

Release of  
Global Competitiveness Report 2005-2006  
and  
Bangladesh's Competitiveness Environment Study 2005



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

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## I. INTRODUCTION

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



## I. INTRODUCTION *(contd.)*

Major objectives of the Press Briefing are:

- To launch the *Global Competitiveness Report 2005-06* which is being globally launched on September 28, 2005 and to report on Bangladesh's relative ranking in the global context
- To report on the detailed findings of the CPD study on *Competitive Business Environment in Bangladesh in 2005*
- To report on findings of the CPD's *Rapid Perception Survey* as regards Bangladesh's economic performance and growth prospects



## II. OBJECTIVES, SCOPE AND COVERAGE OF CPD SURVEY

### Objectives

- To elicit information on competitiveness environment in the country for identifying major bottlenecks and impediments which constrain proper functioning of the business sector of the country
- To generate information on positive achievements of the country in terms of the trends in the economy with respect to competitive environment for trade and investment
- To understand intertemporal changes in competitiveness environment as opined by the executives of the companies based on GCR 2005-06 and GCR 2004-05
- To provide inputs to the policymakers and stakeholders in their efforts to prioritise the areas for improving economic governance in the country through focused initiative

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

### Issues Dealt with in the Survey

- Government and Public Sector
- Quality of Services Provided by Public Institutions
- Infrastructure
- Technology
- State of Human Resource
- Financial System
- Domestic Competition
- Company Operation and Strategy
- Environmental Policy
- Macroeconomic Stability
- Growth Prospect and Current Issues

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

### Coverage of CPD Perception Survey

Sectors	Companies	
	2005	2004
Manufacturing	46 (49%)	48 (48%)
Financial Institution	13 (15%)	12 (12%)
Real Estates & Construction	7 (7%)	15 (15%)
ICT	8 (9%)	8 (8%)
Transport & Engineering	7 (7%)	9 (9%)
Others	12 (13%)	8 (8%)
Total	93 (100%)	100 (100%)

#### *Survey Period:*

2004: April-May

2005: February-April

#### *Spatial Distribution:*

2004: 90 (90%)  
companies located in  
Dhaka

2005: 84 (90%)  
companies located in  
Dhaka



### III. METHODOLOGY

#### Survey Design

- The survey was designed to cover relatively large companies i.e. those having total assets of no less than Tk.10 crores (Tk.100 million). Number of respondents was 93 in 2005 (100 in 2004).
- Geographical distribution of companies shows very high concentration in Dhaka (84 companies).
- Sectoral distribution of companies shows that 49% respondents were from manufacturing sector, 15% from financial institutions, 9% from ICT, 7% from real estate and construction 7% from transport and engineering and the rest 13% from other sectors.
- The structure of ownership of businesses shows prominent presence of domestic entrepreneurs: about 75% companies are owned by domestic entrepreneurs.



### III. METHODOLOGY *(contd.)*

#### Statistical Techniques

- *Executive Opinion Survey* basically relates to qualitative data:
  - The three positive response levels (completely agree, largely agree and somewhat agree) and three negative perceptions (completely disagree, largely disagree and somewhat disagree) were clustered into two groups
- The analysis has been performed by employing two statistical techniques:
  - frequency analysis of the responses
  - application of weighted index for each of the questions
- Frequency distribution of these three response levels have been calculated, 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 limitations, a weighted frequency analysis method has been employed.



### III. METHODOLOGY (contd.)

#### Grouping of Average Weighted Response

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

Different weighted responses are clustered into six groups:

- a) *Worst*: (-3.0 to -2.01); b) *Worse*: (-2.0 to -1.01); c) *Bad*: (-1.0 to -0.01)
- d) *Good*: (+0.01 to +1.0); b) *Better*: (+1.01 to +2.0); c) *Best*: (+2.01 to +3.0)



## IV. GLOBAL COMPETITIVENESS REPORT 2005-2006

- GCR deals with two broad indicators, namely the *Growth Competitiveness Index* (GCI) and the *Business Competitiveness Index* (BCI).
  - GCI analyses the potential of the world's economies to attain sustained economic growth over the medium and long term. The index is anchored on three central components:
    - *macroeconomic environment*
    - *quality of public institutions*
    - *technology*
  - BCI tries to identify the factors that underpin high current productivity. Major components are:
    - sophistication and company operations and strategy
    - quality of business environment

## IV. GLOBAL COMPETITIVENESS REPORT 2005-2006 *(contd.)*

### Bangladesh in the Global Ranking

Indices	GCI 2004	GCI 2005
GCI Rank	102	110
<i>Technology Index</i>	<i>100</i>	<i>101</i>
Innovation sub-index	95	105
ICT sub-index	101	112
Technology transfer sub-index	58	59
<i>Public Institutions Index</i>	<i>104</i>	<i>117</i>
Contracts and law sub-index	97	104
Corruption sub-index	104	117
<i>Macroeconomic Environment Index</i>	<i>74</i>	<i>83</i>
Macroeconomic stability sub-index	62	67
Country credit rating	79	86
Government expenditure/waste	75	85

- In GCR 2005-2006, a total of 117 countries have been assessed, while the number of countries in 2004 was 104.
- Bangladesh has been experiencing a deteriorating trend in her ranking from both GCI and BCI perspectives. Compared to the ranking of 2004 (102 out of 104 countries), Bangladesh has experienced further deterioration in 2005 (110 out of 117 countries).
- Comparing with the same set of countries which was covered by 2004 GCR Survey, Bangladesh's ranking would change only marginally in 2005 (101) when compared to 2004 (102). This would also indicate that many new entrants to the survey were better placed than Bangladesh (e.g. Mongolia, East Timor, Tajikistan).

## IV. GLOBAL COMPETITIVENESS REPORT 2005-2006 (contd.)

### Change in Bangladesh's GCI Scores: 2005 vs 2004

	2004	2005	% change
GCI Score	2.84	2.86	0.70
<i>Technology Index</i>	<i>2.62</i>	<i>2.60</i>	<i>-0.76</i>
Innovation subindex	1.57	1.61	2.55
ICT subindex	1.81	1.73	-4.42
Technology transfer subindex	4.05	4.10	1.23
<i>Public Institutions Index</i>	<i>2.47</i>	<i>2.55</i>	<i>3.24</i>
Contracts and law subindex	2.76	2.88	4.35
Corruption subindex	2.19	2.22	1.37
<i>Macroeconomic Environment Index</i>	<i>3.42</i>	<i>3.43</i>	<i>0.29</i>
Macroeconomic stability subindex	4.27	4.36	2.11
Country credit rating	2.42	2.30	-4.96
Government expenditure/waste	2.72	2.68	-1.47

- Though overall ranking has remained more or less the same, scores attained by Bangladesh with respect to two main components, i.e. Public Institution Index and Macroeconomic Environment Index showed marginal absolute improvement whilst as regard Technology Index there was some deterioration in the index.
- Interestingly, in case of Public Institution Index both sub-index show some improvements, which in case of Macroeconomic Environment Index, only one out of three sub-index show some positive change. Country credit rating has, however, deteriorated.



## VI. BUSINESS COMPETITIVENESS ENVIRONMENT 2005

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

Level	2004	2005
Worst (-2.01 to -3.00)	1. Public trust in the financial honesty of politicians is very low (98%)	1. Public trust in the financial honesty of politicians is very low (95.6%)
Worse (-1.01 to -2.00)	2. When deciding upon policies & contracts, govt. officials usually favor well connected firms and individual (91.0%) 3. Administrative regulations issued by central govt. in the country is burdensome (87.6%) 4. National Parliament is very ineffective as a law-making & oversight institution (79.8%) 5. The composition of public spending in the country is wasteful (78.1%) 6. Country's tax system is highly complex (73.7%)	2. When deciding upon policies & contracts, govt. officials usually favor well connected firms and individual (90.3%) 3. Administrative regulations issued by central govt. in the country is burdensome (80.7%) 4. National Parliament is very ineffective as a law-making & oversight institution (73.9%) 5. The composition of public spending in the country is wasteful (72.7%) 6. Country's tax system is highly complex (74.2%)
Bad (-0.01 to -1.00)	7. The level of taxes in the country significantly limits the incentives to work or invest (56.6%)	7. The level of taxes in the country significantly limits the incentives to work or invest. (53.8%) 8. Current government agricultural policy is excessively burdensome for the economy (42%) ▼
Good (0.01 to 1.00)	8. Agricultural policy in the country balances the interests of taxpayers, consumers and producers (41.7%)	

- There were some interesting shifts in the composition of the various blocs and also in the relative percentage in the response; however, the “worse” scenario for the majority of indicators prevailed.
- In terms of cumbersomeness of administrative reforms, and effectiveness of national parliament, although the overall perception continued to remain overwhelmingly negative, the survey demonstrated some improvement in the opinion of the respondents.
- Public Spending: Overall composition of public spending is wasteful; situation unchanged.
- Grafts: situation has further deteriorated
- Public trust in the financial honesty of politicians: Still very low but slightly improved situation in 2005; this continuing low level of perception is disturbing since it cuts across the political spectrum.
- Agriculture Policy: It was downgraded from good (2004) to worse (2005).



## Public Institutions: Disparaging Low Level with Some Mixed Signals

Level	2004	2005
Worst (-2.01 to -3.00)	<ol style="list-style-type: none"> <li>1. Economic Policy making in the country is centralized-national government controls almost all important decisions (90.9%)</li> <li>2. Police service cannot be relied upon to protect the businesses from criminals (93.9%)</li> <li>3. Firms make undocumented extra payments or bribes connected with the awarding of public contracts (93.5%)</li> <li>4. Firms make undocumented extra payments or bribes in connection to public utilities (e.g telephone or electricity) (91.8%)</li> <li>5. Firms make undocumented extra payments or bribes connected with annual tax payments (89.7%)</li> </ol>	<ol style="list-style-type: none"> <li>1. Economic Policy making in the country is centralized-national government controls almost all important decisions (92.4%)</li> </ol>
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> <li>6. Intellectual property protection in the country is weak or non existent (87.8%)</li> <li>7. Incidence of common crime &amp; violence imposes significant costs on businesses (88.9%)</li> <li>8. Diversion of public funds to companies, individuals or groups due to corruption (88.4%)</li> <li>9. A legal frame work in the country for private businesses to settle disputes and challenge the legality of government actions or regulations is inefficient and subject to manipulations (86.9%)</li> <li>10. Firms make undocumented extra payments or bribes connected with import &amp; export permits (79.4%)</li> <li>11. The judiciary of the country is not independent from political influences of members of government citizens or firms (78.6%)</li> <li>12. Organized crime imposes significant costs on businesses in the country (78.6%)</li> </ol>	<ol style="list-style-type: none"> <li>2. Police service cannot be relied upon to protect the businesses from criminals (87.1%) ▲</li> <li>3. Firms make undocumented extra payments or bribes connected with the awarding of public contracts (86.2%) ▲</li> <li>4. Firms make undocumented extra payments or bribes in connection to public utilities (e.g telephone or electricity) (89.1%) ▲</li> <li>5. Firms make undocumented extra payments or bribes connected with annual tax payments (87.8%) ▲</li> <li>6. Intellectual property protection in the country is weak or non existent (88.9%)</li> <li>7. Incidence of Common crime &amp; violence imposes significant costs on businesses (75%)</li> <li>8. Diversion of public funds to companies, individuals or groups due to corruption (88.2%)</li> <li>9. A legal frame work in the country for private businesses to settle disputes and challenge the legality of government actions or regulations is inefficient and subject to manipulations (77.4%)</li> <li>10. Firms make undocumented extra payments or bribes connected with import &amp; export permits (83.7%)</li> <li>11. The judiciary of the country is not independent from political influences of members of government citizens or firms (76%)</li> <li>13. Other firms illegal payments to influence govt. policies, laws or regulations impose costs or otherwise have large impact in distorting competition (73.9%) ▼</li> </ol>

- In terms of reliability of police service, awarding of public contracts, access to public utilities, there were some improvements.
- In terms of illegal payments to influence government policies, laws, regulations, and diversion of public funds to companies, the situation has deteriorated (-0.68 to -1.22 in case of the first and -1.68 to -1.77 in case of the second).
- There was tangible improvement in terms of incidence of common crime and violence; weighted average improved from -1.68 (in 2004) to -1.27 (in 2005): Is it because of RAB?



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

Level	2004	2005
Bad (-0.01 to -1.00)	13. Other firms illegal payments to influence govt. policies, laws or regulations impose costs or otherwise have large impact in distorting competition (58.9%) 14. Property rights including over financial assets are poorly defined and not protected by law (62.2%)	12. Organized crime imposes significant costs on businesses in the country (68.5) ▲ 14. Property rights including over financial assets are poorly defined and not protected by law (50%)
Good (0.01 to 1.00)		15. Newspapers can publish stories of their choosing without fear of censorship or retaliation. (65.6%)
Better (1.01 to 2.00)	15. Newspapers can publish stories of their choosing without fear of censorship or retaliation. (69.7%)	

- Public institution index of GCR: Bangladesh lies at the bottom of the list (ranked 117)
- Freedom of press: Ability to publish/broadcast without fear of censorship or retaliation has slid from Better to Good.
- Incidence of common crime and organised crime (mafia-oriented racketeering, extortion) imposes significant costs on business: Situation marginally improved in 2005 (due to introduction of special police force by the governments?)
- Reliability of police service: At very low levels, but with a moderate improvement in 2005 (from -2.21 in 2004 to -1.75 in 2005)
- Level of decentralisation in economic policy-making: Quite disappointing (92.4%)
- Judiciary system: Heavily influenced by political interference (76%)

## Infrastructure: Dearth of Supply and Low Quality

Level	2004	2005
Worst (-2.01 to -3.00)	1. Internet access in school is very limited (91.8%) 2. Quality of electricity supply in the country is worse than in much other country ((94.8%)	1. Internet access in school is very limited (90.3%)
Worse (-1.01 to -2.00)	3. New telephone lines are scarce and difficult to obtain (86.7%) 4. General infrastructure is poorly developed and inefficient (83.7%) 5. Rail roads are underdeveloped (86.7%) 6. Port facilities & inland waterways are underdeveloped (82.7%) 7. Postal system is not at all trusted to have a friend mail a small package worth US\$ 100	2. Quality of electricity supply in the country is worse than in many other country (88.1%) ▲ 3. New telephone lines are scarce and difficult to obtain (87.2%) 4. General infrastructure is poorly developed and inefficient (80.6%) 5. Rail roads are underdeveloped (86%) 6. Port facilities & inland waterways are underdeveloped (84.9%) 7. Postal system is not at all trusted to have a friend mail a small package worth US\$ 100.
Bad (-0.01 to -1.00)	8. Passenger's air transport is infrequent and inefficient (64.3%)	8. Passengers air transport is infrequent and inefficient (72.1%) ▼
Better (1.01 to 2.00)	9. Mobile or cellular telephones are accessible and affordable as in the worlds most technologically advanced countries (91.8%)	9. Mobile or cellular telephones are accessible and affordable as in the worlds most technologically advanced countries (91.4%)

- Mobile or cellular telephones are accessible and affordable as in the world's most technologically advanced countries (91.4%)
- Passenger's air transport: infrequent and inefficient; ; further deteriorated in 2005 (-0.83 in 2004 to -0.95 in 2005); recent air crafts accidents in different parts.
- Poor quality of electricity supply: Marginally improved in 2005 (94.8% in 2004 and 88% in 2005). Private supply?
- Undeveloped rail, road, port facilities and inland water ways: Still highly underdeveloped but marginal improvement in 2005 (perhaps due to such initiatives as one stop service at port, and new road infrastructure)
- Obtaining new telephone lines are scarce and difficult: marginally improved due to introduction of new private telephone operators
- Limited access to internet in school: Unchanged perception, at very low level



## Human Resources: Lack of Infrastructural Facilities and Continuation of Brain Drain

Level	2004	2005
Worst (-2.01 to -3.00)	1. In the country, government-provided childcare is non existent or very limited (92.8%)	1. In the country, government-provided childcare is non existent or very limited (92.5%)
Worse (-1.01 to -2.00)	2. Quality of the public school are poor (93.9%) 3. The educational system of the country does not meet the needs of a competitive economy (86.7%) 4. Country's talented people normally leave to opportunities in other countries (89.8%) 5. Math & science education in schools lags far behind most other countries (68.4%)	2. Quality of the public school are poor (90.3%) 3. The educational system of the country does not meet the needs of a competitive economy (84.9%) 4. Country's talented people normally leave to opportunities in other countries (90.4%)
Bad (-0.01 to -1.00)	6. Private sector employment of women is limited and usually takes places in less important jobs 7. Pay is not related to worker productivity (60.6%) 8. In the country, for similar work, wages for women are significantly below those of men (57.1%) 9. Hiring & firing of workers are somewhat flexibly determined by employers (42.4%)	5. Math & science education in schools lags far behind most other countries (67.7%) ▲ 6. Private sector employment of women is limited and usually takes places in less important jobs 7. Pay is not related to worker productivity (61.3%) 8. In the country, for similar work, wages for women are significantly below those of men (57%) 11. Labor regulation in the country prevent company from employing foreign labor (55%) ▼
Good (0.01 to 1.00)	10. Labor-employer relations are cooperative (43%) 11. Labor regulation in the country prevent company from employing foreign labor (50%) 12. Scientists & engineers are widely available (62.2%) 13. In the country, maternity laws are not a hindrance of hiring women (53.7%)	9. Hiring & firing of workers are somewhat flexibly determined by employers (40.9%) ▲ 10. Labor-employer relations are cooperative (49.5%) 12. Scientists & engineers are widely available (52.2%) 13. In the country, maternity laws are not a hindrance of hiring women (52.8%)
Better (1.01 to 2.00)	14. Wages are up to each individual company (80.6%)	14. Wages are up to each individual company (74.2%)

- Math & science education: Still lagging behind but marginal improvement in 2005 (math Olympiad and other initiatives)
- Brain drain effect: Continuing; further intensified in 2005
- Cooperative labour-employer relation: Improved situation in 2005 (opined by 50% respondents)
- Gender discrimination in the context of wages in the workplace and scope and context of jobs, arbitrary determination of wages by individual companies: Still continuing
- Poor quality of public school: opined by 90.3% respondents, fails to meet the needs of competitiveness economy (84.9%)
- Labor regulation in the country prevent company from employing foreign labor: Falling perception



# Technology: Backward in ICT

Level	2004	2005
Worst (-2.01 to -3.00)		3. Laws relating to information technology are non existent
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> <li>In its R&amp;D activity, business collaboration with local universities is minimal or non existent (86.6%)</li> <li>Companies do not spend money for research and development (88.8%)</li> <li>Laws relating to information technology are non existing (84.5%)</li> <li>The country's level of technological readiness generally lags behind most other countries (85.9%)</li> <li>Govt. purchase decisions for procurement of advanced technology products are based solely on price (69.8%)</li> </ol>	<ol style="list-style-type: none"> <li>In its R&amp;D activity, business collaboration with local universities is minimal or non existent (83.8%)</li> <li>Companies do not spend money for research and development (82.8%)</li> <li>4. The country's level of technological readiness generally lags behind most other countries (86%)</li> <li>13. The Presence of ICT in government offices in the country are rare (79.6%)</li> <li>14. The ICT use of the government has not increased productivity in the country (72.2%)</li> </ol>
Bad (-0.01 to -1.00)	<ol style="list-style-type: none"> <li>6. Scientific research institution in the country is non existent (66.7%)</li> <li>7. Govt. programmes promoting the use of ICT are not very successful (64.6%)</li> <li>8. Licensing of foreign technology is uncommon (51.0%)</li> <li>9. The companies in the country are able to absorb new technology (45.5%)</li> <li>10. There is sufficient competition among ISP in the country to ensure high quality, infrequent interruptions &amp; low prices (46.9%)</li> </ol>	<ol style="list-style-type: none"> <li>5. Govt. purchase decisions for procurement of advanced technology products are based solely on price (57.9%) ▲</li> <li>6. Scientific research institution in the country is non existent (59.7%)</li> <li>7. Govt. programmes promoting the use of ICT are not very successful (68.5%)</li> <li>8. Licensing of foreign technology is uncommon (46.2%)</li> <li>9. The companies in the country are able to absorb new technology (33.3%)</li> <li>15. ICT is not an important part of the government vision of the future of the country (41.5%)</li> </ol>
Good (0.01 to 1.00)	<ol style="list-style-type: none"> <li>11. Foreign direct investment brings is an important source of new technology (55.6%)</li> <li>12. ICT are an overall priority for the govt (54.5%)</li> </ol>	<ol style="list-style-type: none"> <li>10. There is sufficient competition among ISP in the country to ensure high quality, infrequent interruptions &amp; low prices (47.3%) ▲</li> <li>11. Foreign direct investment brings is an important source of new technology (51.6%)</li> <li>12. ICT are an overall priority for the govt (57%)</li> </ol>

- Poor Technological Readiness: Although there is some improvement, still lags behind most other countries (86% respondents in 2005).
- Govt. Procurement System: Although the system is in poor shape, increasingly government purchase decisions are focused on technical performance (-0.89 in 2005 as against -1.13 in 2004).
- Backward in ICT: Lack of vision and mission are major stumbling blocks for ICT development (e.g., poor ICT laws, poor use of ICTs in Govt. offices and Other public services).
- Competition among ISPs: Increasing competition ensured some improvement in quality of services, infrequent interruptions and low prices (0.05 in 2005 as against -0.02 in 2004).



## Finance and Openness: Need to Strengthen Corporate Governance

Level	2004	2005
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> <li>1. Entrepreneurs with innovative but risky project cannot generally find venture capital in the country (81.3%)</li> <li>2. It is impossible to obtain a loan with only a good plan &amp; no collateral (78.4%)</li> <li>3. The level of sophistication of financial markets of the country is lower than international norms (83.5%)</li> </ol>	<ol style="list-style-type: none"> <li>1. Entrepreneurs with innovative but risky project cannot generally find venture capital in the country (81.4%)</li> <li>2. It is impossible to obtain a loan with only a good plan &amp; no collateral (78.6%)</li> <li>3. The level of sophistication of financial markets of the country is lower than international norms (80.5%)</li> </ol>
Bad (-0.01 to -1.00)	<ol style="list-style-type: none"> <li>4. Financial auditing &amp; reporting standards regarding company financial performance in the country are extremely weak (56.4%)</li> <li>5. Money laundering through the formal banking system in the country is pervasive (47.7%)</li> <li>6. Interests of minority shareholders of the country are not protected by law and seldom recognized by the minority shareholder (48.4%)</li> </ol>	<ol style="list-style-type: none"> <li>4. Financial auditing &amp; reporting standards regarding company financial performance in the country are extremely weak (44.5%)</li> </ol>
Good (0.01 to 1.00)	<ol style="list-style-type: none"> <li>7. Banks in the country are healthy (58.8%)</li> <li>8. During the past year, obtaining credit for our company has become easier (53.4%)</li> <li>9. Impact of rules governing foreign direct investment on country's business climate are damaging (64.5%)</li> <li>10. Foreign ownership of companies are in the country is prevalent and encouraged (69.1%)</li> </ol>	<ol style="list-style-type: none"> <li>5. Money laundering through the formal banking system in the country is pervasive (44.8) ▲</li> <li>6. Interests of minority shareholders of the country are not protected by law and seldom recognized by the minority shareholder (44.8%) ▲</li> <li>7. Banks in the country are healthy (70%)</li> <li>8. During the past year, obtaining credit for our company has become easier (49.4%)</li> </ol>
Better (1.01 to 2.00)	<ol style="list-style-type: none"> <li>11. Raising money by issuing shares on the local stock market is quite possible for a good company (68.0%)</li> </ol>	<ol style="list-style-type: none"> <li>9. Impact of rules governing foreign direct investment on country's business climate are damaging (80.5%) ▲</li> <li>10. Foreign ownership of companies are in the country is prevalent and encouraged (74.8%) ▲</li> <li>11. Raising money by issuing shares on the local stock market is quite possible for a good company (78.3%)</li> </ol>

- Money Laundering: The situation has significantly improved perhaps due to strict monitoring mechanism followed by the central bank which improved banking environment. (-0.17 in 2004 to +0.34 in 2005)
- Corporate Governance: Needs to be strengthened. Positive changes observed in the case of the interest of minority shareholders (0.03 in 2005 against -0.18 in 2004), but poor performance was seen in auditing and reporting.
- Rules for FDI: A significant improvement in 2005 (81%), as against 64.5% in 2004.



## Domestic Competition: Lack of Policy and Poor Level of Sophistication

Level	2004	2005
Worst (-2.01 to -3.00)	1. Specialized process equipment and machinery specific to firm's field are almost always imported (93.2%)	1. Specialized process equipment and machinery specific to firm's field are almost always imported (90.7%)
Worse (-1.01 to -2.00)	2. Specialized research & training services are not available in the country (78.0%) 3. Corporate activity in the country is dominated by few business group (80.4%) 4. Standards on product/service quality, energy and other exultations (outside environmental regulations) in the country are lax or non-existent (75.8%) 5. Buyers in the country are unsophisticated and make choices based on the lowest price (68%)	2. Specialized research & training services are not available in the country (74.1%) 3. Corporate activity in the country is dominated by few business group (83.7%) 6. Anti-monopoly policy is lax and non effective at promoting competition (64.7%) ▼
Bad (-0.01 to -1.00)	6. Anti-monopoly policy is lax and non effective at promoting competition (54.9%) •Clusters are rare and shallow (57.1) 7. The quality of local suppliers is poor as they are inefficient and have little technological capability (53.6%) 8. Local suppliers are somewhat abundant (39.6%)	4. Standards on product/service quality, energy and other exultations (outside environmental regulations) in the country are lax or non-existent (71.2%) ▲ 5. Buyers in the country are unsophisticated and make choices based on the lowest price (63.1%) ▲ 8. The quality of local suppliers is poor as they are inefficient and have little technological capability (43.5%)
Good (0.01 to 1.00)	9. Competition in the local market is limited in most industries and price-cutting is rare (59.8%)	7. Clusters are rare and shallow (55.9%) ▲ 9. Local suppliers are somewhat abundant (60%) ▲ 10. Competition in the local market is limited in most industries and price-cutting is rare (54.4%)

- Lack of Anti-Monopoly Policy: Increasingly businessmen were apprehensive that lax and non-effective anti-monopoly policy is having negative impact on business environment. Corporate activity dominated by few groups (-1.42 in 2005 as against -1.32 in 2004).
- Standards on product/service quality: Although very poor, some significant changes were observed in perception (-0.92 in 2005 against -1.09 in 2004) perhaps due to increasing awareness about the quality of product/services.
- Local suppliers are increasing and quality is improving: It indicates sophistication of producers, and consumers. (-0.13 in 2005 as against -0.52 in 2004)
- Clusters are few but developing: Strong and deep clusters is gradually developing in the country. (0.51 in 2005 as against -0.47 in 2004)



## Company Operations and Strategy: Below the Line but Improving

Level	2004	2005
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> <li>1. Competitiveness of the countries' companies in international market is primarily due to low cost and local natural resources (93.6%)</li> <li>2. Companies obtain technology exclusively from licensing and imitating foreign companies (92.6%)</li> <li>3. Willingness to delegate authority to subordinates is low- top management controls all important decisions (88.5%)</li> <li>4. Production processes use labor-intensive methods or previous generations of process technology (86.2%)</li> <li>5. Export from the country to neighboring countries are limited</li> <li>6. General approach of companies in the country to human resources is to invest little in training and employee development (90.5%)</li> <li>7. Cash compensation of management in the country is based exclusively on salary (78.7%)</li> <li>8. Exporting companies are primarily involved in resource extraction or production (73.7%)</li> <li>9. International distribution &amp; marketing from the country take place through foreign companies (71.3%)</li> <li>10. The corporate ethics of country's firms in the industry are among the world's worst (68.4%)</li> <li>11. Management or business schools in the country are limited or of poor quality (67.4%)</li> </ol>	<ol style="list-style-type: none"> <li>1. Competitiveness of the countries' companies in international market is primarily due to low cost and local natural resources (91.1%)</li> <li>2. Companies obtain technology exclusively from licensing and imitating foreign companies (79.9%)</li> <li>3. Willingness to delegate authority to subordinates is low- top management controls all important decisions (80.5%)</li> <li>4. Production processes use labor-intensive methods or previous generations of process technology (85.9%)</li> <li>5. Export from the country to neighboring countries are limited (80.4%)</li> <li>6. General approach of companies in the country to human resources is to invest little in training and employee development (85.8%)</li> </ol>

- Major competing factors in international markets: Low cost labour and natural resources continue to be major competing factors. Production processes primarily use labour intensive methods (86%), but there is a significant improvement observed in 2005 (-1.48 in 2005 as against -1.69 in 2004).
- Corporate Governance: Lack of Accountability of Management to the investors and Boards of Directors. Recruitment process has improved, instead of recruiting relatives senior management positions are filled up by qualification. Impact of government policies in terms of corporate regulations.



## Company Operations and Strategy: Below the Line but Improving (Contd.)

Level	2004	2005
Bad (-0.01 to -1.00)	<p>12. The extent of marketing in the country is limited or primitive (72.9%)</p> <p>•Corporate governance by investors and board of directors in the country is characterized by management has little accountability (45.7%)</p> <p>13. Senior management positions in our country are usually held by relatives (50%)</p> <p>14. Customer orientation: firms in our country generally treat their customers badly (45.3%)</p>	<p>7. Cash compensation of management in the country is based exclusively on salary (68.2%) ▲</p> <p>8. Exporting companies are primarily involved in resource extraction or production (65.6%) ▲</p> <p>9. International distribution &amp; marketing from the country take place through foreign companies (51.1%) ▲</p> <p>11. Management or business schools in the country are limited or of poor quality (63%) ▲</p> <p>12. The extent of marketing in the country is limited or primitive (68.5%)</p> <p>13. Corporate governance by investors and board of directors in the country is characterized by management has little accountability (43.9%)</p> <p>14. Senior management positions in our country are usually held by relatives (50%)</p>
Good (0.01 to 1.00)		<p>15. Customer orientation: firms in our country are highly responsive to customers and customers retention (58.7%) ▲</p>
Best (2.01 to 3.00)		<p>10. The corporate ethics of country's firms in the industry are among the world's worst (57.2%) ▲</p>

- International distribution and marketing: Ownership and control is slowly but increasingly shifting from foreign companies to local companies (51%).
- Improved customer orientation: Companies are gradually becoming responsive to customers and customer retention (59% in 2005 and 45% in 2004).



# Environmental and Social Responsibility: Lax Regulations

Level	2004	2005
Worse (-1.01 to -2.00)	<ol style="list-style-type: none"> <li>1. Corporate environmental reporting is non existent in the country (86.2%)</li> <li>2. Environmental regulations in the country are confusing and enforced erratically (77.1%)</li> <li>3. Country's overall environmental regulation lax compared to most countries (70.8%)</li> <li>4. Government mandated disclosure of environmental performance and pollutant release is non existent in the country (70.5%)</li> </ol>	<ol style="list-style-type: none"> <li>1. Corporate environmental reporting is non existent in the country (89.1%)</li> <li>2. Environmental regulations in the country are confusing and enforced erratically (72.1%)</li> <li>3. Country's overall environmental regulation lax compared to most countries (65.6%)</li> <li>4. Government mandated disclosure of environmental performance and pollutant release is non existent in the country (69.3%)</li> </ol>
Bad (-0.01 to -1.00)	<ol style="list-style-type: none"> <li>1. Energy efficiency and transition to the new and renewable sources of energy is a low priority in the country (65.3%)</li> <li>2. Corporate codes of conduct and other aspect of corporate social responsibility are rare or non existent in the country (63.2%)</li> <li>3. Business planning in the country now consider long-term factors such as global climate change and other environmental risks as unimportant (54.3%)</li> <li>4. Companies in the country consider cleaner production, material flow management, waste reduction and recycling and life cycle management of products to be irrelevant (56.3%)</li> <li>5. In the country the governments efforts to reduce poverty and address income inequality are ineffective (</li> <li>6. Complying with environmental standards significantly reduces competitiveness in the country (42.4%)</li> </ol>	<ol style="list-style-type: none"> <li>5. Energy efficiency and transition to the new and renewable sources of energy is a low priority in the country (57.6%)</li> <li>6. Corporate codes of conduct and other aspect of corporate social responsibility are rare or non existent in the country (63%)</li> <li>7. Business planning in the country now consider long-term factors such as global climate change and other environmental risks as unimportant (53.3%)</li> <li>9. In the country the governments efforts to reduce poverty and address income inequality are ineffective</li> <li>10. Complying with environmental standards significantly reduces competitiveness in the country (41.2%)</li> </ol>
Good (0.01 to 1.00)		<ol style="list-style-type: none"> <li>8. Companies in the country consider cleaner production, material flow management, waste reduction and recycling and life cycle management of products to be irrelevant (48.3%) ▲</li> </ol>

- Environmental regulation: Strong negative perception as regards environmental regulations. Regulations are lax, confusing and enforced erratically, although shows some improvement (-1.17 in 2005 as against -1.39 in 2004)
- Corporate codes and social responsibility: Rare or non existent. Businessmen considered that complying with environmental standards significantly reduces competitiveness in the country (-0.77 in 2005 as against -0.93 in 2004).
- Importance of better environmental standards: Companies are increasingly considering cleaner production, material flow management, waste reduction, recycling and life cycle management as important factors. This will have positive impact for business competitiveness in the global market.

## VI. IDENTIFICATION OF THE LEAD DETERMINING FACTORS

Rank	Lead Determining Factors in 2005	Lead Determining Factors in 2004
1	Corruption (24.7)	Corruption (24.6)
2	Inefficient govt. bureaucracy (16.9)	Inefficient govt. bureaucracy (14.8)
3	Inadequate supply of infrastructure (13.6)	Crime & theft (12.6)
4	Policy instability (11.5)	Inadequate supply of infrastructure (12.3)
5	Crime & theft (10.8)	Access to financing (10.3)
6	Access to financing (6.9)	Policy instability(8.8)
7	Govt. instability/coups (4.5)	Inadequately educated workforce (4.2)
8	Inadequately educated workforce (2.6)	Govt. instability/coups (2.8)
9	Tax regulations (2.5)	Tax regulations (2.4)
10	Poor work ethic in national labour force (1.9)	Poor work ethic in national labour force (2.1)
11	Foreign currency regulations (1.3)	Tax rates (1.9)
12	Tax rates (1.1)	Foreign currency regulations (1.5)
13	Inflation (0.8)	Inflation (0.9)
14	Restrictive labour regulations (0.7)	Restrictive labour regulations (0.7)

- In 2005, most of the respondents cited corruption as the most important determining factor which was affecting the business environment (same in 2004). Policy instability is a cause for increasing concerns for business environment.
- The descending order of top five lead determining factors are as follows: Corruption, Inefficient govt. bureaucracy, Inadequate supply of infrastructure, Policy instability and Crime & theft. Policy instability and government instability – both have become more prominent.



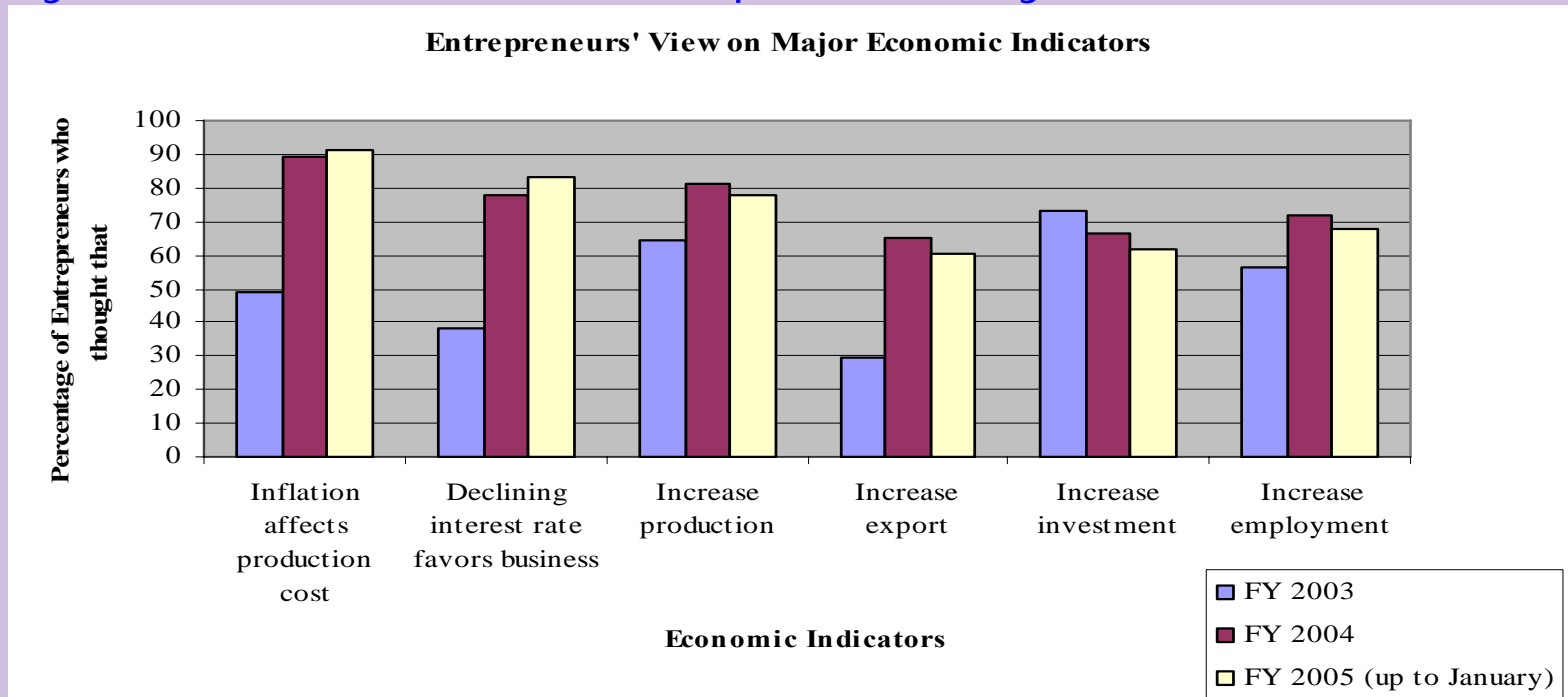
## VII. PERFORMANCE AND GROWTH PROSPECT

### Economic Performance: Toned Down Optimism, Intensified with the Cost of Terrorism

Level	2004	2005
Bad (-0.01 to -1.00)	1. The threat of terrorism in the country imposes significant cost on business	1. The threat of terrorism in the country imposes significant cost on business
Good (0.01 to 1.00)	2. Country's economy will have strong growth in the next 12 months	2. Country's economy will have strong growth in the next 12 months

- Perception on overall economic performance in the next 12 months: will improve. But the perception of businessmen is less strong (44%) compared to the previous year (56%).
- The threat of terrorism in the country imposes significant cost on business: still very strong with marginal improved situation compared to the last year; however, overall situation is bad (Survey carried out before serial blasts).

## Company Performance: Less Expansionary



- Entrepreneurs' perception about their companies' performance: business environment in 2005 is relatively less business friendly than the previous year.
- High inflation affected production more in 2005 than the previous years, 2004 and 2003
- More people thought prevailing interest rate favoured business: more in 2005 than 2004 and 2003.
- Companies' Investment has declined over time, (difficult to accept since domestic investment considerably increased in 2005. Perhaps reluctance to share information).
- Production has increased more in 2004 than 2005. This is also somewhat contradictory.
- Employment position was better in 2004 than 2005.

## Export Performance: 2004 and 2005

Table: Companies' Export Situation (in percentage)						
Sectors	July 2003- June 2004			July 2004-January 2005		
	Increased	Decreased	Unchanged	Increased	Decreased	Unchanged
RMG	88.8	5.6	5.6	72.2	27.8	-
Pharmaceuticals	66.7	33.3	-	66.7	33.3	-
Other Manufacturing	50.0	-	50.0	50.0	-	50.0
Real Estate and Construction	-	-	100.0	-	-	100.0
Financial Institutions	40.0	-	60.0	40.0	-	60.0
ICT	60.0	-	40.0	60.0	-	40.0
Others	62.5	12.5	25.0	71.4	14.3	14.3
Source: CPD Survey						

- Percentage of respondents answering that export has increased or decreased has not changed significantly, barring RMG, where surprisingly share of respondents answering that exports has decreased showed significant increase (result of consolidation, and negative impact on relatively smaller exporters?)

## Overseas Investment by Bangladeshis and Investment of Non-Resident Bangladeshis

Table: NRBs' Local Investment and Bangladeshis' Overseas Investment

Sectors	NRBs' Investment in Bangladesh		Overseas Investment of Bangladeshis	
	2003-2004	2004-2005	2003-2004	2004-2005
Real Estate	32.8	30.3 ▼	30.8	17.4 ▼
RMG	19.7	11.2 ▼	20.5	21.7 ▲
Restaurants	9.8	3.4 ▼	17.9	18.8 ▲
Amusements	8.0	6.7 ▼	-	-
ICT	8.2	12.4 ▲	-	2.9
Banking	4.9	12.4 ▲	15.4	5.8 ▼
Others	16.4	23.6 ▲	15.3	33.3 ▲

- Perception is that Non-resident Bangladeshis (NRBs) are increasingly investing in local businesses, (67% in 2005 as against 55% in 2004). Some changes are observed in terms of sectoral preference in the current year.
- Overseas investment by Bangladeshis is perceived to be diversified: retail trading, food processing, pharmaceuticals, tourism, gas filling station etc.



## Summary

- Poor performance in the global context
  - Deteriorating trend in GCI and BCI ranking
  - Slight improvement in GCI scores mainly relating to public institution index and macroeconomic performance index
  - Deterioration of Country Credit Rating
- Mixed scenario as regards domestic business environment
  - Poor performance of government and public sector, public institutions
    - Some positive changes in reliability of public contracts, access to public utilities, and awarding of public contracts
  - Better performance of financial sector, company operations and strategy
    - Strengthen corporate governance
    - Increase application of ICT
- Growth prospect
  - Less strong optimism about country's economic performance
  - Threat of terrorism imposes significant cost
- Company Performance
  - Less expansionary in terms of investment, employment, export



*Thank You*  
*for*  
*Your Attention*