and training	2.56	2.47	-3.52
Global market efficiency	3.88	3.84	-1.03
Labor market efficiency	4.12	4.21	2.18
Financial market sophistication	4.27	4.09	-4.22
Technological readiness	2.20	2.25	2.27
Market size	4.68	4.41	-5.77
Innovation and sophistication Factors	3.05	2.99	-1.97
Business sophistication	3.43	3.41	-0.58
Innovation	2.66	2.56	-3.76

- Bangladesh's performance turned out to be poor in terms of GCI score as well; her score came down from 3.71 in 2006 to 3.55 in 2007 (4.0%).
- No mentionable improvement is observed in most areas. Marginal improvement was observed in areas such as institutions (0.7%), labour market efficiency (2.2%), and technological readiness (2.3%) etc.
- Notable deterioration was observed in a number of areas such as health and primary education (-10.3%), market size (-5.8%), infrastructure (-5.2%), macroeconomic stability (-4.9%), financial market sophistication (-4.2%), innovation (-3.8%), higher education and training (-3.5%).

16



IV. GLOBAL COMPETITIVENESS REPORT 2007-2008

□ Business Competitiveness Index (BCI)

- USA continues to remain in the leading position in terms of competitiveness, ahead of Germany, Finland, and Sweden. Japan and Singapore are representing Asia in top 10 performers.
- The ranks of other important Asian countries are: India 31 and China 57. While India's rank has slid down by 4 positions, China's rank has improved by 2 positions.
- Most LDCs, as listed below, have failed to retain their ranking of the previous year, except Gambia.

Top Performers in BCI 2007-2008

Economy	2006 (125)	2007 (127)	Change
United States	1	1	↔
Switzerland	5	6	↓
Denmark	4	5	↓
Sweden	9	4	↑
Germany	2	2	↔
Finland	3	3	↔
Singapore	10	9	↑
Japan	8	10	↓
United Kingdom	7	11	↓
Netherlands	6	7	↓

BCI Rankings of Selected Countries

Economy	2006	2007	Change
Asian Countries			
Bangladesh	99	118	↓
India	27	31	↓
Pakistan	64	79	↓
Sri Lanka	69	52	↑
China	59	57	↑
Vietnam	80	76	↑
LDCs			
Benin	93	93	↔
Ethiopia	107	117	↓
Gambia	90	82	↑
Madagascar	94	102	↓
Mali	86	94	↓
Mozambique	101	121	↓
Uganda	84	96	↓
Tanzania	75	80	↓



IV. GLOBAL COMPETITIVENESS REPORT 2007-2008

Business Competitiveness Index (BCI) (contd...)

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

	2001 (75)	2002 (80)	2003 (101)	2004 (103)	2005 (113)	2006 (115)	2007 (127)
BCI Rank	74	71	75	88	91	99	118
Company Operations and Strategy Ranking	74	71	75	88	91	99	118
Quality of the National Business Environment Ranking	73	71	75	89	91	99	117

- Bangladesh's ranking in terms of BCI has been deteriorating over time. A significant decline took place in 2007 (118 out of 127 countries) compared to that in 2006 (99 out of 115 countries), down by 19 positions.
- If only the original set of countries (in 2006) is considered, even then Bangladesh's position came down by 6 places.
- This deteriorating trend holds both for company operations and strategy, and quality of business environment.
- Among the South Asian countries India (31), Pakistan (79) and Sri Lanka(52) ranked higher position compared to Bangladesh.

18



Business Environment in Bangladesh (February, 2006 - January, 2007)

Centre for Policy Dialogue (CPD)		
A. Governance and Public Institutions: Weak and Ineffective Institutions; Poor Policies		
Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worst (-2.01 to -3.00)	1. Public trust in the financial honesty of politicians is very low (99.1%) 2. Economic policy making is centralized- central government controls almost all important decisions (94.8%)	1. Public trust in the financial honesty of politicians is very low (96%) 2. Economic Policy making is centralized - central government controls almost all important decisions (92.8%) 3. When deciding on policies and contracts, government officials usually favor well connected firms and individuals (95%) ▼ 4. Intellectual property protection is weak and not enforced (93%) ▼
Worse (-1.01 to -2.00)	3. When deciding upon policies & contracts, govt. officials usually favor well connected firms and individual (88.9%) 4. Intellectual property protection is weak or non-existent (91.5%) 5. Police services cannot be relied upon to protect businesses from criminals (82.2%) 6. National Parliament is very ineffective as a law-making & oversight institution (75.9%) 7. Complying with administrative requirements issued by the government is burdensome (81.9%) 8. The composition of public spending is wasteful (82.8%)	5. Police services cannot be relied upon to enforce law and order (76.7%) 6. Parliament is highly ineffective as a lawmaking and oversight institution (79.8%) 7. Complying with administrative requirements for business required by the govt. is burdensome (73.8%) 9. The government's efforts to reduce poverty and address income inequality are ineffective (68.4%) ▼ • Customs procedures are extremely slow and cumbersome (88.9%) • The legal framework for private business to settle disputes and challenge the legality of government actions and regulations is inefficient and subject to manipulation (81.8%)
<ul style="list-style-type: none"> • Public trust about financial honesty of politicians is found to be still very low. 96% respondents strongly questioned politicians' honesty (-2.40) although they perceived marginal improvement in 2006 (this year's survey) compared to the previous year (last year's survey) (99% respondents with weighted response -2.64). • 95% respondents perceived that government officials usually favour well connected firms and individuals when deciding upon policies and contracts. The situation has deteriorated in 2006 (-2.09 as against -1.94 in previous year) • 93% respondents perceived that Intellectual property protection is weak and not enforced. The situation has deteriorated in 2006 (this year's survey) which would discourage investment in high tech. and R&D related investment in the country. • National parliament is ineffective as a lawmaking and oversight institution. Nearly 80% of respondents in this year's survey has questioned its efficacy (weighted response is -1.30). Comparable figures for last year's survey were 76% and -1.35 • 68% perceived that government's efforts to reduce poverty and income inequality are not so ineffective (-1.02 in this year's survey). The situation has deteriorated in this year's survey compared to that in previous year (-0.79). Income inequality both in urban and rural areas is widening. Regional inequality is also a matter of concern. • 89% perceived that customs procedures are very slow and cumbersome which increased cost of doing business. Police services cannot be relied upon to enforce law and order (77%). 		

Centre for Policy Dialogue (CPD)		
A. Governance and Public Institutions: Weak and Ineffective Institutions; Poor Policies (contd...)		
Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Bad (-0.01 to -1.00)	9. The government's efforts to reduce poverty and address income inequality are ineffective (60.0%) 10. Property rights, including financial assets and wealth are clearly defined and well protected by law (43.2%) 11. Firms are never informed clearly by the government on changes in policies and regulations (57.6%) 12. The level of taxes limits the incentives to work or invest (49.6%) 13. Government subsidies and tax breaks distort competition by favoring specific companies, activities, regions or industries (57.3%)	8. Composition of public spending is wasteful (65.9%) ▲ 10. Property rights, including over financial assets are poorly defined and not protected by law (56.6%) 11. Firms are never informed clearly by the govt. on changes in policies & regulation (55.5%)
Good (0.01 to 1.00)	14. Agriculture policy is not so burdensome for the economy (38.7%) 15. The media can publish/broadcast stories of their choosing without fear of censorship(67.8%)	12. Level of taxes does not limit the incentives to work or invest (47.5%) ▲ 13. Govt. subsidies & tax breaks do not distort competition (by favoring specific companies) (45.4%) ▲ 14. Agricultural policy is not so burdensome for the country (36.8%) • Firms make undocumented extra payments to a certain extent (42.7%)
Better (0.01 to 1.00)		15. The press is relatively free (86.8%) ▲
<ul style="list-style-type: none"> • 66% respondents perceived that public spending is wasteful to a certain extent (weighted response - 0.65). The level of response has changed in positive direction in 2006 (this year's survey). Comparable figures for the previous year were 83% respondents with weighted response -1.38. Wasteful public spending reduces scope of resource use in various important areas. • Business executives perceived that government subsidies do not distort competition and the level of response improved in 2006 (this year's survey) (0.20) compared to that in previous year (-0.52). Subsidies in the country are not provided to favour specific companies rather provided to specific sectors for their betterment and enhancement. • Entrepreneurs perceived that press is relatively free. The situation has improved in 2006 (this year's survey, as 87% respondents perceived that with weighted response of 1.77 (as against 0.82 in the previous year). 		

Centre for Policy Dialogue (CPD)

B. Infrastructure: Dearth of Supply, Low Quality and Poor Services - Unchanged Situation

Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worst (-2.01 to -3.00)	1. Quality of electricity supply in the country is worse than in most other countries (95.8%)	1. The quality of electricity supply (lack of interruptions and lack of voltage fluctuations) is worse than in most other countries (94%)
Worse (-1.01 to -2.00)	2. General infrastructure is poorly developed and inefficient (88.1%) 3. Rail roads are underdeveloped (89.8%) 4. Port facilities & inland waterways are underdeveloped (83.9%) 5. New telephone lines are scarce and difficult to obtain (78.8%) 6. Passengers air transport is infrequent and inefficient (77.1%)	2. General infrastructure is poorly developed and inefficient (89.8%) 3. Rail roads are underdeveloped (88.8%) 4. Port facilities & inland water ways are underdeveloped (81.6%)
Bad (-0.01 to -1.00)	7. Roads are underdeveloped(69.5%) 8. The national transport network does not offer efficient, accessible transportation to a wide range of travelers to key business centers and tourist attractions (53.0%)	5. New telephone lines for business are scarce and difficult to obtain (54.5%) ▲ 6. Passenger air transport is underdeveloped (54.6%) ▲ 7. Roads are underdeveloped (72.8%) 8. National ground transport network (buses, trains, taxis, etc.) does not offer efficient, accessible transportation to a wide range of travellers to key business centres and tourist attractions (43.3%)
Good (0.01 to 1.00)	9. The air transport network offer good connections to all of key business markets (47.4%)	9. The air transport network offers good connections to all key business markets (55.1%)

- **Poor quality of electricity supply:** Strong dissatisfaction continues about the quality of electricity supply (-2.15 in this year's survey as against 2.31 in last year's survey). Frequent outages of electricity has substantially affected industrial production, have adverse impact on their earning.
- **Port facilities and inland waterways are highly underdeveloped.** No significant improvement in perception observed in 2006 (this year's survey) (-1.46) compared to that in the previous year (-1.55). It seems that perception level would be improved in the next year's survey, since a number of measures has been initiated by the Caretaker government to improve management and operational efficiency of Chittagong port.
- **Passenger's air transport is highly inefficient.** 77% respondents perceived that air transport is not frequent as per requirement, although situation changed towards positive direction in 2006 (this year's survey) (-0.44 in 2006 as against -1.48 in the previous year).
 - Air transport network offers good connections to all key business locations as major airlines maintain networks with Dhaka, Chittagong and Sylhet airports.

23

Centre for Policy Dialogue (CPD)

C. Innovation and Technology: No Improvement in ICT Use and R&D in Science and Technology

Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worst (-2.01 to -3.00)	1. Online gov. services such as personal tax, car registration, passport, business permit and e-procurement are not available(94.1%)	1. Online gov. services such as personal tax, Car registrations, passport applications, business permits and e-procurement are not available (92.8%)
Worse (-1.01 to -2.00)	2. In its R&D activity, business collaboration with local universities is minimal or non-existent (85.5%) 3. Laws relating to the use of information technology are non-existent (77.9%) 4. Companies do not spend money for research and development (83.1%) 5. The presence of Information and communication technologies in govt. offices is very rare (72.4%) 6. Internet access in schools is very limited (88.0%) 7. The level of technological readiness generally lags behind most other countries (80.5%)	2. In the area of R&D, collaboration between the business community & local universities is minimal or non-existent (85.2%) 3. Laws relating to the use of information technology (ecommerce, digital signature) are non-existent (86.8%) 4. Companies do not spend money on research and development (82.6%) 5. The presence of Information and communication technologies in govt. offices is very rare (73.5%) 8. Government purchase decisions for the procurement of advanced technology products are based solely on price and do not result in technological innovation (76.3%) ▼

- **Online government services such as personal tax, car registration, passport, business permit and e-procurement are not available.** More than 90% respondents stated this. The situation has further deteriorated in 2006 (this year's survey), -2.47 in this year's survey from -2.33 in the previous year. E-government continues to remain a policy on paper.
- **Presence of Information and communication technologies in government offices is very low.** 76% perceived that government procurements are usually based on price, not based on technological sophistication; the situation deteriorated in 2006 (this year's survey) (-1.37 as against -0.74 in the previous year).
- **Absence of R&D activity:** More than 80% respondents perceived that companies do not spend money on research and development (-1.43). Collaborative research between companies and local universities is almost absent and the level of response showed a deteriorating trend (-1.82 in 2006 (this year's survey as against -1.68 in the previous year). It is to be noted that because of linkages with international value chain, R&D plays an important role in such industries as RMG, textile, jute, leather, IT and pharmaceuticals etc.

27

Centre for Policy Dialogue (CPD)		
Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Bad (-0.01 to -1.00)	8. Government purchase decisions for the procurement of advanced technology products are based solely on price(60.0%) 9. The government does not have a clear implementation plan for utilizing ICT(53.0%) 10. ICT use by the government has not improved efficiency (51.7%) 11. Government programmes promoting the use of ICT are not very successful (55.6%) 12. Companies do not use the Internet extensively for buying/selling goods and services (61.0%) 13. Scientific research institutions in the country are non-existent (60.2%) 14. Licensing of foreign technology is uncommon (43.6%)	6. Internet access in schools is very limited (96%) ▲ 7. The latest technologies are not widely available (44.8%) ▲ 9. The gov. does not have a clear implementation plan for utilizing ICT for improving the country's overall competitiveness (69.4%) 10. The use of ICT by the gov. has not improved the efficiency of gov. services (63.9%) 11. Government programmes promoting the use of ICT are not very successful (63.9%) 12. Companies do not use the internet extensively for buying and selling goods & services for interacting with customers and suppliers (65%) 13. Scientific research institutions in the country are non-existent (57.2%) 14. Licensing of foreign technology is uncommon (51.6%) 15. The competition among ISP does not ensure high quality, infrequent interruption & low prices (44.8%) ▼ • Digital content (text and audio visual content, software products) is not widely accessible via multiple platforms (fixed-line Internet, wireless internet, mobile network, satellite, etc.)(53.1%) • Inflow and outflow of capital into and from the country is restricted (59.1%)
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. The companies in the country are aggressive in absorbing new technology (50.8%) 17. Foreign direct investment is an important source of new technology(60.2%) 18. ICT are an overall priority for the government (63.6%)	16. Companies in your country are not able to absorb new technology (Indifferent) 17. Foreign direct investment is an important source of new technology (47.9%) 18. ICT are an overall priority for the government (50%)

• **Lack of vision and mission are major stumbling blocks for ICT development.** 70% perceived that government does not have a clear implementation plan for ICT use. Government programmes promoting use of ICT are not very successful; as a result, improvement of government's efficiency is not satisfactory (-0.94 in 2006 as against -0.51 in the previous year).

- Internet use of companies for buying and selling goods and services and for interacting with customers and suppliers is not widespread (-0.80 in this year's survey).
- Existing market structure of ISP does not ensure quality of services, infrequent interruption and low prices; Situation has somewhat deteriorated in 2007 (-1.37 in this year's survey vs. -0.73 in last year's survey).

• **Internet facility in schools is highly limited.** Slight improvement was observed in 2006 (this year's survey) (-0.78 in 2006 compared to -1.97 in the previous year).

• **Relatively less number of business executives in this year's survey perceived that FDI is an important source for bringing new technology** (0.05 in 2006 as against 0.79 in the previous year). Besides, licensing of foreign technology is not so common and the situation has deteriorated in 2006.

28

D. Financial Environment: Poor Corporate Management, Non-Traditional Businesses Not Encouraged		
Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worse (-1.01 to -2.00)	1. The level of sophistication of financial markets of the country is lower than international norms (81.9%) 2. It is impossible to obtain a bank loan with a good business plan & no collateral (76.3%) 3. Entrepreneurs with innovative but risky project cannot generally find venture capital in the country (80.2%)	1. The level of sophistication of financial markets is lower than international standards (72.5%) 2. It is impossible to obtain a bank loan with only a good business plan & no collateral (77.6%) 3. Entrepreneurs with innovative but risky projects can not generally find venture capital (87.7%)
Bad (-0.01 to -1.00)	4. Financial auditing & reporting standards regarding company financial performance in the country are very weak (52.6%)	4. Financial auditing & reporting standards regarding company financial performance are very weak (28.9%) • The inflow & outflow of capital into & from your country is restricted (59.1%)
Good (0.01 to 1.00)	5. Interests of minority shareholders of the country are protected by law and actively enforced (42.1%) 6. Tariff and non-tariff barriers do not significantly reduce the ability of imported goods to compete in the domestic market(48.3%) 7. During the past year, obtaining credit for company has become easier (45.5%) 8. Banks are generally healthy with sound balance sheets (66.1%)	5. Interests of minority shareholders are protected by law (44.8%) 6. Tariff & non-tariff barriers do not significantly reduce the ability of imported goods to compete in the domestic market (45.9%) 7. During the past year, obtaining credit for company has become easier (45.6%) 8. Banks are generally healthy with sound balance sheets (62.8%) 9. Foreign ownership of companies is prevalent and encouraged (68.4%) ▼ 10. Raising money by issuing shares on local stock market is possible (71.1%) ▼ • Regulation of securities exchanges is transparent, effective and subject to undue influence from industry and government to a certain extent(58.8%)
Better (1.01 to 2.00)	9. Foreign ownership of companies is prevalent and encouraged (76.3%) 10. Raising money by issuing shares on the local stock market is quite possible for a good company (73.0%) 11. Rules governing foreign direct investment in the country are beneficial and encourage foreign direct investment. (86.1%)	11. Rules governing foreign direct investment are beneficial and encourage foreign direct investment (81.7%)

• 73% perceived that level of sophistication of financial markets is lower than international norms, although marginal improvement is observed in this year's survey (-1.13 in 2006 as against -1.41 in the previous year). Getting loans from banks without collateral is almost impossible. Venture capital for innovative but risky projects is not available.

• **Corporate governance as regards financial auditing and reporting standards is weak** (-0.47 in 2006 and -0.34 in the previous year). Interest of minority shareholders are to some extent protected by law. 60% partly agreed that regulation of securities exchanges is to some extent transparent and effective (0.53 in this year's survey).

• **There is a deceleration in perception level as regards FDI in this year's survey.** Though foreign ownership of companies is prevalent and encouraged in Bangladesh, level of perception decelerated in this year's survey (0.90 as against 1.40 in last year's survey). Similarly, rules governing FDI in the country is perceived to be beneficial and encouraging to attract FDI, but perception level has decelerated in 2006 (this year's survey) (1.42 vs 1.76 in the previous year)

• During the past year obtaining credit for company has become easier (0.31 in 2006 as against 0.05 in the previous year).

E. Business Operation and Sophistication : Lack of Improvement in Supply Chain Mgt, Poor Corporate Body		
Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worst (-2.01 to -3.00)	1. Specialized process equipment and machinery specific to firm's field are almost always imported (92.8%)	1. Specialized process equipment and machinery specific to firm's field are almost always imported (91.4%)
Worse (-1.01 to -2.00)	2. Competitiveness of companies in international markets is primarily due to low cost or local natural resources (88.7%) 3. Production processes use labor intensive methods or previous generations of process technology (83.8%) 4. Companies obtain technology exclusively from licensing or imitating foreign companies (88.7%) 5. Specialized research & training service are not available in the country (77.4%) 6. Corporate activity is dominated by few business groups (74.4%) 7. Exports to neighboring countries are limited (68.7%) 8. Anti-monopoly policy is lax and not effective at promoting competition (73.9%) 9. Willingness to delegate authority to subordinates is low - top management controls all important decisions (82.8%) 10. Cash compensation of management is based exclusively on salary (71.3%) 11. Senior management positions are held by professional managers chosen based on superior qualification (43.1%)	2. Competitiveness in international markets is primarily due to low cost or local natural resources (90.9%) 3. Production processes use labor intensive methods or previous generations of process technology (91.8%) 4. Companies obtain technology exclusively from licensing or imitating foreign companies (81.6%) 5. Specialized research & training services are not available (85.5%) 6. Corporate activity is dominated by few business groups (76.5%)
Bad (-0.01 to -1.00)	12. Exporting companies are primarily involved in resource extraction or production (63.2%) 13. Exporting companies sell primarily in a small number of foreign markets (71.1%) 14. Buyers are unsophisticated and make choices based on the lowest price (57.8%) 15. Standards on product/service quality, energy and other regulations (outside environmental regulations) are lax (69.8%)	7. Exports to neighboring countries are limited (63.3%) ▲ 8. Anti-monopoly policy is lax or not effective at promoting competition (63.8%) ▲ 12. Exporting companies are primarily involved in individual in resource extraction or production (65.4%) 13. Exporting companies sell primarily in a small number of foreign markets(68.4%) 14. Buyers make purchasing decisions based mainly on lowest price (68%) 15. Standards on product/service quality, energy & other regulations are lax(65.4%)

- **Firms have to depend completely on imported machineries and equipments (-2.1 in 2006 as against -2.18 in the previous year). More importantly, more than 90% perceived that production processes use previous generations of process technology or labor intensive methods. Major way to get foreign technology is by licensing or imitating foreign companies.**
- **76% perceived that corporate activity is still dominated by few business groups and the situation has been decelerated (-1.21 in 2006 as against -1.11 in the previous year). Some improvement in the operational process is observed as top management instead of controlling all decisions like to delegate authority to subordinates (-0.69 vs. -1.47 in previous year).**
 - Professionalism is found in case of appointment of senior management positions based on superior qualifications; substantial improvement has taken place in the perception level in 2006.
- **Exporting companies have very little expertise on product designing, marketing sales and after sales services. 65% perceived that exporting companies are primarily involved in resource extraction or production (-0.94 in 2006 as against -0.76 in the previous year). There is very little change in export market diversification observed in between the surveys of this year and last year. However, exports to neighbouring countries though limited but improved in 2006.**
- **Lack of competition policy especially anti-monopoly policy hinders developing competitive business environment**

Centre for Policy Dialogue (CPD)		
E. Business Operation and Sophistication : Lack of Improvement in Supply Chain Management, Poor Corporate Body (contd...)		
Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Bad (-0.01 to -1.00)	16. Strong and deep clusters are not widespread throughout the economy (63.0%) 17. The extent of marketing is limited. (60.9%) 18. International distribution and marketing takes place through foreign companies (56.3%) 19. Starting a new business in the country is generally difficult (50.4%) 20. Corporate governance by investors & boards directors is characterized by management having little accountability (43.4%) 21. The quality of local suppliers is poor as they are inefficient and have little technological capability (53.6%)	9. Willingness to delegate authority to subordinates is low -top management controls all important decisions (62.8%) ▲ 10. Cash compensation of management is mainly based on salary (71.1%) ▲ 16. Strong and deep clusters are not widespread throughout the economy. (55.9%) 17. The extent of marketing is limited and primitive (58.1%) 18. International distribution & marketing takes place through foreign companies (54.8%)
Good (0.01 to 1.00)	22. Local suppliers are numerous and include the most important materials, components, equipment and services (61.5%) 23. Firms in the country are responsive to customers and customer retention (50.0%) 24. Competition in the local market is some what intense in most industries as market leadership changes over time (67.0%)	11. Senior management positions are usually held by professional managers chosen based on superior qualification (55.1%) ▲ 19. Starting a new business is easy to some extent (neutral) ▲ 20. Corporate governance by investors & boards directors is characterized by investors and boards exert some sorts of supervision of management decisions (neutral) ▲ 21. The quality of local suppliers is good (44.9%) ▲ 22. Local suppliers are numerous and supply the most important materials, components, equipment and services (51%) 23. Firms in the country are responsive to customers and customer retention (52.1%) 24. Competition in the local market is somewhat intense in most industries as market leadership changes overtime (65.3%)

- **Entrepreneurs are suffering for not having strong and deep clusters in the country and 56% businessmen perceived that situation has marginally decelerated in 2006 (this year's survey) (-0.56 as against -0.47 in the previous year). Development of clusters in major manufacturing sector would improve supply of raw materials and services, quality of products, reduce cost of production. Government should allocate fund for cluster development.**
- **Local suppliers are numerous and their quality of supply is improving over time (0.11 in 2006 as against -0.33 in the previous year). 52% perceived that firms are responsive to customers and customer retention.**
- **Starting a new business is to some extent easy. Businessmen perceived that the situation is getting better in the country. Both financial and non-financial constraints are found equally responsible for this. But the situation is improving over time.**

F. Education and Human Capital : Fails to Cater the Need of the Corporate Sector

Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> The educational system does not meet the needs of a competitive economy (74.4%) Math and science education in the school lags far behind most other countries (72.9%) Talented people normally leave to pursue opportunities in other countries (88.9%) 	<ol style="list-style-type: none"> Math & science education in the school lags far behind most other countries (73.5%) Talented people normally leave to pursue opportunities in other countries (84.6%) The primary schools are of poor quality (88.6%) The general approach of companies to human resources is to invest little in training and employee development (81.7%)
Bad (-0.01 to -1.00)	<ol style="list-style-type: none"> Management or business schools in the country are limited or of poor quality (59.3%) For similar work, wages for women are below those of men (74.6%) Labor regulation in the country prevent company from employing foreign labor(45.2%) Pay is not related to worker productivity (52.5%) Businesses do not provide women the same opportunities as men to rise to positions of leadership (47.4%) 	<ol style="list-style-type: none"> The educational system does not meet the needs of a competitive economy (72.4%) ▲ Management or business schools in the country are limited or of poor quality (63.3%) For similar work, wages for women are below those of men (63.6 %) Labor regulation in the country prevent company from employing foreign labor (50%) Pay is not related to worker productivity (44.3%)
Good (0.01 to 1.00)	<ol style="list-style-type: none"> Labor-employer relations are cooperative (59.8%) Scientists & engineers are somewhat available (51.3%) Hiring & firing of workers are somewhat flexibly determined by employers (56.8%) 	<ol style="list-style-type: none"> Businesses do not provide women the same opportunities as men to rise to positions of leadership (53%) ▲ Labor-employer relations are cooperative (48%) Scientists & engineers are somewhat available (57.7%) Hiring & firing of workers are somewhat flexibly determined by employers (56.3%) Wages are fixed by each individual company (65%) ▼
Better	<ol style="list-style-type: none"> Wages are fixed by each individual company (83.9%) 	

- **Educational system of the country fails to meet the needs of a competitive economy (-1.0 in 2006 as against -1.24 in the previous year). Primary level education and mathematics and science education is below the average standard at the global level. Quality of management schools showed no such mentionable improvement in this year's survey (-0.72 vs. -0.69 in the previous year).**
- **There is no mentionable improvement observed as regards brain drain in this year's survey (-1.58 in 2006 as against -1.67 in the previous year). However, scientists and engineers are somewhat available and marginal improvement was observed in this year's survey (0.41 in as against 0.27 in the last year's survey).**
- **Labour-employer relation though perceived to be 'good' but decelerated marginally in 2006 (this year's survey) (0.21 in 2006 as against 0.56 in last year's survey).**
- **Payment for work is not related with worker's productivity, though marginal improvement observed in this year's survey. For similar work, wages for women are below those of men (-0.54 as against -1.00 in the previous year).**

25

G. Corruption, Ethics and Social Responsibility: Unchanged Situation

Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worst (-2.01 to -3.00)	<ol style="list-style-type: none"> Undocumented payments in connection to public utilities (e.g., telephone or electricity) are common(91.4%) 	<ol style="list-style-type: none"> Undocumented payments awarding of public contracts (investment projects) are common (91.7%) ▼ Domestic firms paying bribe to public servants or officials is very common (94.9%) ▼
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> Undocumented payments in the awarding of public contracts (investment projects) are common (89.5%) Undocumented payments in connection with annual tax payments are common (90.5%) Undocumented payments in the awarding of import & export permits are common (81.6%) Diversion of public funds to companies, individual or group due to corruption is common (81.7%) Other firms' illegal payments to influence government policies, laws or regulations have large impact distorting competition. The judiciary is heavily influenced by political influences of members of the government, citizens or firms (79.7%) The corporate ethics of firms in the industry are among the world's worst (70.9) 	<ol style="list-style-type: none"> Undocumented payments in connection with public utilities (e.g., telephone or electricity) are common (88.8%) ▲ Undocumented payments in connection with annual tax payments are common (88.6%) Undocumented payments in the awarding of import & export permits are common (86.7%) Diversion of public funds to companies, individual or group due to corruption is common (85.6%) Other firm's illegal payments to influence government policies, laws or regulations have large impact distorting competition (79%) The judiciary is heavily influenced by political influences of members of the government, citizens or firms (73.5%) The govt. has not put in place effective measures to successfully combat corruption & bribery.
Bad (-0.01 to -1.00)	<ol style="list-style-type: none"> Firms make facilitating extra payments or bribes to high ranking politicians, political parties and senior public servants very commonly(59.6%) Undocumented payments in getting favorable judicial decisions are common (62.3%) Individuals or firms with close personal ties to political leaders have enormous influence on recently enact laws and regulations (59.5%) Undocumented extra payments or bribes from one private firm to another to secure business are very common (57.3%) 	<ol style="list-style-type: none"> The corporate ethics (ethical behavior in interactions with public officials, politicians and other enterprises) of firms in the industry are among the world's worst (67.4%) ▲ Undocumented payments in getting favorable judicial decisions are common (64.2%) Individuals or firms with close personal ties to political leaders have enormous influence on recently enacted laws and regulations (67.8%) Undocumented extra payments or bribes from one private firm to another to secure business are very common (57.3%) Foreign firms pay bribe to public servants or officials is very common (67.6%)

- **Undocumented payments for awarding of public contracts were widespread in the country and the situation further aggravated according to this year's survey (-2.06 in 2006 as against -1.91 in the previous year). Substantial deterioration was observed in case of firms making extra payments to high ranking politicians, political parties and senior public servants (-2.21 in 2006 in against -0.50 in the previous year).**
- **Businessmen perceived that other firm's illegal payments to influence government policies, laws or regulations have substantial distorting impact on competition and perception is decelerated. About 60% perceived that undocumented extra payments or bribes from one private firm to another to secure business are very common and the it is deteriorated (-0.72 as against -0.37 in the previous year). Corporate ethics, though changed slightly are among the world's worst.**
- **Undocumented extra payments are also common in connection to public utilities, export and import and annual public contracts. Similar situation prevailed in case of annual tax payments.**

32

H. Travel and Tourism: Absence of Tourism Marketing

Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worse (-1.01 to -2.00)	1. Tourism marketing is non-existent or completely unproductive to attract inbound tourists (72.6%)	
Bad (-0.01 to -1.00)	2. Development of the tourism and travel sector does not take into account issues related to environmental protection and sustainable development (58.3%) 3. Travel and tourism industry is not a priority for the government. (61.2%)	1. Tourism marketing is non-existent or completely ineffective to attract inbound tourists (57.7%) ▲ 2. Development of the tourism and travel sector does not take into account issues related to environmental protection and sustainable development (56.7%)
Good (0.01 to 1.00)	4. Senior executives will be recommended to extend their trip (51.7%)	3. The development of the travel & tourism industry is a priority of the government to some extent. (63%) ▲ 4. Senior executives will be recommended to extend their trip for leisure purpose (62.5%)
Best (2.01 to 3.00)	5. The country's citizens are open and welcome foreign travelers and tourists (90.7%)	5. The country's citizens are open and welcome foreign travelers and tourists (94.9%)

- **Tourism marketing is almost absent and ineffective to attract inbound tourists, though some changes in positive direction are observed in this year's survey (-0.69 in 2006 as against -1.27 in the previous year). It is good that government is giving some priority to travel and tourism industry (0.58 in 2006 as against -0.75 in the previous year).**
- **It is good that Bangladeshi citizens have goodwill towards foreign travelers and tourists. Nearly 95% perceived that people are open and welcome foreign travelers. Best perception in this study (2.30 in 2006 and 2.25 in 2006 the previous year)**

33



I. Environment: Law Regulations and No Enforcement

Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Worse (-1.01 to -2.00)	1. The country's environmental regulation is lax compared to most countries (69.2%)	1. The country's environmental regulation is lax compared to most countries (78.1%) • Enforcement of environmental regulations is lax (78.1%)
Bad (-0.01 to -1.00)		• The natural environment is polluted. (59.3%)
Good (0.01 to 1.00)		• Environmental challenges may not have negative impact on business operation or decision on expanding local business activities (43.6%) • Company's actions to address climate change driven by government's regulation (44.2%)

- **Environmental Regulation of the country is lax compared to most countries of the world (-1.14 in 2006 and -1.12 in the previous year). Moreover, environmental regulations are not enforced properly and effectively. Regulations are confusing also and enforced erratically. More budgetary and administrative efforts are needed to improve the situation. Strict monitoring is needed to enforce environmental laws and regulations at factory level.**
- **Nearly 60% respondent thought that natural environment is polluted (1.14 in this year's survey).**
- **Environmental challenges did not generate so many obstacles for business operation or decision related to business on expanding local business activities (0.05 in this year's survey).**
- **44% executives opined that company's actions to address climate change is driven by government regulation (0.18 in this year's survey).**
- **Water pollution (22.6%) was considered as the most important environmental risk which adversely affected company's business operations. Other environmental risks were air pollution (18.0%), poor solid waste management and deforestation (10.1%), climate change (7.0%), and loss of biodiversity and endangered species (3.8%) etc.**

34

Centre for Policy Dialogue (CPD)

J. Health: Companies are Less Prepared on HIV/AIDS Related Issues

Level	February, 2005 - January, 2006 (Last year's survey)	February, 2006 - January, 2007 (This year's survey)
Bad (-0.01 to -1.00)	1. The companies' current policies & programmes will not be adequate to manage the impact of HIV/AIDS in the next five years (52.9%)	1. The companies' current policies & programmes will not be adequate to manage the impact of HIV/AIDS in the next five years (43.4%)
Good (0.01 to 1.00)	2. The future impact of HIV/AIDS is not considered as a problem for the company in the next 5 years.	
Better (1.01 to 2.00)	3. The future impact of malaria is not considered as a problem for the company in the next 5 years. 4. The future impact of tuberculosis is not considered as a problem for the company in next 5 years.	2. The future impact of HIV/AIDS is not considered as a problem for the company in the next 5 years. (73.5%) ▲ 3. The future impact of malaria is not considered as a problem for the company in the next 5 years. (73.5%) 4. The future impact of tuberculosis is not considered as a problem for the company in next 5 years. (77.6%)
Best (2.01 to 3.00)	5. HIV/AIDS is currently affecting /not affecting business operations	5. HIV/AIDS is currently affecting /not affecting business operations (89.6%)

- **HIV/ AIDS is currently not a major issues for business operations in Bangladesh.** This view is supported by more than 90% of the respondents (weighted response is 2.23 in this year's survey). More than 73% respondents thought that HIV/ AIDS will not be a problem for their companies in the next five years. The situation slightly improved to 1.36 in 2006 from 0.71 in the previous year.
 - It is gradually becoming important to be aware of its severity and danger to the working people of the country.
- Business executives perceived that current policies and programmes are not adequate to manage the impact of HIV/AIDS in the next five years (-0.36 in 2006 as against -0.79 in the previous year).
- **Malaria and Tuberculosis are not considered as an epidemic according to the business executives of Bangladesh.** (1.40 for malaria and 1.45 for tuberculosis in this year's survey)
- This section should include more worker's health related other issues such as working environment in the work place, living place of the workers, non-wage related facilities to workers etc.

34

Centre for Policy Dialogue (CPD)

VI. Growth Projection

Rise in Optimism on Economic Performance, Reduction of Cost Associated with Terrorism

Level	Survey carried out in February-April, 2006	Survey carried out in January-March, 2007
Bad (-0.01 to -1.00)	1. The threat of terrorism in the country imposes high cost on business (51.3%)	
Good (0.01 to 1.00)	2. Country's economy will have strong growth in the next 12 months (51.3%)	1. The threat of terrorism in the country partly imposes cost on business (52.6%) ▲
Better (1.01 to 2.00)		2. Country's economy will have strong growth in the next 12 months (73 %) ▲

- Business executives had positive opinion as regards prospects of country's growth over subsequent 12 months when the survey was conducted in January-March, 2007. More than 70% perceived that economic growth will be strong in the coming months. The perception had remarkably improved in this year as the weighted response improved to 1.04 in this year's survey from 0.17 in last year's survey.
- More than 50% businessmen thought that business cost associated with the threat of terrorism is declining as a notable improvement is seen from this year's perception survey (0.46 in 2006 as against -0.24 in the previous year)

41



VII. IDENTIFICATION OF THE LEAD DETERMINING FACTORS

Rank	Lead Determining Factors (Last year's survey)	Lead Determining Factors (This year's survey)	
1	Corruption (18.4)	Corruption (23.7)	↔
2	Inadequate supply of infrastructure(14.3)	Inefficient government bureaucracy (16.7)	↓
3	Inefficient government bureaucracy(14.1)	Inadequate supply of infrastructure (14.4)	↑
4	Policy instability(12.2)	Policy instability (10.3)	↔
5	Access to financing(9.4)	Access to financing (6.9)	↔
6	Inadequately educated workforce (5.8)	Tax regulations (5.8)	↓
7	Tax regulations(5.3)	Government instability (5.4)	↓
8	Crime & theft(4.2)	Inadequately educated workforce (4.2)	↑
9	Inflation(4.1)	Crime & theft (3.8)	↑
10	Government instability (3.7)	Inflation (3.0)	↑
11	Foreign currency regulations (3.2)	Poor work ethic in national labour force (2.0)	↑
12	Poor work ethic in national labour force (2.5)	Tax rates (1.9)	↓
13	Tax rates (2.3)	Foreign currency regulations (1.6)	↑
14	Restrictive labour regulations (0.5)	Restrictive labour regulations (0.3)	↔

- 'Corruption' is still considered as the most important determining factor affecting country's business environment (same as in 2006 and 2005).
- Absence of an efficient bureaucracy came out as the second most important factor for business environment, followed by Inadequate supply of infrastructure, policy instability and access to financing.
- There are some improvements in the perception level as regards educated work force, crime and theft, inflation, work ethic of labour force, foreign currency regulations. Interestingly, Inflation came up one position in 2007.
- Some factors where perception level deteriorated are: tax regulations, government instability, tax rates etc.

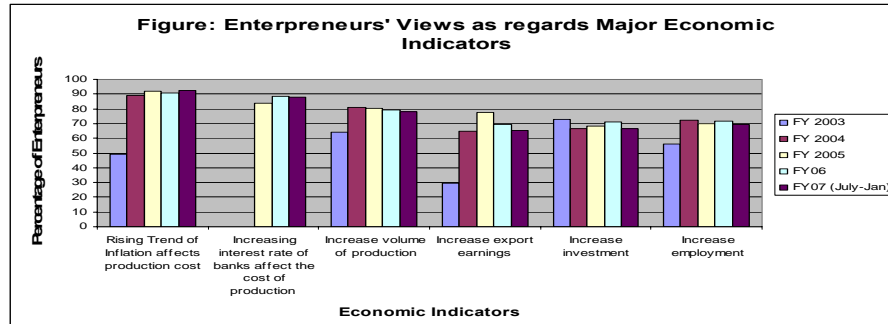
40



Findings from Additional Survey



VIII. Company Performance with respect to Major Economic Indicators



- Businessmen perceived that business environment has been gradually deteriorating over last five years.
- Increasing number of respondents (92% in this year's survey) perceived that production cost was increasing because of inflationary pressure. About 25% respondents in 2006 mentioned the cost as 'high' compared to that of 15% in the previous year.
- High lending rate from banks is also a major concern (88% in this year's survey) and much improvement has not taken place in this year compared to the previous year (88.2 in last year's survey). However, the affect termed 'high' in this year's survey by 36% deemed compared to that of 21% in last year's survey.
- 78% businessmen perceived that production has increased in their enterprises in this year's survey (79.3% perceived the same view in the previous year). 'Production has increased at a 'high' rate' was perceived by 27% in this year's survey compared to that of 22% in last year's survey.
- 66% mentioned that export has increased in 2006 (this year's survey); the proportion was 70% in the previous year (last year's survey). Only 15% perceived their export growth as 'high' in 2006, while it was 20% in the previous year.
- 67% mentioned about some investment in 2006 (this year's survey) either for expanding existing businesses or in new businesses, while the comparable figure for the previous year was 71%.
- 69% mentioned about increase in employment in their enterprises in 2006 (this year's survey), while the comparable figure for the previous year was 71%.

42



Other Issues

- Major sectors which has a good potentials to substantially increase their export in near future are perceived to be: RMG/ Textile (21.4%), Leather/Handicraft (14.6%), Food items (13.1%), Pharmaceutical (9.1%) IT/Software (8.6%), Jute/Tea (8.4%), and Agro based item (7.8%).
- More than 60% of respondents perceived that Non Resident Bangladeshis (NRB's) are investing in Bangladesh. Some of the major investment made by NRBs are in housing/real estate/ properties (31.0%), financial sector (23.0%), garments/textile (15.1%), ICT/telecom (5.6%), agro-processing/food processing (5.6%), and hotel/restaurant (2.4%).
- 42% executives perceived Bangladeshis are investing abroad. Major area of investment are: garments/textile (27.7%), housing/real estate/properties (24.6%), financial sector/savings/securities (13.8%), hotel/restaurant (13.8%), agro-processing/food processing (4.6%), and ICT/telecom (1.5%).
- Business executives of the country agreed to some extent that compliance with international labour standards is declining in the country. Further deterioration is observed in this year's survey (-0.07 in 2006 as against 0.30 in the previous year).
- More than 90% respondent strongly approved that political unrest in the country (which prevailed during the whole 2006) imposes significant costs on businesses. Dissatisfaction over political unrest remains strong in this year's survey (-1.96 in 2006 as against -1.64 in the previous year).
- 62% of the top business executives were in moderate agreement with the assessment of business climate and ranking of Bangladesh prepared by different international agencies like World Bank, World Economic Forum, UNCTAD and Transparency International.

35



Major Changes Observed in This Year's Survey



Improvement of Business Environment in 2006 (This Year's Survey)

Factors	Indicators	Level of Improvement
Government and Public Institutions	Composition of public spending is wasteful	Worse → Bad
	Level of taxes limits the incentives to work or invest	Bad → Good
	Govt. Subsidies and tax breaks distort competition	Bad → Good
	Press is free	Good → Better
Infrastructure	Scarcity of telephone lines for business	Worst → Bad
	Passenger air transport is underdeveloped	Worse → Bad
Innovation and Technology	Internet access in school	Worse → Bad
	Availability of latest technologies	Worse → Bad
Business operation and sophistication	Export to neighboring countries	Worse → Bad
	Effectiveness of anti monopoly policy at promoting competition	Worse → Bad
	Willingness to delegate authority to subordinate	Worse → Bad
	Cash compensation of management is based on salary	Worse → Bad
	Senior management positions are held by professional managers	Worse → Good
	Starting a new business is easy	Bad → Good
	Accountability of corporate governance	Bad → Good
Good quality of local suppliers	Bad → Good	



Improvement of Business Environment in 2006 (This Year's Survey)

Factors	Indicators	Level of Improvement
Education and Human capital	The educational system does not meet the needs of a competitive economy	Worse → Bad
	Opportunities for women to rise to positions of leadership	Bad → Good
Corruption, Ethics and social responsibility	Commonness of undocumented payments in connection to public utilities	Worst → worse
	Corporate ethics of firm	Worse → Bad
Travel and Tourism	Existence of tourism marketing	Worse → Bad
	Priority of govt. to develop the travel and tourism marketing	Bad → Good
Health	The future impact of HIV/AIDS is not considered as a problem for the company in the next five years	Bad → Better

36



Business Environment of Bangladesh in 2006 (This Year's Survey): Good, Better, Best

Factors	Performance		
	Good	Better	Best
Government and Public Institutions	• The level of taxes partly limits the incentives to work or invest (47.5%)	• The press is free (86.8%)	
	• Government subsidies and tax breaks do not distort competition to a large extent (by favoring specific companies) (45.4%)		
	• Agricultural policy is not so burdensome for the economy (36.8%)		
Infrastructure	• The air transport network offer good connections to all of key business markets (55.1%)		
Innovation and technology	• Companies in your country are partly able to absorb new technology (indifferent)		
	• Foreign direct Investment is an important source of new technology (47.9%)		
	• ICT is an overall priority for the government to some extent (50%)		
Financial Environment	• Interests of minority shareholders are protected by law (44.8%)		
	• Tariff & non-tariff barriers do not significantly reduce the ability of imported goods to compete in the domestic market (45.9%)		
	• During the past year, obtaining credit for company has become more easier (45.6%)		
Financial Environment	• Banks are generally healthy with sound balance sheets (62.8%)	• Rules governing FDI are beneficial and encourage FDI (81.7%)	
	• Foreign ownership of companies is prevalent and encouraged (68.4%)		
	• Raising money by issuing shares on local stock market is quite possible (71.1%)		
	• Regulation of securities exchange is not transparent, ineffective and subject to undue influence from industry and government (58.8%)		

37

Centre for Policy Dialogue (CPD)			
Business Environment of Bangladesh in 2006 (This Year's Survey): Good, Better, Best			
Factors	Performance		
	Good	Better	Best
Business Operation and Sophistication	• Senior management positions are usually held by professional managers chosen based on superior qualification (55.1%)		
	• Starting a new business is not so difficult (neutral)		
	• Corporate governance by investors & boards directors is characterized by management who has accountability to some extent (neutral)		
	• The quality of local suppliers is good (44.9%)		
	• Local suppliers are numerous and supply the most important materials, components, equipment and services (51%)		
	• Firms in the country are highly responsive to customers and customer retention (52.1%)		
	• Competition in the local market is limited to some extent in most industries as market leadership does not changes frequently (65.3%)		

38

Centre for Policy Dialogue (CPD)			
Business Environment of Bangladesh in 2006 (This Year's Survey): Good, Better, Best			
Factors	Performance		
	Good	Better	Best
Education and Human Capital	• Businesses do not provide women the same opportunities as men to rise to positions of leadership (5.3%)	• Wages are set up to each individual company (83.9%)	
	• Labor-employer relations are cooperative (48%)		
	• Scientists & engineers are widely available (57.7%)		
	• Hiring & firing of workers are somewhat flexibly determined by employers (56.3%)		
	• Wages are set up to each individual company (65%)		
Travel and Tourism	• The development of the travel & tourism industry is a priority of the govt. (63%)		• The country's citizens are open and welcome foreign travelers and tourists (94.9%)
	• Senior executives will be recommended to extend their trip for leisure purpose (62.5%)		
Environment	• The natural environment is very polluted (59.3%)	• Environmental challenges not so much impact on business operation or decision on expanding local business activities (43.6%)	
		• Company's actions to address climate change entirely driven by govt.'s regulation (44.2%)	
Health	• The future impact of HIV/AIDS is not considered as a problem for the company in the next 5 years.	• The future impact of HIV/AIDS is not considered as a problem for the company in the next 5 years. (73.5 %)	• HIV/AIDS is currently not affecting business operations (89.6%)
		• The future impact of malaria is not considered as a problem for the company in the next 5 years. (73.5 %)	
		• The future impact of tuberculosis is not considered as a problem for the company in next 5 years. (77.6%)	

39



Major Business Indices on Bangladesh's Business Competitiveness



VIII. Major Business Indices on Bangladesh's Business Competitiveness

- Deviation in the ranking of countries as provided in various business and investment related indices is not significant. Ranking of Bangladesh is in the bottom quarter in most of the indices.
- According to all major business indices Bangladesh's business environment changed not significantly over the years.

	GCI (WEF)		BCI (WEF)		FDI Performance Index (UNCTAD)		FDI Potential Index (UNCTAD)		Ease of Doing Business Index (World Bank)		Corruption Perception Index (Transparency International)	
	2006 (125)	2007 (131)	2006 (111)	2007 (127)	2005 (141)	2006 (141)	2004 (141)	2005 (141)	2006 (178)	2007 (175)	2006 (163)	2007 (179)
Bangladesh	92	107 ▼	99	118 ▼	119	121 ▼	117	119 ▼	88	107 ▼	156	162 ▼
India	42	48 ▼	27	31 ▼	121	113 ▲	83	85 ▼	134	120 ▲	70	72 ▼
Pakistan	83	92 ▼	64	79 ▼	104	89 ▲	127	126 ▲	74	76 ▼	142	138 ▲
Sri Lanka	81	70 ▲	69	52 ▲	108	108	120	123 ▼	89	101 ▼	84	94 ▼
China	35	34 ▲	59	57 ▲	62	69 ▼	33	30 ▲	93	83 ▲	70	72 ▼
Vietnam	64	68 ▼	80	76 ▲	58	78 ▼	80	80	104	91 ▲	111	123 ▼
Benin	107	108 ▼	93	93	103	109 ▼	137	136 ▲	137	151 ▼	121	118 ▲
Ethiopia	116	123 ▼	107	117 ▼	38	61 ▼	128	131 ▼	97	102 ▼	130	138 ▼
Gambia	103	102 ▲	90	82 ▲	14	13 ▲	108	114 ▼	113	131 ▼	121	143 ▼
Madagascar	111	118 ▼	94	102 ▼	94	80 ▲	136	133 ▲	149	149	84	94 ▼
Mali	115	115	86	94 ▼	63	71 ▼	118	118	155	158 ▼	99	118
Mozambique	119	128 ▼	101	121 ▼	54	84 ▼	96	98 ▼	140	134 ▲	99	111 ▼
Uganda	110	120 ▼	84	96 ▼	70	77 ▼	113	117 ▼	107	118 ▼	105	111 ▼
Tanzania	97	104 ▼	75	80 ▼	65	72 ▼	119	121 ▼	142	130 ▲	93	94 ▼



Summary



IX. Summary

- **GCR 2007-2008** has analysed global business environment for the year 2006. **Bangladesh Business Environment Study 2007** which contributes to this, has focused on the business environment of Bangladesh for the same period (February, 2006-January, 2007).
- Business environment of Bangladesh was overall poor and less competitive in global context and the environment has deteriorated in 2006.
 - There is not a single indicator where Bangladesh's performance has improved in 2006 compared to previous year; rather in terms of some indicators Bangladesh was ranked as one of the bottom 10 countries of the world, such as institutions, higher education and training, and technological readiness.
 - A falling GCI score of Bangladesh indicates a declining poor performance, both compared to the previous year and also with respect to other countries. Notable deterioration was in health and primary education, market size, infrastructure, macroeconomic stability, financial market sophistication, innovation and higher education and training.
 - Only in respect to institutions, labour market efficiency and technological readiness the score has improved, albeit insignificantly.



IX. Summary (contd...)

- Some of the key indicators of business environment in Bangladesh shows disquietingly poor performance; some have deteriorated. Some of these are:
 - Very low level of public trust about financial honesty of politicians; favouritism of government officials for well connected firms and individuals when deciding upon policies and contracts; ineffective national parliament; wasteful public spending; poor physical infrastructure especially electricity and port facilities; decelerating trend of FDI; predominance of few business groups/firms in corporate activity; decelerating labour-employer relation
- Marginal improvements were observed for some of the indicators. Some of these are: free press/media; less distortion of competition through government subsidies/taxes; less hassle in opening of new business; senior management positions being held by professional managers.
- Businessmen during the time of survey was optimistic about the growth prospect of the economy over the subsequent 12 months possibly considering better business environment under the new Caretaker Government.
 - To what extent their expectation was fulfilled during the first year of Caretaker Government will hopefully be captured in next year's survey.



*Thank You
for
Your Attention*