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BUSINESS COMPETITIVENESS ENVIRONMENT IN BANGLADESH

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CPD Study on
BUSINESS COMPETITIVENESS ENVIRONMENT
IN BANGLADESH 2004

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I. INTRODUCTION

In 2004, for the fourth consecutive year, the *Centre for Policy Dialogue* (CPD) has conducted a survey to assess the state of competitiveness environment in Bangladesh. The survey was executed as a part of CPD's contribution to the *Global Competitiveness Report (GCR) 2004-05* to be published by the *World Economic Forum* (WEF) (better known as the *Davos Meeting*).[1] WEF initiated the Annual Competitiveness Report in 1979 and since 1996 GCR is prepared in collaboration with the Harvard University (by a team led by Professor Michael Porter) and with support from partner organisations across the world. CPD is the partner institute of the WEF in Bangladesh. In connection with the GCR, CPD has generated expertise to analyse the data in competitiveness environment analysis.

Along with the Executive Opinion Survey 2004-05 (based on questionnaire developed by WEF), CPD for the first time undertook a Rapid Perception Survey on the current economic issues.

In this context, the present press briefing has three major objectives:

(i) To report on the detailed findings of the CPD study on *Competitive Environment in Bangladesh* in 2004;
(ii) To share information on the state of Bangladesh's growth competitiveness and business environment in the country in comparison to earlier year; and
(iii) To report on findings of the CPD's Rapid Perception Survey as regards Bangladesh's economic performance and growth prospect.

Scope and Coverage of CPD Survey 2004

The Executive Opinion Survey carried out by the CPD is informed by four main objectives:

- To elicit information on competitiveness environment in the country for identifying the 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 change in competitiveness environment as opined by the executives of the companies based on GCR 2004-05 and GCR 2003-04;
- To provide inputs to the policymakers and stakeholders in their efforts to prioritise the areas for improving economic governance in the country through focussed initiative.

The CPD Executive Opinion Survey dealt with issues related to *macroeconomic stability, quality of services provided by public institutions, corruption, infrastructure, technology, environmental situation* and *role of international financial institutions.* The respondents also expressed their assessment of the growth prospect of Bangladesh in 2005.

[1]It may be mentioned that, through the CPD's survey, Bangladesh was included in the *Global Competitiveness Report* (GCR) for the first time in 2001. *The Global Competitiveness Report 2004-05* of the WEF is expected to be launched globally on October 13, 2004.

The Rapid Perception Survey (2004) focussed on issues relating to interest rate, inflation, investment, employment, production, and export situation, and the state of non-resident Bangladeshis (NRBs) investment trend in Bangladesh and the Bangladeshis investment trend in abroad.

II. METHODOLOGY

Survey Design

The CPD survey conducted for 2004-05 covered 100 companies. The survey was carried out in May-June, 2004. The survey included relatively big companies, i.e. having total assets of no less than Tk. 10 crores (Tk. 100 million). While 23.2% of the surveyed companies had less than 100 employees; 47.5% had employees between 100 and 1000; and the rest of the companies (29.3%) had employees more than 1000 employees. The weighted average number of employees was 3998 for all of the respondent companies.

The geographical distribution of companies was heavily concentrated in Dhaka with 90 companies, followed by Chittagong with 3 companies. The other seven companies were located in Gazipur, Khulna, Pabna, Baghabari, Joydebpur, Sreepur and Tangail. Of the 100 respondent companies, 48% are engaged in manufacturing activities, 12% financial institutions, 15% in real estate and construction business, 8% in information and communication technology (ICT) sector, and 9% in transport and engineering sector. Rest (8 companies) are engaged in wholesale and retailing business, health and social works, agriculture etc. (Table 1).

TABLE 1
SECTOR WISE SHARE OF COMPANIES COVERED IN THE SURVEY

Sectors	**Companies**			
	2004	**Share (%)**	**2003**	**Share (%)**
Manufacturing	48	48	27	33
Financial Institution	12	12	23	28
Real Estates & Construction	15	15	10	12
ICT	8	8	8	10
Transport & Engineering	9	9	4	5
Others	8	8	9	11
Total	**100**	**100**	**81**	**100**

Of the surveyed companies, more than one-fourth (29%) are entirely domestic market oriented, whilst around one-fifth (18%) are exclusively export oriented. The rest half (53%) of the companies operate both in domestic and export markets. More than two-third (61%) of the respondent companies are under full domestic ownership, 7% of the respondent companies are under full foreign ownership and the rest one third (32%) are joint venture with foreign investment.

Structure of Questionnaire

The Executive Opinion Survey Questionnaire contains mostly structured close-ended questions with a seven-points response scale. The response scale represents the entire spectrum of possible views, from extremely negative to extremely positive. The middle of the scale represents completely neutral view.

Total 177 questions are contained in 13 sections of the questionnaire which includes the description of the company, perception of the economy, technology, government and public sector, public institutions, infrastructure, human resources, finance and openness, domestic competition, company operation and strategy, environmental and social responsibility and international institution. There was also a section with general questions.

After an introductory briefing about the background of the survey, the structured questionnaire was administered by the Chief Executive Officer (CEO) of the respondent firm. It was ensured that the respondent in the company was a member of the top level management team of the company. The CEO herself/himself or her/his nominee filled in the questionnaire which was then returned to the CPD.

Analytical Framework

The analysis has been conducted based on the data collected from the Executive Opinion Survey of 2004-05 and 2003-04. The surveys of these two years contained 148 common questions. As many as 40 companies were included both in the sample of 2004-05 and 2003-04 survey. However, for 2004-05 the sample contained 100 companies while there were 81 companies in the sample of 2003-04.

The analysis has been performed by employing three statistical techniques: frequency analysis of the responses, application of weighted index for the questions, and chi-square test for identification of significance of difference between the perceptions of two years.

Frequency Analysis

As the name indicates, the Executive Opinion Survey basically contains qualitative data. Responses, generated during the survey, were classified into three groups for analytical purpose. The three response levels (completely agree, largely agree and somewhat agree) of positive and three negative perceptions have been clustered into two groups and the response that is indifferent between the positive and negative answer composed the third group. The frequency of these three groups have been calculated and reported. Missing values are excluded from the analysis.

Weighted Average of Responses

One of the limitations of frequency method is that all the three levels of response are treated with equal weight. To overcome this drawback, a weighted frequency analysis method has been employed. First, the scores -3 to -1 were assigned to the three different levels of the negative side responses and the scores 1 to 3 were assigned to the three levels of positive side response while the score 0 was assigned to represent the indifference level. The weighted approach facilitates readers to understand at a glance the trend of perception by the top executives on the Business Environment of Bangladesh in 2004.

To estimate the weighted average of responses, let us define:
f_i = Frequency of response belonging to the $_i^{th}$ response level ($_i$ = 1,2,……,7).

$$\text{Scores, } X_i = \begin{cases} -3, \text{ if completely agree with negative side response} \\ -2, \text{ if largely agree with negative side response} \\ -1, \text{ if somewhat agree with negative side response} \\ 0, \text{ if indifferent between the two answers} \\ 1, \text{ if somewhat agree with positive side response} \\ 2, \text{ if largely agree with positive side response} \\ 3, \text{ if with completely agree positive side response} \end{cases}$$

Then, the weighted response (R_w) is defined as

$$R_w = \Sigma f_i x_i / \Sigma f_i \quad (_i = 1, 2, \ldots\ldots.., 7).$$

The value zero of R_w is considered as the demarcation value between the average positive and negative side response. If R_w > o, the response is overall positive; if R_w < 0, the response has been considered as negative. However, the distance of the score of the response from zero shows relatively stronger opinion on a particular issue of business environment.

Chi-Square Test

For estimating the significance of the difference between the executive opinions for two years, the chi-square test has been employed. The test statistics is defined as,

$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$ where, f_o and f_e are the observed and expected frequency respectively.

Under the null hypothesis that there is no significant difference between perceptions for the two years, the test statistics χ^2 follows Chi-square distribution with (k-1) degrees of freedom, where k is the number of categories (in this case, the level of responses).

Constructing Normalised Weighted Index of Lead Determining Factors (NWILDF)

The companies are requested to identify five top most lead determining factors for doing business in Bangladesh and rank them from 1 (most lead determining) to 5. A total of 14 lead determining factors were identified both in 2004 and 2003. To arrive at a comprehensive indicator of the lead determining factors, we have constructed a Normalised Weighted Index of Lead Determining Factor (NWILDF). We have assigned weight 5, 4, 3, 2 and 1 to the five lead determining factors in descending order and then multiply the frequency of the lead determining factors with the weight. This will lead us to the Weighted Index of Lead Determining Factors (WILDF) which has been transformed to Normalised Weighted Index of Lead Determining Factors (NWILDF) after adjustment with appropriated normalising factor.

Mathematical presentation of the methodology is given below:

Let $W_j' = \{w_j\} = (5,4,3,2,1)$ be the vector of weights of order 1 by 5 denoting the weight for jth ranked lead determining factors and $F = \{f_{ij}\}$ be the frequency matrix of order 14 by 5 denoting the frequency of ith lead determining factors with jth rank.

Where i = 1,2, …,14 and j = 1, 2,..5

Then the Weighted Index of Lead Determining Factors (WILDF) is defined as:

$WILDF_i = \sum_{j=1}^{5} w_j * f_{ij}$, for ith lead determining factor, i = 1,2, …,14

We have defined the Normalising Factor (NF) as follows:

$$NF = \frac{100}{\sum_i WILDF_i}$$

Hence the Normalised Weighted Index of Lead Determining Factors (NWILDF) is defined as:

$$NWILDF_i = WILDF_i * NF = \frac{\sum_{j=1}^{5} w_i * f_{ij}}{\sum_i \sum_j w_i * f_{ij}} * 100$$, for i = 1,2, …,14 and j = 1, 2,..5

Summary Features of the Current Study

- More enterprises covered: Number of enterprises covered under the survey increased from 81 in 2003 to 100 in 2004;
- Better spatial distribution: The enterprise outside Dhaka increased from 3% to 10%;
- More reflective of formal industrial structure: Number of manufacturing industries under survey increased from 27 to 48;
- More reflective of domestic market orientation: Exclusive share of the companies which are targeting domestic market is 29%, whereas this share for exclusively foreign market oriented companies is 18%;
- Improved statistical techniques for analysis: Instead of simple frequency analysis of 2003 weighted response and normalised weighted index have been used in 2004.

III. COMPETITIVENESS ENVIRONMENT IN BANGLADESH: AN ANALYSIS OF THE DETERMINING FACTORS

3.1 Government and the Public Sector: Competence Falls Further, Integrating Becomes More Suspect

The perception of the business community in relation to the performance of the government and public sector has been revealed through the dissatisfaction over the competence of the government sector which has been compounded by declining public trust in financial honesty of political leaders and growing trend in favouritism in designing policy decision and contracts. Almost all (98%) top executives believe that public trust in financial honesty of politicians is low and this belief has become stronger in 2004. The weighted response has declined from -2.43 to -2.68 in 2004. The change of scores between these two years is also statistically significant. As the score is closer to -3, the highest score, it is obvious that this perception is very strong. This is a strong signal of the business community to the government and the politicians to work on improving such bad image of the politicians.

- **The perception as regards the complexity of the country's tax system has somewhat improved, from -1.48 to -1.13; however, it is still in the negative side. This change is also statistically significant.**
- Less than half (41.7%) of the companies commended government's agricultural policy in the context of balancing the interest of taxpayers, consumers and export related activities. However, this perception has improved negligibly, the score was up from +0.14 to +0.27.
- **As much as 80% of the respondent companies stated that the national parliament is highly ineffective as a law-making and oversight institution. The faith in effectiveness of the parliament eroded further which is revealed through the weighted response declining from -1.35 in 2003 to -1.46.**
- **As high as 91% of the respondents were critical about government officials' favouritism for well-connected firms and individuals while deciding on policies and contracts. This criticism intensified in 2004, the score slided down to -1.85.**
- Perception as regards the burdensome nature of administrative regulations somewhat improved, the score is -1.76 in 2004, which was -1.88 in 2003. However, the majority (87.6%) of the companies still stated that administrative regulations in the country are burdensome.
- **The asymmetric information flow between the government and business as regards the policy changes hampers smooth business operations. The perception has also deteriorated which is reflected in the score, -1.13. About 54% of the companies were of the view that legal contribution (donation) to political parties has a direct influence on specific policy outcomes.**

3.2 Public Institutions: Reaches a New Low

Overall confidence on public institutions has deteriorated in country in 2004 compared to in 2003. The only perception which has improved is the freedom of press.

- **The faith on independence of judiciary has been eroded further in 2004. More than three-fourths of companies (78.6%) underscored that the judiciary is not independent from political influence of members of government, citizens or firms.** The weighted response declined from -1.06 to -1.42. Reliance on the policy system by overwhelming majority of the companies (93.9%) for protecting business from criminals has also fallen significantly, from -1.85 to -2.21. The businesses also argued that incidences of crime and violence and organised crime impose significant costs on business. This opinion got stronger in 2004, with a score -1.68 and -1.36

respectively.

- **A larger portion of the respondents (72.2% in 2003 and 86.9% in 2004) shared the view that the legal framework in the country for private businesses is inadequate and subject to manipulation. The weighted score dived down to -1.55 from -1.24.**
- **As regards the protection of intellectual property in the country, as high as 87.8% of the companies stated that such measures are either too weak, or non-existent. The score declined to -1.90.**
- **More than 62% companies noted that property rights, including over financial assets, is poorly delineated and not protected by the law. Last year, 50% of the respondents had the same view. The weighted score fell to -0.54 from -0.27.**
- **Almost 91% of the respondent companies stated that level of decentralisation in economic policy-making is quite disappointing; national government controls almost all important decisions, negative perception remained very strong with a score of -2.35.**
- **The perception as regards freedom of press improved, the score was on the rise, from 0.73 to 1.10. However, rise in the incidence of violence and corruption may be argued as ineffectiveness of freedom of press.**
- **Police services cannot be relied upon for protection of business from criminals. This has been reported by as high as 93.9% of the companies surveyed.**
- The businesses remained ambivalent as regards impact of recently enacted laws and regulation on domestic competition, business association and on individual firms with close personal ties with political leaders.
- **While the magnitude of undocumented payment has remained somewhat unchanged in loan application (reported by 76.5% respondents), <u>it has grown in the area of awarding of public contracts (stated by 93.5% respondents)</u>.**

3.3 Infrastructure: Scarcity of Supply and Poor Quality

Overall negative perception of the top business executives remained strong, however, experienced slight improvement. The weighted score on opinions as regards poor and inefficient infrastructure improved slightly from -1.81 to -1.54.

Dissatisfaction over the poor quality of railroads, waterways and port facilities remained strong but improved. The perception as regards air transport improved relatively more, the score improved to -.83, which is better than the scores for railroads and port (-1.54 and -1.53 respectively).

The perception as regards the scarcity and difficulties to get fixed line phones is still negative. However, the improve in this context (from -1.99 to -.1.63) shows that the pressure on fixed telephone somehow reduced. The conclusion is strongly supported by the perception that mobile phones are as accessible and affordable as in the world's most technologically advanced countries. The score was positive in 2003 (1.49), which has been improved in 2004 further (1.85).

- Around 95% of the respondent companies were strongly negative about the quality of electric supply in the country and complained that it is worse than most other countries. The relative score is -2.05 which underlines the strong opinion of the business executives.

- Reliability on postal system in the country was put under question by more than two-thirds of the companies (69.1%). The score in this case was -1.29.
- Access to internet in educational institutions (schools in particular) is very limited. This has been reported by as much as 91.8% of the respondent companies. Perception, in this regard, seems to be at the same level when compared to 2003. The score is -2.26.

3.4 Human Resources: Disparity in Education and Healthcare Services Increases

Low quality of education is a major stumbling block in producing efficient human resources. Gender discrimination in the context of wages in the workplace, arbitrary determination of wages by individual companies, and poor quality of healthcare services for the low income group require immediate intervention by the government. The perception as regards failure of country's education system to produce graduates for meeting the need of the companies is worrisome.

- The top executives are unanimous as regards poor quality of public education system, the perception score is -1.97. The score of perception related to failure of the education system to meet the needs of competitive economy is -1.88. **The top executives are particularly concerned about poor quality of mathematics and science education, which are lagging behind other countries. The score of this perception is -1.29, which has declined from -1.14.** The top executives expressed their concern as regards the brain drain effect, the score for this indicator is also negative, -1.85. However, their level of satisfaction improved as regards the availability of scientists and engineers in the country, the score for this indicator has improved from -0.14 to +0.31.
- **The top executives are indifferent about the flexibility of hiring and firing of workers as determined by the employers. About 42% respondents stated that the hiring and firing of workers is flexibly determined by employers. The score for this indicator is closed to 0, -0.17. They are also reluctant as regards the labour-employer relationship, which is reflected through the score of 0.01. The scope for employing foreign employees is improving which is reflected through improvement of weighted response from -.028 to +0.02. However, low positive score indicates that there are still formidable barriers.**
- The employers satisfied at the level of wages which has been revealed through the improvement of the positive score to +1.24 from +1.10. However, their dissatisfaction is expressed as regards relation of wages to the productivity. The score for this indicator is -0.90.
- **As regards women's participation in economic activities 70.4% respondents stated that private sector employment of women is limited and they are usually offered relatively less important jobs. The situation is becoming worse which is reflected through the declining score, which fell to -0.94 from -0.84. Top business executives agree to a lesser extent (only 57.1%) that there is disparity between the wages for men and women for**

the same job. A negative score of -0.39 closer to 0 also supports this perception. The top executives are also divided on the matter that **Maternity laws are not a hindrance for hiring women employees. The score is near to 0, only 0.46. However, the top executives agree that government-provided childcare is non-existent or very limited. The score for this indicator fell significantly, from -1.33 to -2.16.**

- The majority of the top executives (93.8%) agree that **there is significant difference between quality of healthcare services provided to the rich and the poor in the country. The relative score deteriorated and stood at -2.47 in 2004 from -2.22 in 2003.**

3.5 Financial System: Mixed Signals

The perception survey outcome is mixed for the financial system. Some indicators have improved, whereas others deteriorated. The confidence and quality of corporate governance is still low, but showing gradual improvement. Top executives' confidence on stock market is also slowing improvement, although scores remain in the negative band. However, overall perception as regards ease of import is negative, in some cases perceptions have fallen.

- **Perception as regards the sophistication of the financial markets in terms of weighted response has deteriorated; it came down to -1.58 from -1.47. This perception is contrary to the progress on the ground in terms of automation processes introduced in the financial sector. Perception about difficulty in getting collateral free loan remains strong (-1.60), however, the extent of difficulties is reducing (-1.89). This perception tallies with improvement in perception about easiness in getting access to credit which has slightly improved, from -0.13 to +0.47. Although venture capital is not there at present in the country, perhaps thanks to the government's initiative related to EEF resulted in improved perception of the top business executives as regards access to fund for promising but risky projects. The score has slightly improved, from -1.84 to -1.72.**
- Enthusiasm related to raising money from capital market has increased among the entrepreneurs, which is a positive sign. The score was on rise from 1.19 to 1.22. The top executives are still in belief that insider trading is pervasive, however, such negative attitude is gradually being removed, which is revealed through improved score. The score is -0.89 in 2004, declined form -0.99 in 2003. The top executives are still not sure about the regulations of securities exchanges whether they are transparent, effective and independent of undue influence from industry and government. The weighted response -0.08, improved from -0.51.
- Although the top executives are sure about the pervasiveness of money laundering through formal banking channel (-0.34), their opinion as regards pervasiveness of money laundering through non-bank and informal financial channels is strong (-1.22). The scores are on improvement, might be due to some confidence building measures undertaken by the government.
- Companies are of opinion that the interests of minority share holders are not protected by law, with some degree of reluctance (-0.17). As reported by more than two-thirds of the respondents (71.3%) mergers and acquisitions,

particularly hostile takeovers, are rare and face serious legal impediments. This is not a healthy trend, they considered (-1.40). A steady 69.1% mentioned that foreign ownership of companies is prevalent and encouraged. This perception observed slight improvement (from +0.95 to +0.98). As regards laws governing bankruptcies, especially protection of creditor, more than 67% respondents expressed their concern that these are almost non-existent and poorly enforced (-1.06).

- **The companies have negative perception as regards hidden import barriers (-0.40). The top executives are split as regards perception about trade import barriers being damaging (-0.10). The score was -0.64 in 2003. This is an indication that business community is becoming pro-liberalisation. The 'pro-liberalisation' and export orientation is also revealed through the score of -1.37 (-1.22 in 2003) as regards perception that other country's import barriers are damaging. The top executives were critical about the domestic customs procedures because of their harmful nature (-1.32, in 2003 it was -1.13).**
- Lesser portion of the businessmen consider that rules governing FDI are beneficial to our business climate. The share of respondents was 72.6% in 2003, which was reduced to 64.5% in 2004.

3.6 Domestic Competition: Dominance of Few, Regional Disparity

The level of competition in the domestic market stays almost at the same level in 2004 as it was in 2003, however, the market is becoming more dominated by large market players. There is a positive trend in availability of backward linkage support from local sources, and such capacities are improving significantly in 2004.

- **As mentioned above, the level of competition in the domestic market did not change during the period. This is quite logical since the market is quite large and the businesses are diversified, and a significant change in the level of competition requires a large number of companies to enter into the business within very short period. However, the executives opined that the key industries are becoming more dominated by big market players, and such phenomenon is common in almost industries. The index value in this field decreased to -1.43 in 2004 from an earlier point of -1.22.**
- Quality consciousness of the buyers of the products is increasing, which is a sign of growing purchasing power and improved standard of living of the citizens. The index value in this field improved to -1.04 in 2004, while the corresponding value was -1.06 in 2003.
- The local backward linkage support of various companies is improving. More executives cited that local suppliers of products are more visible in 2004 than in 2003.
- The quality of services and technical capability of such local suppliers have also improved significantly. In 2003, a greater majority of the companies (68.8%) reported that the quality of the local suppliers had been poor, but in 2004, it came down to 53.6%. In this particular area, the corresponding index value improved significantly to -0.54 from an earlier level of -0.65.
- **The environment for fair competition has improved in 2004 compared to 2003; in 2004, a cumulative 54.9 percent of the companies expressed that**

the country has a lapse in anti-monopoly policy and is not effective, but the percent was significantly higher in 2003 (cumulative 66.2%).

- **Companies have become more dependent on imported machineries during the period, indicating Bangladesh's lack of capacity in manufacturing such items. A cumulative 93.2 percent of the companies reported that their process machineries are usually imported; it was 92.1 percent in 2003.** However, the capacity of the companies for specialised research and training services has improved during the period.
- **The quality of business environment is not distributed normally across various districts, and the distribution is becoming more skewed towards specific regions. In 2004, a cumulative 74.7 percent of the companies indicated that difference among country's various regions in the quality of the business environment are large and persistent, while the corresponding share was 71.8 percent in 2003.**

3.7 Company Operations and Strategy: Encouraging Signals among Traditional Corporate Governance

In general, in 2004 also, the operations and strategies of Bangladeshi companies can be characterised by their high dependence on low cost labour inputs and local resources, high dependence on foreign companies for technology transfer, low investment for human resource development and resource extraction, and the traditional style of management. However, there are some positive trends visible in locating new export markets, improving marketing capacity, and greater accountability in management structure.

- **The sensitivity of low cost labour inputs and local resources on the competitiveness of Bangladeshi companies increased in 2004 compared to 2003. The index, in this area, went down to -2.01 in 2004 from -1.86 in 2003, indicating greater dependence of Bangladeshi firms on such low cost inputs.**
- **The perception is also supported by the fact that, in 2004, companies are investing less in capital intensive and technology based industries, and the companies which have access to the improved technologies are using those either through foreign licenses or imitating foreign companies. Fewer efforts are visible in utilising indigenous capacities to improve technologies from own sources.**
- **Export-oriented companies are primarily involved with resource extraction or production; the domestic market-oriented companies are putting less effort in these areas. The corresponding index value decreased to -1.33 from an earlier point of -1.05, indicating that the perceptive share of export-oriented companies in the areas of resource extraction and production increased during the period.**
- **There is less delegation of the responsibility to the domestic companies for marketing and distributing international products, meaning foreign companies are becoming less confident about the management capacity of Bangladeshi companies. In 2004, the index value is -1.20, while the corresponding value was -1.17 in 2003.**
- **The traditional approach of management continues to persist, and there**

are less efforts in 2004 compared to 2003 to train and develop human resources by Bangladeshi companies.

- **Although the capacity for marketing products has improved in 2004 compared to 2003, and there was more success in locating new destinations for exporting Bangladeshi products, export to regional countries is still limited.**
- **There is also an improved trend in corporate governance where the management of the sample companies are becoming more accountable to the investors and board of directors.**

3.8 Technology: Confusing Public Policy and Unenthusiastic Corporate Sector

Technological backwardness of the country is severe and the top executives' perception that country's technology lags behind most other countries improved very insignificantly, the weighted score for this indicator changed form -1.72 of 2003 to -1.59 in 2004. The perception of top executives of the corporate world has changed in 2004 over 2003 in a statistically significant manner for two indicators. The perception that Bangladeshi companies are not able to absorb new technology got stronger in 2004 over 2003. The weighted response has shifted sign from +0.33 to -0.24. The number of respondents to this opinion has increased from 33% to 45%. Opinion as regards success of the government programme in promoting use of the ICT improved in a statistically significant manner, from -1.09 to -0.88. Relatively lesser number of respondents (from 74.1% to 64.6%) thinks that the government's efforts in this regard are not adequate. However, the negative perception is prevailing with majority of the respondents.

- The perception of the top executive shows the dismal situation of R&D in the country. Majority of the companies (60% in 2003 and 66.7% in 2004) are of opinion that there is no scientific research in the country. The top executives also provide the answer why such situation prevails. Opinion of the top executives becomes stronger over the year (weighted response was -1.62 in 2003 and -1.8 in 2004) that companies do not spend money on R&D. As a reason why the companies do not invest in R&D, the top executive mentioned that for firms conducting R&D direct government subsidies or R&D tax credit never occurs. The perception in the regard remained unchanged (-2.11 in 2003 and -2.0 in 2004). **The majority of the top executives (86.6% in 2003 and 88.6% in 2004) opined that the reason behind such poor condition of R&D is the absence of collaboration between the companies and the local universities. The weighted response for this factor was -2.09 in 2003, which has slightly improved to -1.81 in 2004. Absence of scientific research institutions has also been mentioned as a major cause for lack of R&D in the country.**
- **The opinion as regards the role of FDI as an important source of new technology is almost equally divided. Less than 60% of the respondents believe that FDI is an important source of new technology. The ambivalent nature of the response is becoming more evident in 2004 compared to 2003. The weighted response for this factor was reduced from +0.57 in 2003 to +0.20 in 2004. The same ambivalence is also revealed with respect to licensing of foreign technology in Bangladesh, albeit with a negative score (-.08 in 2003 and -0.41 in 2004).**

- About 70% respondents shared the view that government decision for procurement of advanced technology products is based solely on price, which does not help in receiving advanced technology. The weighted score for this indicator has been improved between 2003 and 2004, from -1.31 to 1.13.
- **The faith in the government according topmost priority to the ICT sector is suffering erosion; this is indicated by the weighted response score which has declined from +0.78 to 0.43. Only about 55% respondent companies believe the government does give highest priority to the ICT sector. Majority (84.5%) of the companies are complaining about the absence of laws relating to ICT (electronic commerce, digital signatures, consumer protection)**
- The perception as regards sufficient competition among internet service providers in the country (to ensure high quality, infrequent interruptions and low prices) is still negative, but improving slowly (-0.9 in 2003 to -.02 in 2004).

3.9 Environmental Policy: Inefficient Regime, Standards are Considered Barrier

The Executive Opinion Survey indicates that the Government's concern on environmental issues declined in 2004. More respondents are in view that Bangladesh does not maintain environmental regulations in a standard, which can be compared with other countries.

- **Perception on environmental standards tilted towards more negative trend in 2004 compared to 2003, indicating a lack of satisfaction over Government's dealing with such issues. The scale was -1.09 in 2003, while it went down to -1.18 in 2004.**

- **The frequency of change in Government environmental regulations and standards is higher in 2004 compared to 2003 (index value is -1.39 in 2004 compared to -0.72 in 2003). <u>According to the survey such erratic changes in policies are affecting businesses and their competitiveness in a more significant manner in 2004 compared to 2003</u>. The index is -0.32 in 2004, while the corresponding value was -0.23 in 2003. Executives opined that the environmental gains are obtained through means other than legal measures. The perception as regards this particular question declined more in 2004 compared to 2003.**

3.10 International Institutions: Increased Concentration Towards Pro-Private Sector Development

The respondents also provided their opinions on the role of some international financial institutions (IFIs) (i.e. the *World Bank, International Monetary Fund and Asian Development Bank*) working in Bangladesh. The role of the IFIs was assessed in the context of (i) Promoting a pro-private sector development/pro-investment climate and (ii) Promoting a socio-economic development and poverty alleviation. It may be noted that in all three cases, a large majority of the respondents either had very low opinion or were unaware about the effectiveness of these institutions.

However, according to the respondents, amongst the three, ADB (41.3%) is relatively more effective followed by the World Bank (40.9%) and the IMF (37.3%).

IV. COMPETITIVENESS ENVIRONMENT IN BANGLADESH: IDENTIFICATION OF THE LEAD FACTORS

In 2004, most of the respondents cited **corruption** as the most lead determining factor that is affecting the business environment. The descending order of top five lead determining factors, as reported by the respondents (see Table 2 & Figure 1), are as follows:

1. Corruption
2. Inefficient Government Bureaucracy
3. Crime & Theft
4. Inadequate supply of infrastructure
5. Access to Financing

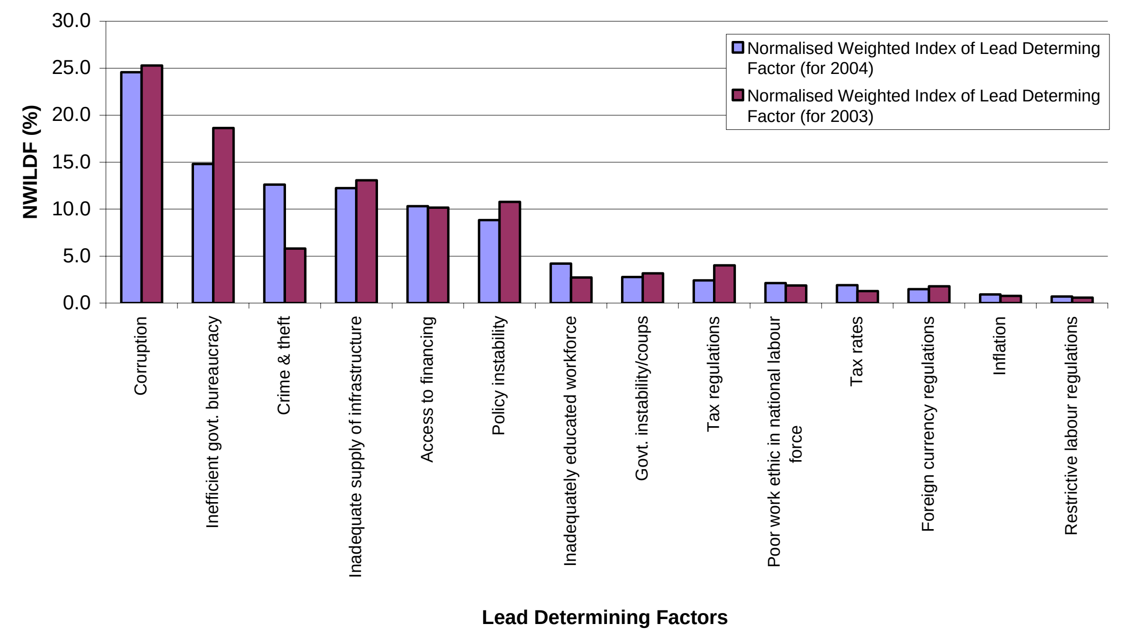
TABLE 2

LEAD DETERMINING FACTORS OF COMPETITIVENESS ENVIRONMENT IN BANGLADESH

Rank	Lead Determining Factors in 2004	Lead Determining Factors in 2003
1	Corruption (24.6)	Corruption (25.3)
2	Inefficient govt. bureaucracy (14.8)	Inefficient govt. bureaucracy (18.6)
3	Crime & theft (12.6)	Inadequate supply of infrastructure (13.1)
4	Inadequate supply of infrastructure (12.3)	Policy instability (10.8)
5	Access to financing (10.3)	Access to financing (10.2)
6	Policy instability(8.8)	Crime & theft (5.8)
7	Inadequately educated workforce (4.2)	Tax regulations (4.0)
8	Govt. instability/coups (2.8)	Govt. instability/coups (3.2)
9	Tax regulations (2.4)	Inadequately educated workforce (2.7)
10	Poor work ethic in national labour force (2.1)	Poor work ethic in national labour force (1.9)
11	Tax rates (1.9)	Foreign currency regulations (1.8)
12	Foreign currency regulations (1.5)	Tax rates (1.3)
13	Inflation (0.9)	Inflation (0.8)
14	Restrictive labour regulations (0.7)	Restrictive labour regulations (0.6)

Note: Figures in parentheses represent the Normalised Weighted Index Value of the Lead Determining Factors (NWILDF)

Figure 1: Lead Determining Factors for Doing Business in Bangladesh: 2004 vis-a-vis 2003



- The order has been changed slightly from last year's order. In 2003, the corresponding order was: Corruption, Inefficient Government Bureaucracy, Inadequate Supply of Infrastructure, Policy Instability, and Access to Financing.
- **The weighted average index of *Corruption* is 24.6 in 2004. It is to be noted that corruption was cited as the most important determining factor in 2003 as well; however, the index value was somewhat higher at -25.3.**
- *Inefficient Government Bureaucracy* is cited as the second most lead determining factor with the index value of 14.8. Last year, the rank of the factor was also the same, but the index value was 18.6.
- **This year, *Crime & Theft* is ranked third with an index value of 12.6. Last year, it was ranked 6th. The index value was only 5.8 in 2003. Consequently, according to the respondents, Crime & Theft is affecting the business more than it was the case in 2003.**
- Inadequate Supply of Infrastructure is positioned 4th with the index value of 12.3. Last year, its position was also the same with the corresponding value of 13.1.
- ***Inadequately educated workforce*** has appeared as one of the most significant second order lead factors; this indicator has moved up to the 7th position with index value of 4.2 in 2004, from the 9th position with index value of 2.7 in 2003.
- In 2004 also, *Access to Financing* is ranked 5th with the index value of 10.3. Last year the corresponding value was 10.2.
- **Last year, *Policy Instability* was cited as the 4th major lead determining factor; however, this year it is ranked 6th. It seems that respondents perceive that the policy environment has improved during the period.**

V. PERFORMANCE AND GROWTH PROSPECT: CURRENT ISSUES[2]

5.1 Economic Performance: High Optimism, Though With Caution

Optimism of the top executives as regards the strong economic growth significantly increased in 2004 as compared to 2003. **More than half of the total respondents (56.6%) were of the opinion that the country's economy will have a strong growth in the following 12 months. Last year, only 17.3% respondents had such view.** The weighted response score changed its sign from -0.89 in 2003 to +0.42 in 2004. However, considering the highest score of 3, this optimism can be considered as cautious. The cautious note is further indicated by the perception of the entrepreneurs as regards the threat of terrorism, which imposes significant costs on business. An overwhelming majority of 64.6% of the companies felt apprehension about the impact of threat of terrorism costs of business. Comparing to the previous year's findings, this is an increase by about 10%. This score was -0.28 in 2003, which slided down further to -0.70 in 2004.

5.2 Assessing the Investment, Employment, Production and Export Situation

In view of the conflicting signals emanating from the investment and employment scenario, CPD undertook a limited survey of large scale entrepreneurs to assess their production performance.

The findings of the survey reveals that the investment employment, production and export situation had been better in first three quarters of FY04, in comparison to FY03.

On investment, almost half of the respondents (49.60 percent) mentioned that they have expanded their base in FY03, whilst this share increased to 54.70 percent in FY04. More importantly, a little over 20 percent of the respondents admitted to investing in new businesses during FY03 and FY04 (Table 3).

TABLE 3
PERCEPTION ON INVESTMENT SITUATION

Survey Question	Expanded Existing Business		No New Investment		Invested in New Business	
	July' 02 - June' 03	July' 03 - March' 04	July' 02 - June' 03	July' 03 – March' 04	July' 02 - June' 03	July' 03 - March' 04
	(In per cent)		(In per cent)		(In per cent)	
Investment situation of your company	49.60 (R-85)	54.70 (R-86)	25.10 (R-85)	24.60 (R-86)	21.50 (R-85)	20.70 R-86)

Note: Figures in the parentheses indicates the number of respondent.

In case of employment about 57.30 percent of the respondents reported that they had hired more people in FY03. The matching share was, 65.00 percent in FY04. The share of enterprises experiencing labour retrenchment was less than 10 percent in both the years.

[2] Based on CPD's rapid perception survey

In the same vein, 66.5 percent in FY03 and about 68.50 percent in FY04 of respondents mentioned that they have increased their volume of production (Table 4)**.**

Finally, about 43.5 percent of export-oriented respondent entrepreneurs in FY03 and FY04 respectively achieved higher export growth.

TABLE 4
VOLUME OF PRODUCTION, EXPORT SITUATION AND EMPLOYEE SITUATION

(in per cent)

Survey questions	Increased		Decreased		Unchanged	
	July' 02 - June' 03	July' 03 – March' 04	July' 02 - June' 03	July' 03 - March' 04	July' 02 - June' 03	July' 03 - March' 04
State of volume of production of your company	66.50 (R- 85)	68.50 (R- 86)	5.10 (R- 85)	7.50 (R- 86)	28.40 (R- 85)	24.00 (R- 86)
Export situation of your company	65.10 (R- 43)	72.72 (R- 44)	16.27 (R- 43)	11.36 (R- 44)	18.60 (R- 43)	15.90 (R-44)
Total number of employees	57.30 (R-85)	65.00 (R-86)	6.30 (R-85)	8.60 (R-86)	36.50 (R-85)	26.40 (R-86)

Note: Figures in the parentheses indicate the number of respondents.

5.3 Effect of Declining Interest Rate

The government resorted to vigorous “moral suasion” in FY04 in order to bring down the lending rate of bank loans. CPD undertook a rapid perception survey regarding the realised benefits of the declining rate of interest (lending) in the banks in terms of production cost. This was implemented during April 22, 2004-May 17, 2004 among a group of more than 90 entrepreneurs with fixed assets ranging above Tk 10 crores.

Analysis of the responses (Table 5) revealed that 36 percent of the respondents acknowledged that during FY03 the reduction in the rate of interest (lending) has benefited their companies in terms of reduced production costs. This trend in responses sharply increase in FY04 (July 2003-March 2004) to 62.3 percent. This implies that in FY04 an overwhelming majority of the enterprises enjoyed the benefits of a fall in interest rates. However, it is also true, as suggested by the survey, that a large section of the entrepreneurs (about 38 percent) are yet to receive such benefits.

TABLE 5
EFFECT OF DECLINING INTEREST RATE

(in per cent)

Survey question	Yes		No	
	July' 02 - June' 03	July' 03 - March' 04	July' 02 - June' 03	July' 03 - March' 04
Declining rate on interest (lending) in the banks benefit you in terms of production cost	36.00 (R-83)	62.30 (R-85)	64.00 (R- 81)	37.70 (R- 86)

Note: Figures in the parentheses indicate the number of respondents.

5.4 Effect of Rising Inflation

With view to asses the perception of the enterprises regarding the effect of the rising trend of inflation on production cost, a questionnaire based survey was carried out by CPD among a group of entrepreneurs with fixed assets ranging above Tk. 10 crores. The survey was implemented during April 22, 2004 – May 17, 2004 with more than 90 valid respondents.

Analysis of the responses revealed that almost half of the respondents (48.3 percent) felt that the rising trend of inflation affected their companies' production costs during FY03. This trend in responses further increased in FY04 (July 2003-March 2004), as 55 percent of respondents maintained that the present rate of inflation is affecting their production costs. This increasing trend between the two periods of time coincides with the matching rise in the inflation rate. The respondents who reported that they are immune from the impact of the price rise largely belonged to the export oriented clothing sector.

TABLE 6
EFFECT OF RISING INFLATION

Survey question	Yes		No	
	July' 02 - June' 03	July' 03 - March' 04	July' 02 - June' 03	July' 03 - March' 04
Did rising trend of inflation affect your production cost during the following periods?	48.30 (R-83)	55.00 (R-84)	51.70 (R- 81)	45.00 (R- 87)

Note: Figures in the parentheses indicate the number of respondents.

5.5 Are the NRBs Investing in Bangladesh?

The perception as regards incidences of investment in Bangladesh by the NRBs becomes stronger. While 54.9 per cent of the respondents opined that NRBs invested in the country in 2003, a large portion of them (72.6 per cent) validated investment by NRBs in the country in 2004. Interestingly the dissenting view has also become stronger, the share has increased from 20 per cent to 27.4 per cent.

According to the top executives majority of the investment is coming into the real estate and housing (32.79%), which is followed by RMG and textile (19.67%) and hotels and restaurant (9.84%). Among other major investment sectors, amusement park (8.20%), information and communication technology (8.20%), bank and insurance (4.92%) are mention worthy. Other than these sectors some investments go to medical services, stock markets, trading houses, transportation, oil and gas, drinking water, cricks making and telecom.

While the perception is becoming stronger, it would be interesting to investigate the magnitude of such investments by the NRBs.

5.6 Are the Bangladeshis Investing Abroad?

Whilst it is well known from anecdotal information that some NRBs are investing in Bangladesh, the recognition of the fact that Bangladeshis are also finding investment opportunities abroad came as a surprise during the last year's survey. About 39.2 per cent of the respondents pleaded ignorance as regards incidence of investment abroad by Bangladeshis in 2003. This share has been reduced in 2004 to 30.2 per cent for 2004. On the other hand, the share of respondents perceiving incidence of investment abroad by Bangladeshis increased from 42.7 per cent to 69.8 per cent. This may be a revelation to the policy makers in terms of undertaking relevant policy measures to regulate such investment. If true, such trend may have two alternative interpretations: *one*, due to negative investment climate within the country, Bangladeshi investors are moving abroad with their capital; *two*, the domestic businesses are now mature enough to go abroad with investment and face international competition.

Interestingly the sectors of investment by the Bangladeshis are largely the same as the NRBs. The top three investment sectors chosen by the Bangladeshis are the same that were chosen by the NRBs. The sectors are: real estate and housing (30.77%), RMG and textile (20.51%), hotels and restaurant (17.51%). Other sectors are bank and stock market (15.38%), services, food processing and manpower export.