

Business Competitiveness Environment In Bangladesh (2005): Domestic Perceptions And Global Comparison

Paper 59

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The Centre for Policy Dialogue (CPD), established in 1993, is a civil society initiative to promote an ongoing dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such dialogues at local, regional and national levels. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues. These dialogues have brought together ministers, opposition frontbenchers, MPs, business leaders, NGOs, donors, professionals and other functional group in civil society within a non-confrontational environment to promote focused discussions. The CPD seeks to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country.

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Dissemination of information and knowledge on critical developmental issues continues to remain an important component of CPD's activities. Pursuant to this CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has decided to bring out **CPD Occasional Paper Series** on a regular basis. Dialogue background papers, investigative reports and results of perception surveys which relate to issues of high public interest will be published under its cover. The Occasional Paper Series will also include draft research papers and reports, which may be subsequently published by the CPD.

The present paper titled ***Business Competitiveness Environment In Bangladesh (2005): Domestic Perceptions And Global Comparison*** has been prepared under the CPD's programme on Investment Promotion and Enterprise Development. The paper was prepared by *Debapriya Bhattacharya*, Executive Director, CPD, *Khondaker Golam Moazzem*, Research Fellow, CPD, *Kazi Mahmudur Rahman*, Senior Research Associate, CPD and *Syed Saifuddin Hossain*, Senior Research Associate, CPD. *Wasel Bin Shadat*, Senior Research Associate, CPD has substantially contributed to the section on analytical framework of the paper.

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CONTENTS

I. BACKGROUND	1
II. STUDY METHODOLOGY	2
III. BUSINESS COMPETITIVENESS ENVIRONMENT IN BANGLADESH: GLOBAL COMPARISON.....	6
IV. COMPETITIVENESS ENVIRONMENT IN BANGLADESH: DOMESTIC PERCEPTIONS...	11
V. CONCLUSION AND POLICY RECOMMENDATIONS	36

<i>Annex: RESPONSE SCENARIO FOR VARIOUS INDICATORS</i>	40
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LIST OF TABLES

TABLE 1: SECTORAL DISTRIBUTION OF RESPONDENTS OF CPD PERCEPTION SURVEY....	3
TABLE 2: BANGLADESH IN THE GLOBAL RANKING.....	6
TABLE 3: GCR RANKING OF SOUTH ASIAN COUNTRIES.....	7
TABLE 4: CHANGE IN BANGLADESH'S GCI SCORES (2005 VS. 2004).....	8
TABLE 5: BANGLADESH'S RANKING IN TERMS OF BCI.....	9
TABLE 6: BCI RANKING OF SOUTH ASIAN COUNTRIES.....	10
TABLE 7: RANK OF LEAD DETERMINING FACTORS, 2004 AND 2005.....	12
TABLE 8: EFFECT OF INFLATION ON PRODUCTION COST BY SECTORS (IN PERCENTAGE).....	33
TABLE 9: COMPANIES' EXPORT SITUATION (IN PERCENTAGE).....	34
TABLE 10: NRBS' LOCAL INVESTMENT AND BANGLADESHIS' OVERSEAS INVESTMENT...	36

LIST OF FIGURES

FIGURE 1: PERFORMANCE OF GOVERNMENT AND PUBLIC SECTOR IN 2004 AND 2005.....	14
FIGURE 2: PERFORMANCE OF PUBLIC INSTITUTIONS, 2004 AND 2005.....	16
FIGURE 3: STATE OF INFRASTRUCTURE IN 2004 AND 2005.....	18
FIGURE 4: STATE OF TECHNOLOGY IN 2004 AND 2005.....	20
FIGURE 5: STATE OF HUMAN RESOURCES, 2004 AND 2005.....	22
FIGURE 6: FINANCE AND OPENNESS IN 2004 AND 2005.....	24
FIGURE 7: SITUATION OF DOMESTIC COMPETITION IN 2004 AND 2005.....	26
FIGURE 8: COMPANY OPERATIONS AND STRATEGY IN 2004 AND 2005.....	28
FIGURE 9: STATE OF ENVIRONMENTAL AND SOCIAL RESPONSIBILITY, 2004 AND 2005....	30
FIGURE 10: PROJECTED ECONOMIC GROWTH AND THREAT OF TERRORISM.....	32
FIGURE 11: ENTREPRENEURS' VIEW ON MAJOR ECONOMIC INDICATORS.....	33

I. BACKGROUND

Although it is true that a liberal trade and investment policy is essential for attracting higher level of private investment, it is not a sufficient factor. Many developing countries (DCs) and least developed countries (LDCs) which have opened up their economies to a large extent and have in general put in place market friendly policies, but did not succeed in their bid to have significant foreign investment flow. The reason why broad macroeconomic policies, even when these appear to be liberal, do not get translated into favourable micro decisions by entrepreneurs is something that needs to be closely looked into. Policymakers in DCs and LDCs do not give as much attention to these missing links as they generally tend to give to “putting the macro-framework right”.

Thus, a country’s overall business environment and whether entrepreneurs are ready to commit their good money to a particular country are not only related to market-friendly policies but also to various macro and micro policies and perceptions that directly influence business operations. Wide difference in economic growth between various groups of countries is not fully explained by the divergence of policies at macro-level, rather it is critically related to the difference in the level of competitiveness of industries of different groups of countries which, in turn, is dependent on a number of other factors.

Firms tend to take business decision depending on a large set of complex and interrelated factors that determine their competitiveness. The costs that firms incur, the technology that they adopt, the prices that they offer and the profits that they make are dependent on a host of factors which are generally covered by the term business environment of a country.

Regrettably, information and data that is necessary to have an indepth understanding about these contributing factors is not easy to generate. This severely constrains analysis of competitiveness capacity of firms and limits the design of appropriate policy measures. The dynamic nature of business activities often cannot be grasped fully by sporadic and traditional quantitative information available in statistical reports. In order to cover the gap between existing level of information and the level of information required, baseline information needs to be gathered covering such areas as government and public sector, public institutions, technology, infrastructure, financial development, human resources, domestic competition, company operation and strategy. An important source for generating this knowledge is study of the perceptions of the entrepreneurs themselves as regards these factors.

Major objectives of this paper are to assess the competitiveness environment in Bangladesh by identifying the key bottlenecks and impediments which constrain proper functioning of the business sector, and also to come up with a set of policy recommendations to help policymakers and stakeholders prioritise the areas for improving economic governance in the country through focused initiative. The paper also attempts to situate Bangladesh in terms of growth and business competitiveness performance in the context of other countries, globally, for the year 2005 as compared to 2004.

II. STUDY METHODOLOGY

This paper examines Bangladesh's business environment from two perspectives. *Firstly*, a comparative analysis of Bangladesh's business competitiveness environment is undertaken in the context of the overall global scenario; and *secondly*, the paper documents and analyses perceptions about business competitiveness environment in Bangladesh. The analysis of the state of competitiveness environment in Bangladesh is drawn on the information from the perception based surveys of business executives carried out by the *Centre for Policy Dialogue* (CPD). CPD has been carrying out this survey for the last five years to elicit first hand information from business firms covering a wide spectrum of activities as regards their perception on doing business in Bangladesh. The paper focuses on a comparative analysis of the perceptions between 2004 and 2005 based on perception of top executives as regards a number of key determinants and correlates of business environment in Bangladesh.

The CPD Executive Opinion Survey dealt with issues related to macroeconomic stability, quality of services provided by public institutions, corruption, infrastructure, technology, and environment. The respondents also expressed their assessment about the growth prospect for Bangladesh in 2006. A Rapid Perception Survey was also carried out to elicit some additional information as regards a number of indicators. The Rapid Perception Survey and the Executive Opinion Survey focused extensively on perceptions as regards such key business competitiveness indicators as interest rate, inflation, investment, employment, production and export situation, and the state of non-resident Bangladeshis (NRBs) investment trend in Bangladesh and Bangladeshi investment abroad.

II.1 Survey Design

The survey was designed to cover relatively large companies, i.e. those having total assets of no less than Tk.10 crore. Under this criteria a total of 93 companies were surveyed in 2005, while the number of companies surveyed in 2004 was 100. Adequate measures were taken to ensure a very high level of response.

As far as the surveys in 2004 and 2005 are concerned, geographical distribution of companies showed a very high concentration in Dhaka (about 90% of the companies), which reflects the general pattern of spatial distribution of companies, with very high concentration in the capital city and nearby areas. Table 1 shows the sectoral distribution of respondents. While nearly 50% of respondents represented the manufacturing sector, 12-15% were from financial institutions, and 8-9% were from ICT; real estate and construction companies constituted 15% of the respondents in 2004 and 7% in 2005 and the rest 8%-13% were from other sectors. The structure of ownership of businesses which were surveyed evinced pronounced presence of domestic entrepreneurs; about 75% companies were owned by domestic entrepreneurs, and about 10% were owned by foreign owners; the rest were jointly owned by local and foreign companies.

TABLE 1: SECTORAL DISTRIBUTION OF RESPONDENTS OF CPD PERCEPTION SURVEY

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

Source: CPD-GCR Survey.

II.2 Analytical Framework

The study focuses on the perception about the business competitiveness situation in Bangladesh and situates Bangladesh with respect to other countries globally.

II.2.1 Analytical Framework for Global Comparison¹

In order to appreciate Bangladesh's global position, the present study followed the World Economic Forum's methodology which ranks more than 100 countries of the world. World Economic Forum (WEF) (popularly known as *Davos Meeting*) assesses business competitiveness environment for a large number of countries worldwide through survey of top business executives in every country, and publishes the findings every year in its "Global Competitiveness Report (GCR)". The GCR is prepared with support from partner organisations across the world. The Report has gradually expanded its geographic

¹ Analytical framework for Global Comparison is based on the methodology followed in "Global Competitiveness Report 2004-05" published by World Economic Forum.

coverage over the years and last year (2005) ranked a total of 117 countries, a rise from 104 in 2004. Bangladesh was first included in the programme in 2001 when CPD was invited by WEF to conduct the perceptions survey; since then Bangladesh has conducted 5 surveys, the last being in 2005.

The GCR presents competitiveness ranking of different countries using two indices, namely *Growth Competitiveness Index* (GCI) and *Business Competitiveness Index* (BCI). The **Growth Competitiveness Index** (GCI) analyses the potential of the world's economies to attain sustained economic growth over the medium and long term. The **Business Competitiveness Index** (BCI), on the other hand, tries to identify factors that underpin high current productivity.²

Growth Competitiveness Index (GCI)

Since GCI analyses the potential of the world's economies to attain sustained economic growth over medium and long term, the index is anchored on three central components: a) macroeconomic environment, b) quality of public institutions, and c) technology. For the core innovators, extra emphasis has been put on the role of innovation and technology. The weights for core and non-core innovators are as follows:³

Growth Competitive Index for core innovators = 1/2 technology index + 1/4 public institutions index + 1/4 macroeconomic environment index

Growth Competitive Index for non- core innovators = 1/3 technology index + 1/3 public intuitions index + 1/3 macroeconomic environment index

Business Competitiveness Index (BCI)

BCI tries to identify factors that underpin high level of current productivity. Major components are: a) sophistication of company operations and strategy, and b) quality of business environment. To derive an overall Business Competitiveness Index (BCI), an exercise has been carried out to compute subindexes measuring the sophistication of company operations and strategy and the quality of the national business environment. The weighted average of the two subindexes is defined as the BCI. The weights are determined from the coefficients of a multiple regressions of the sub indexes on GDP per capita, using pooled data from 2002 to 2005 to smooth year-to-year variations. This procedure results in a weight of 0.8 for national business environment, and 0.2 for

² Although the prime source of information for the GCR is the Executive Opinion Survey, these findings were validated significantly by data from a wide range of secondary sources including those from the World Bank (WB), International Monetary Fund (IMF), UNCTAD, OECD Database, etc. Information has also been collected from government sources in the countries covered under the GCR.

³ Countries are divided into two groups, core and non-core innovators, based on their strengths of innovation. Bangladesh is considered as a non-core innovating country.

company operations and strategy. Business Competitiveness Index (BCI) is constructed from measures drawn primarily from the Survey of 10,961 senior business leaders in 116 countries.

II.2.2 Analytical Framework for Domestic Perception Comparison

Lead determining factors that inhibit businesses are highlighted in presenting a comparative picture as revealed by domestic perception of respondent companies.

Lead Determining Factors

With a view to identify the most important determining factors that obstruct/enhance business in the country, companies were requested to identify five topmost determining factors that constrained doing business in Bangladesh and rank them between 1 (most important determining factor) and 5. A total of 14 lead determining factors were identified both in 2004 and in 2005.

Weighted Average of Responses

The analysis of the perception about different issues related to different factors was carried out by applying two statistical techniques: frequency analysis of the responses, and application of weighted index for the questions. 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 positive response levels (completely agree, largely agree and somewhat agree) and three negative perceptions (completely disagree, largely disagree and somewhat disagree) have been clustered into two groups; response that is indifferent between the positive and negative answer composed a third group. The frequency of these three groups was estimated and reported. Missing values are excluded from the analysis.

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 was employed. *First*, scores -3 to -1 were assigned to the three different levels of the negative side responses and scores 1 to 3 were assigned to the three levels of positive side responses while the indifference level was assigned a score of 0 (zero). The advantage of this weighted average approach is that it helps readers to better understand the trends in the perception. This is a better way to gauge the assessment of top executives as regards the Business Competitiveness Environment of Bangladesh.

III. BUSINESS COMPETITIVENESS ENVIRONMENT IN BANGLADESH: GLOBAL COMPARISON

As would be expected, as an LDC Bangladesh has many constraints in terms of doing business. This state of affairs is reflected in the perception survey. On the other hand, overcoming such constraints is also critically important if Bangladesh is to stimulate development. It is also important that policymakers, corporate bodies, and development partners should know where Bangladesh is situated with respect to competitiveness in the global context. One underlying objective of this exercise is to find out major areas where Bangladesh is relatively weak/strong when compared to other countries.

III.1 Growth Competitiveness Index (GCI): Bangladesh among the Lowest Performers

Since its incorporation in the GCR exercise, Bangladesh has ranked consistently among the bottom ten countries of the world. Most of the LDCs are ranked at the bottom of the GCI index which implies that LDCs have serious lacunae in terms of level of technology, public institutions and macroeconomic environment. The following section discusses these issues in a more comprehensive manner.

TABLE 2: 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

Source: Global Competitiveness Report, 2004 and 2005.

In 2004, Bangladesh was ranked 102 out of 104 countries in terms of GCI ranking. Compared to the ranking in 2004, Bangladesh's rank has experienced further deterioration in 2005. Out of 117 countries (including 13 new countries) Bangladesh's position was downgraded to 110. It is important to note that competitiveness in the global market is always changing and is dynamic in nature. If the comparison was made with the same set of countries that were covered by 2004 GCR Survey, Bangladesh's ranking

would only marginally improve (101 in 2005 compared to 102 in 2004). This would also indicate that many new entrants to the survey were better performers than Bangladesh (e.g. Mongolia, East Timor, Tajikistan).

Table 3 shows the GCR ranking of South Asian countries. Compared to the other three counterparts covered under the GCR, Bangladesh remains at the bottom in terms of GCI index. While India continues to remain at the top of the order, Pakistan has managed to make some visible improvements in its GCI rankings. On the other hand, Sri Lanka has slid to the 98th rank from its earlier position of 73 in the GCI 2004.

TABLE 3: GCR RANKING OF SOUTH ASIAN COUNTRIES

Country	GCI 2004 (104 countries)	GCI 2005 (117 countries)
Bangladesh	102	110
India	55	50
Pakistan	91	83
Sri Lanka	73	98

Source: Global Competitiveness Report, various issues.

Bangladesh's Ranking in terms of Macroeconomic Performance Index

Bangladesh's global competitiveness originates mainly from relatively better macroeconomic condition compared to other LDCs and some of the developing countries. In 2004, Bangladesh's rank in the macroeconomic sub-index was 74, which meant that a number of LDCs and developing countries lagged behind Bangladesh. However, the ranking in macroeconomic sub-index deteriorated in 2005 (83). In terms of macroeconomic issues such as macroeconomic stability, country credit rating and government expenditure/waste, Bangladesh's performance showed a deterioration in 2005. Macroeconomic stability index stood at 67 in 2005 rising from 62 in 2004, although in terms of value of the index there was some improvement in 2005 (4.36) compared to 2004 (4.27). Table 4 shows the changes in macroeconomic index in 2005 over 2004. There was extensive deterioration in the case of country credit rating both in terms of index (from 79 in 2004 to 86 in 2005) and value (from 2.42 in 2004 to 2.30 in 2005). The performance in terms of government expenditure/waste also revealed similar situation (from 75 in 2004 to 85 in 2005 in index and from 2.72 in 2004 to 2.68 in 2005 in value). Bangladesh's global comparison of the macroeconomic performance will be discussed in some more detail when issues related to macroeconomic aspects are analysed in the next section.

Bangladesh's Ranking in terms of Technological Development Index

Bangladesh's performance is not very promising in terms of technological development. This is corroborated by the fact that Bangladesh's position in terms of technological index was 100 in 2004 which remained almost at the same level in 2005 (101). In terms of innovation, Bangladesh was ranked among the lowest group of countries in 2004 (95) which further deteriorated in 2005 (105). Curiously, about 3% improvement was observed in 2005 over 2004 in terms of value of the index. As regards ICT, the subindex has substantially fallen both in rank (from 107 to 112) and in value (1.81 to 1.73). The only area where Bangladesh has performed better was in technology transfer index (58 and 59 in 2004 and 2005 respectively). It seems that increasing foreign investment in different sectors, especially in petroleum and gas exploration, telecommunication, RMG, etc., has contributed to some extent to transfer of technology in the country.

Bangladesh's Ranking in terms of Public Institution Index

As regards the public institution index, Bangladesh's ranking is at the bottom for both the years under consideration (104 in 2004 and 117 in 2005). This owes mainly to the dramatic deterioration in the corruption index. The contracts and law subindices of the country have also witnessed a deterioration (from 97 in 2004 to 104 in 2005). However, in both these subindices, some positive development was observed in terms of value – value of corruption sub-index improved by about 1.4% and contracts and the law subindex value substantially improved by 4.4% (Table 4). It implies that the pace of improvement in the public institutions that occurred in 2005 lags behind public institutions in other countries.

TABLE 4: CHANGE IN BANGLADESH'S GCI SCORES (2005 VS 2004)

	2004	2005	% change in 2005 over 2004
GCI Score	2.84	2.86	0.70
<i>Technology Index</i>	2.62	2.60	-0.76
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>	2.47	2.55	3.24
Contracts and law subindex	2.76	2.88	4.35
Corruption subindex	2.19	2.22	1.37
<i>Macroeconomic Environment Index</i>	3.42	3.43	0.29
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

Source: Global Competitiveness Report, various issues.

The perception scores, as evinced by various GCI indicators, leave room for some optimism though. GCR shows that while Bangladesh's score in the technology index has registered a negative change (-0.70% in 2005 as against 2004), the change was positive in other two indices, i.e. 3.24% in the public institutions and 0.29% in the macroeconomic environment. Nevertheless, it needs to be kept in mind that these minor improvements have failed to contribute towards improving the country's overall ranking.

III.2 Business Competitiveness Index (BCI): Deteriorated Performance

In terms of BCI or business competitiveness index, at the aggregate level, Bangladesh has slid down in 2005 as against the previous year. The WEF's GCR dealt with BCI in two different forms. *Firstly*, a hierarchical ranking had been drawn for all the countries (the complete sample), and *secondly*, and probably more interestingly, another set of ranking was placed only for those countries that virtually met all the criteria to be considered under the BCI ranking. It is, therefore, imperative to be cautious about these rankings. Table 5 shows Bangladesh's ranking in terms of BCI components.

TABLE 5: BANGLADESH'S RANKING IN TERMS OF BCI

	2004	2005	% change in 2005 over 2004
BCI Rank	87	100	-14.9
<i>Sophistication and Company Operations and Strategy</i>	89	99	-11.2
<i>Quality of Business Environment</i>	86	101	-17.4

Source: Global Competitiveness Report, various issues.

In 2004, Bangladesh's rank in terms of BCI was 87 out of 104 countries, implying that business competitiveness was in the same tune as growth competitiveness. In 2005 Bangladesh's competitiveness strength deteriorated further and its rank was 100 out of 117 countries. The performance at individual sub-indexes such as sophistication of company operations and strategy index, and quality of business environment index was also poor with a 17.4% negative change in terms of the latter index.

Among the South Asian countries, Bangladesh's performance has consistently been the worst and more importantly the level of deterioration has been higher for Bangladesh compared to other countries (Table 6). As for India, it managed to continue being at the top position among the regional members while Pakistan has managed to make remarkable improvement in its ranking. On the other hand, Sri Lanka's performance has slightly deteriorated in 2005 as against 2004.

TABLE 6: BCI RANKING OF SOUTH ASIAN COUNTRIES

Country	BCI 2004 (104)	BCI 2005 (117)
Bangladesh	95	100
India	30	31
Pakistan	73	66
Sri Lanka	68	72

Source: Global Competitiveness Report, various issues.

Bangladesh's Ranking in terms of Sophistication and Company Operation Index

In terms of sophistication and company operation and strategy, Bangladesh's rank was 89 in 2004, but it slid down to 99 in 2005. It appears from the survey that the country's position became weaker in terms of such indicators as market access, capacity for innovation, control of international distribution, degree of customer orientation, extent of marketing, extent of regional sales, nature of competitive advantage, production process, sophistication, value chain presence, etc. In a fast globalising world these weaknesses are bound to have a detrimental impact on Bangladesh's relative situation in terms of competitive strength.

Bangladesh's Ranking in terms of Business Environment Index

As per this particular index, Bangladesh has experienced a substantial fall in ranking in 2005 (101) when compared to 2004 (86). This implies that major factors that make up business environment have performed poorly in the country. These included quality of physical infrastructure, quality of administrative infrastructure, quality of human resources and technology infrastructure, development of capital markets, sophistication, local suppliers' quality, efficiency of corporate bodies, intellectual property protection, intensity of local competition, effectiveness of antitrust policy, prevalence of trade barriers, etc. A thorough analysis of the aforesaid issues has been presented in the next section.

As regards both the sub-indices of the BCI index, Bangladesh, in 2005, captured the 97th position among the 110 sample countries that successfully passed through the regression analysis for the GCR. Between the two, quality of business environment has dropped by 11 positions while sophistication and company operations and strategy subindex came down by 8 positions when compared to those of 2004. It is evident from the above discussion that Bangladesh still has a long way to go if it is to improve its Business Environment Index.

Bangladesh's global ranking in GCI and BCI indicates that there are some inherent structural weaknesses in the country's macroeconomic and technological performance and public institutions as well as in company operations and strategy. A thorough and an indepth analysis is required to understand the competitiveness from the domestic point of view. The perception survey conducted by CPD covering the top business executives of the country has attempted to shed light on these issues.

IV. COMPETITIVENESS ENVIRONMENT IN BANGLADESH: DOMESTIC PERCEPTION

In the Executive Opinion Survey, country's leading business executives have identified lead determining factors from a list of fourteen factors that inhibit development of an enabling business environment in Bangladesh. Examining the values of the lead determining factors for different years, the relevant factors have been split into two groups, namely, *first order lead factors* and *second order lead factors*. The first order lead factors comprised top six factors, ranked according to the index value, while the rest eight factors composed the second category. Interestingly, the same set of six factors was identified as the first order lead factors by the respondents for both the years (i.e. 2004 and 2005); however, some changes were seen in the order of the factors (Table 7).

The six first order factors are: corruption, inefficient government bureaucracy, inadequate supply of infrastructure, crime and theft, access to financing, and policy instability. The very nature of these factors indicates that these have overwhelming influence on governance and infrastructure facilitation issues. On the other hand, the second order lead factors focus mainly on the economic (fiscal and monetary) and labour force related issues. The sum of the index values of the first order lead factors for 2005 is 83.4 out of 100.0 (for all fourteen factors), while it was 84.4 in 2004, 83.8 in 2003 and 78.5 in 2002. These figures justify the classification of factors into first and second order lead factors. This helps to prioritise the factors and address the major hindrance caused by these factors to develop an enabling business environment in the country.

TABLE 7: RANK OF LEAD DETERMINING FACTORS, 2004 AND 2005

Rank	2004		2005	
	Factors	Value	Factors	Value
First Order Lead Factors				
1	Corruption	24.6	Corruption	24.7
2	Inefficient govt. bureaucracy	14.8	Inefficient govt. bureaucracy	16.9
3	Crime & theft	12.6	Inadequate supply of infrastructure	13.6
4	Inadequate supply of infrastructure	12.3	Policy instability	11.5
5	Access to financing	10.3	Crime & theft	10.8
6	Policy instability	8.8	Access to financing	6.9
Second Order Lead Factors				
7	Inadequately educated workforce	4.2	Govt. instability/coups	4.5
8	Govt. instability	2.8	Inadequately educated workforce	2.6
9	Tax regulations	2.4	Tax regulations	2.5
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	1.3
12	Foreign currency regulations	1.5	Tax rates	1.1
13	Inflation	0.9	Inflation	0.8
14	Restrictive labour regulations	0.7	Restrictive labour regulations	0.7
Total		100		100

Source: Global Competitiveness Report, various issues.

An indepth analysis of the lead determining factors underscores that corruption and inefficient government bureaucracy have continued to be the top two factors for all the four years. Crime and theft was identified as the third and fifth lead determining factor respectively in 2004 and 2005. Interestingly, this was ranked sixth in both 2003 and 2002. While upward movement of *crime and theft* in 2004 as against 2003 indicated growing concern of the business community as regards the adverse impact of the deteriorating law and order situation of the country on the overall business environment and competitiveness of the country, the fact that it slid down two positions in 2005 indicates some sign of relief; however, concerns still remain as this factor continues to be among the first order lead factors. Ranking in terms of *inadequate supply of infrastructure* has deteriorated further in 2005 and climbed one step up to the third position. Besides, *policy instability* has moved from its earlier position (from 6th in 2004 to 4th in 2005) and has become an issue of much concern to the business community. Thus, the above discussion indicates that business executives have acknowledged some marginal changes in terms of stability and coherence of government policies, which needed to be improved substantially in order to have any direct or indirect positive impact on business environment of the country.

In the case of the second order lead factors, *government instability* led the way both in 2002 and in 2005 with index value of 6.1 and 4.5 in the two respective years. Other major factors are inadequately educated workforce, tax regulations, poor work ethic in national labour force, foreign currency regulations, restrictive labour regulations, tax rates and inflation. In 2004, *inadequately educated workforce* took the lead, followed by *government instability*. Because of the improvement in macroeconomic management of

the country over the last few years, the business executives thought that factors such as inflation, restrictive labour regulations, foreign currency regulations and tax rates did not have much of a negative impact on the business competitiveness environment in Bangladesh and these four second order factors remained at the bottom of the list during the two years under consideration. However, as is known, subsequently there has been a rise in the prices, both for domestic and global factors.

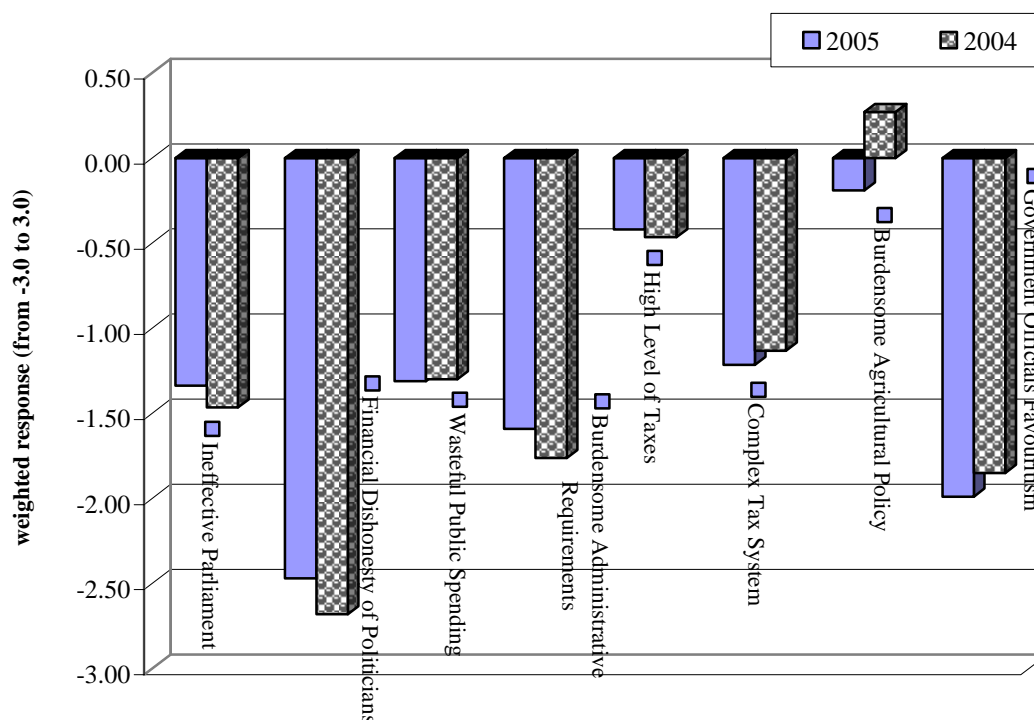
In a nutshell, business executives identified the prevailing poor governance scenario as the main impediment to attaining competitiveness in Bangladesh. Besides, poor infrastructural facilities, lack of skilled labour force, weakness in macroeconomic and financial management were identified as some of the other stumbling blocks impeding enhancement of private sector business operation in the country. Following sections analyse these factors, based on the perceptions expressed by the business community in the country, under the broad categories of public sector, technologies, infrastructure, human resource, financial management, company operations and strategy, environment, etc. Response scenario for these indicators has been presented in the Annex. It is hoped that such an analysis will help to understand the strengths and weaknesses of these factors and help to formulate policies that may enhance business competitiveness in the country.

IV.1 Government and the Public Sector: Downgraded Competencies and Burdensome Policies

The business community has been expressing its dissatisfaction as regards the gulf of difference between government's private sector-led industrial policy and its very poor supportive role that does not match the government's declared policies. The level of competencies of the public sector, set out in various indicators, failed to reach a minimum acceptable level. Country's ineffective parliament, financial dishonesty of politicians, wasteful public spending, complex tax system, burdensome administrative requirement and nepotism are not in line with the government's so-called supportive role in a liberalised regime.

There have been some interesting shifts in the composition of various blocs and also in the relative percentage in response; however, the "worse/downgraded" scenario for majority of the indicators continued to prevail in 2005. Figure 1 shows the level of weighted response of all indicators for two years. Apart from some marginal improvements for a few, most of the indicators have suffered a deterioration in 2005. Response scenario for various indicators has been presented in the Annex.

Figure 1: Performance of Government and Public Sector in 2004 and 2005



A detailed description including the frequency distribution and average weighted responses is given below. Full results are in the Annex.

(a) *Cumbersomeness of Administrative Reforms, Ineffectiveness of National Parliament and Poor Ethics of Politicians*

Business executives were unanimous in their opinion as regards politicians' very **poor profile in financial trustworthiness**. More than 95% of businessmen in 2005 and 98% of businessmen in 2004 have very strongly expressed their dissatisfaction with respect to the role of politicians. The present political scenario of the country also makes the respondents pessimistic as regards the financial trustworthiness of the politicians (weighted response marginally improved from -2.68 in 2004 to -2.47 in 2005, close to the extreme negative response level of -3.0). Moreover, the change in response distribution is also statistically significant. As high as 74% of the respondent companies stated that the **national parliament is highly ineffective** as a lawmaking and oversight institution. About three-fourths of total respondents mentioned that national parliament has largely failed to support business community through enactment of laws and supervision (weighted response is -1.34 in 2005 and -1.46 in 2004). The perception as regards **Complying with the administrative requirements issued by the government is highly burdensome** for the businessmen indicates a marginal improvement in 2005 (-1.59 in 2005 and -1.76 in 2004). A substantial improvement is needed in the administrative process, especially in terms of simplification and reduction of procedural requirements.

(b) Grafts and Favouritism

As high as 90% of the business executives were critical about government officials' favouritism for well-connected firms and individuals while deciding on policies and contracts. This criticism intensified in 2005, the score slid down to -1.99 (-1.85 in 2004). It, thus, continues to remain one of the major hindrances as far as competitive business environment in Bangladesh is concerned.

(c) Public Spending, Tax System and Agricultural Policy

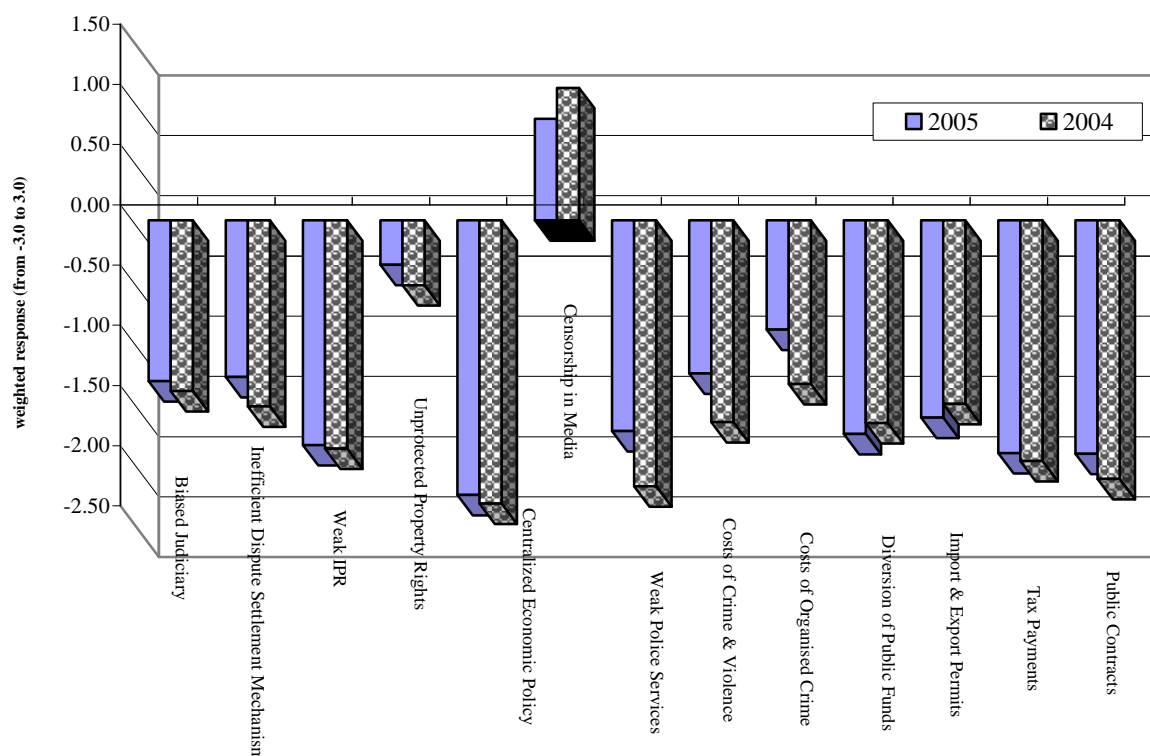
According to the respondents, the *composition of public spending* is also not favourable, with inadequate investment in infrastructure, education, health, etc. Wasteful public spending obstructs the growth of industrial activities. A significant part of respondents (about 75%) demanded more private-sector supportive investment by the public sector and they were against wasteful public spending. The situation remained unchanged throughout the two years (-1.31 in 2005 and -1.30 in 2004). *Country's tax system* is highly complex, which negatively affects business environment (-1.22 in 2005 and -1.13 in 2004). The level of taxes significantly limits the incentives to work or invest (-0.42 in 2005 and -0.46 in 2004). A high level of corporate tax rates would limit the incentives of the businessmen to invest more. The recent change to three-tier tax structure in the country from the four-tier may increase the efficiency of the tax system. *Agricultural policy* hardly addresses the interests of the tax payers, consumers and producers, rather imposes significant burden on the economy. The policy slightly balanced different stakeholders' interest in 2004 (0.27), but failed to comply with that in 2005 (-0.19). The change in response distribution is also statistically significant.

IV.2 Public Institutions: Weak, Inefficient but Slowly Approaching to Average Level

Businessmen have hardly any disagreement regarding the weak performance and inefficient services of the public institutions, which substantially increase business costs and reduce country's business competitiveness in the global market. More than three-fourths of total respondents expressed their dissatisfaction with all issues related to public institutions, although in a relatively less strong way in 2005 than they did in 2004. A significant worsening of the perception has occurred in 2005 compared to the previous year, especially in cases such as property rights, media censorship, police service, organised crime, public contracts in investment projects, judicial decision and illegal payments to influence government policies. Figure 2 shows the performance of the public institutions in 2004 and 2005. The only variable which shows positive response is the freedom of the press, although the performance has deteriorated in 2005 compared to

2004. All other variables have negative value. Response scenario for various indicators has been presented in the Annex.

Figure 2: Performance of Public Institutions, 2004 and 2005



(a) *Poor Reliability of Police Service, Fairness in Awarding Public Contracts and Access to Public Utilities*

Police services cannot be relied upon to protect businesses from criminals - this view was expressed by more than 90% of the country's top business executives in 2004. The situation slightly improved in 2005, since 87% of the respondents considered the change as significant improvement, this presumably indicates government's various initiatives to improve the service in the second half of 2004 and first half of 2005. Weighted response improved from -2.21 in 2004 to -1.75 in 2005 which is also statistically significant. However, recent events of a series bomb blasts and other terrorist activities would rather indicate a worsening situation as regards law and order. In 2005, as much as 70-75% of country's top business executives thought that increasing cost of businesses due to high incidence of **common and organised crime and violence** has reduced the country's business competitiveness. Though the situation marginally improved in 2005 (-1.68 in 2004 and -1.27 in 2005), the survey period was prior to that of the bomb explosions. The **faith in independence of judiciary** remained more or less same in comparison to 2004. More than three-fourths of companies (76%) underscored that the judiciary is not independent from political influence of members of government or firms (weighted

response slightly improved from -1.42 in 2004 to -1.34 in 2005). Interestingly, judicial services are considered as poor, since undocumented payments help make favourable decisions, which was stated by more than 60% of country's businessmen (weighted response of -0.63 in 2005 and -0.81 in 2004 further illustrates the unchanged perception). **Undocumented payments** for awarding contracts were widespread in the country and the situation further aggravated in 2005. It is very common to pay bribe for obtaining import and export permits (more than 80% of respondents agreed on that). The deteriorated weighted response from -1.53 in 2004 to -1.64 in 2005 further highlighted this concern. Public utilities such as connection of telephone or electricity line for the purposes of businesses are almost impossible to obtain unless a substantial amount of money is paid to the officials. A significant deterioration has taken place as regards illegal payments to influence government policy, law and regulations (weighted response slid down from -0.68 in 2004 to -1.22 in 2005). Accordingly, 74% of business executives opined that decisions could be taken in someone's favour by offering **illegal payments to top public officials**.

(b) Legal Framework, IP Protection, Tax Structure

The **legal framework for private business** to settle disputes and challenge the legality of government actions/regulations is inefficient and subject to manipulation. The response of the business executives has slightly improved in 2005 (-1.30) compared to the previous year (-1.55), a substantial part of respondents (77%) validated this perception. About 90% of businessmen opined that **intellectual property protection** is weak or non-existent (-1.87 in 2005 and -1.90 in 2004). Although property rights, including financial assets and wealth, are poorly delineated and not strongly protected by law, these are increasingly covered under formal law. Businessmen perceived the **structure of tax** not merely as cumbersome, but also as a mechanism for tax officials to collect undocumented payments (more than 87% of businessmen have expressed this opinion); weighted response somehow remained almost the same in both the years (-2.00 in 2004 and -1.93 in 2005). Thus, a simplification of country's tax structure would not necessarily ensure a high level of tax collection; the pervasive corruption in the tax administration needs to be reduced to increase collection of taxes.

(c) Centralised Economic Policy Making and Freedom of Press

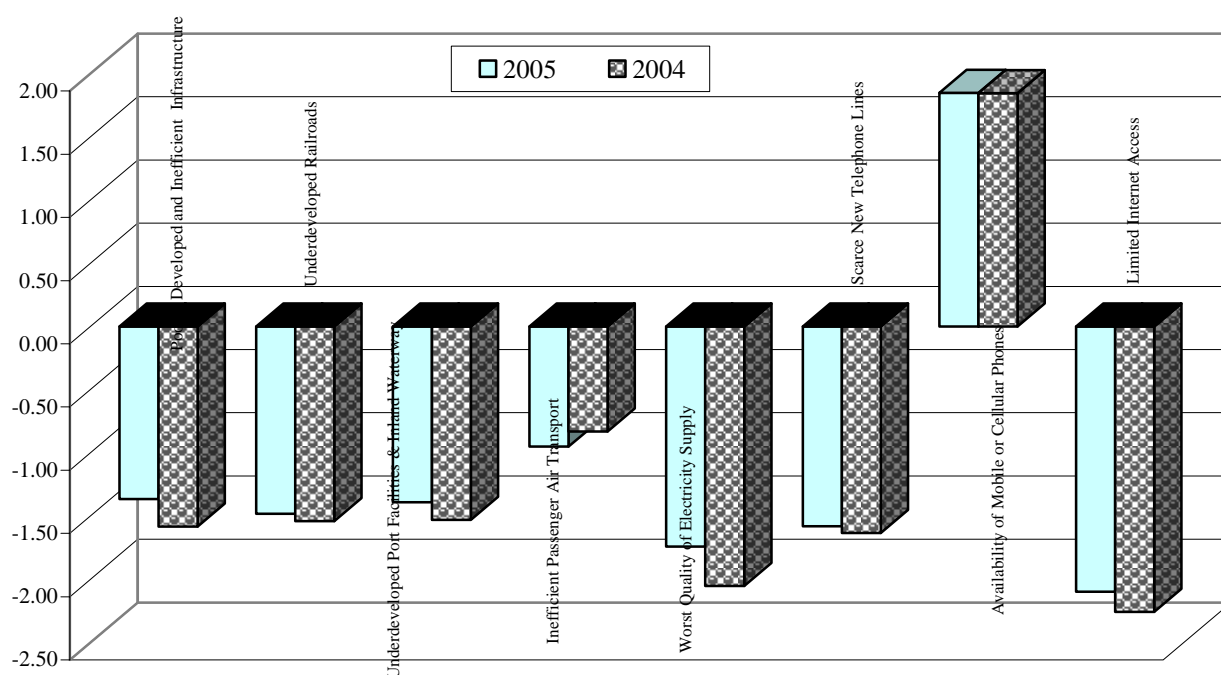
More than 90% of the respondents viewed that **country's economic policy-making** is centralised with little role for lower level authorities in decision making process. Such a centralised system in economic policy making leads to delays in decisions. The response is highly negative, although it shows a slight improvement in 2005 compared to the previous year (-2.28 in 2005 and -2.35 in 2004). The perception as regards **freedom of**

press improved in 2004; but the scenario again took a downturn in 2005 to 0.84 from 1.1 in 2004. Access to information as regards government’s policy, corruption, favouritism, etc. is very important to ensure an enabling business environment.

IV.3 Infrastructure: Poor, Underdeveloped but Some Sporadic Improvement

More than 80% of country’s top business executives thought that infrastructure was poorly developed and was not conducive to conduct businesses. Although a slight improvement is observed in different infrastructure facilities, those remained much below the average standard. Figure 3 shows that the only improvement in infrastructure is in mobile using pattern, while a gloomy scenario continues to prevail as regards use of Internet at the school level. Response scenario for various indicators has been presented in the Annex.

Figure 3: State of Infrastructure in 2004 and 2005



(a) Port, Inland Waterway, and Road Facilities

Poor *port facilities and underdeveloped inland waterway* add significant cost for the businesses, especially in terms of failure to reduce lead time for supply to the international market. The port facilities especially the time for loading and unloading, customs facilities, container facilities, etc. have to be considerably improved in order to improve the lead time. The weighed response of -1.53 in 2004 and -1.39 in 2005 highlights the poor scenario of port facilities in the country. Because of poor

development of domestic inland waterways, businessmen often fail to get the facility of low cost transportation through waterways, thus bear the extra cost of transporting through road. Bangladesh has the potential to use intra-regional waterways by developing India-Bangladesh common waterways, which would open scope for transporting at a very low cost. **Railway**, an effective means of transportation, is highly underdeveloped. About 86% of the country's top business executives found the system poor (weighted response was -1.48 in 2005), which causes loss of resources in terms of high cost of using other transports, delay in supply, etc. There is no perceptible change in response between 2005 and 2004. Under a regional transport network in South Asia, railway could be the major means for transportation and government needs to improve the railway system on an urgent basis.

(b) Quality of Electricity Supply

The **quality of electricity supply** is worse than in most other countries, as viewed by about 90% of the top business leaders. Though some marginal improvement was registered in 2005, the scenario is still not a very satisfactory one (weighted response -2.05 in 2004 improved to -1.74 in 2005). Supply of electricity is at present much lower than the demand for domestic, industrial and commercial activities; this leads to interruption in economic activities and raises the production cost as well. In view of growing demand of electricity for various economic activities, government inaction was doubly disquieting. In order to meet the crisis in the power sector, government should take urgent measures.

(c) Use of Mobile Phone

More than 90% of the respondents opined that **mobile or cellular telephones** are widely available for businesses. On the other hand, public sector based fixed telephones are scarce and difficult to obtain (according to 87% of total respondents). Government has allowed setting of fixed telephone lines by private entrepreneurs in different regions other than Dhaka, which is a positive step. However, considering the huge demand of fixed telephones in Dhaka city, government should either allow private sector to invest or expand its network immediately. Launching of a public-sector led mobile network in the first quarter of 2005 with a view to creating more competitive environment in the telecommunication sector has yet to have any effect on the oligopolistic nature of telecom market.

(d) Access to Internet in Schools

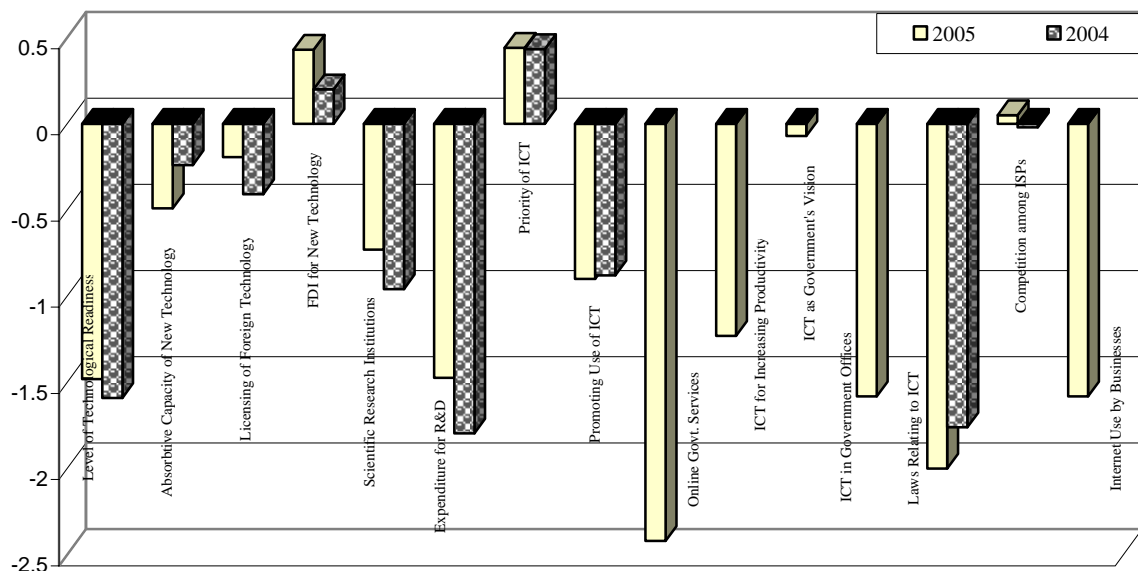
Access to Internet in educational institutions (schools in particular) is very limited. This has been reported by as much as 90% of the respondent companies. Perception, in this

regard, seems to be at the same level when compared to 2004. The weighted response is - 2.1. Internet use is very limited in the country and its use at school level is rarely found; this is available only in some urban schools. Therefore, students suffer from the lack of information pertaining to their respective interests, which is essential in the globalised era.

IV.4 Technology: Backward especially in ICT

More than 85% of the country’s top business executives agreed that the level of technological readiness generally lags behind most other countries. Companies have increasingly faced competition in the global market and were forced to use technology intensive production techniques more in order to retain their competitive advantage. With a poor technological base in the country, especially in terms of application of new technologies, availability of scientific research, application of ICT, etc. companies are bound to suffer in the long run because of inability to compete with their old-fashioned technological practices. However, business executives considered the changes in the technological base significant in 2005 as compared to the previous year. Figure 4 highlights the state of technological backwardness during the year 2004 and 2005. Response scenario for various indicators has been presented in the Annex.

Figure 4: State of Technology in 2004 and 2005



(a) Capacity to Absorb New Technology

Companies are not able to **absorb new technologies**, as stated by 33% of total respondents in 2005; this was 45% more than those who responded to this question in

2004. But the perception in 2005 has significantly deteriorated (-0.49) as compared to that in 2004 (-0.24). Licensing of foreign technologies is not so common, but the situation improved (-0.19 in 2005, which was -0.41 in 2004).

(b) FDI and Its Role as a Source of New Technology

Top business leaders agree to some extent on the role of **foreign direct investment (FDI) as a major source for new technology** – a significant improvement was observed between 2004 and 2005 (0.2 and 0.43 respectively). Although major flow of FDI in service related activities has opened scope for transferring technologies, it has failed to generate enough employment in the country.

(c) ICT Policy and Subsequent Government Policy and Competition among the ISPs

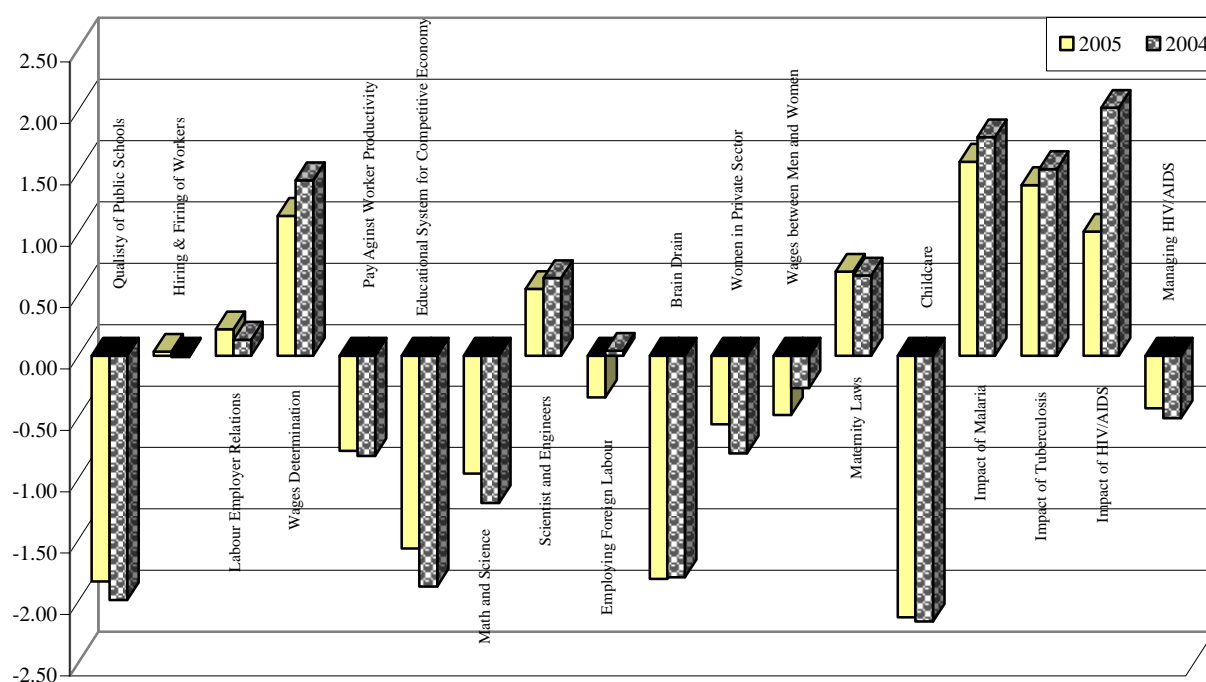
There is very little disagreement among business leaders about government's weak **policy emphasis in the area of application of ICT**. More than two-thirds of total respondents in 2005 have shown some dissatisfaction as regards government programmes for promoting the use of ICT. Government services in such areas as payment of personal tax, car registration, passport, business permit and e-procurement are not available online. This was assessed by businessmen as highly negative (-2.42 in 2005). Access to such services online would substantially reduce transaction cost and other undocumented costs that are currently borne by businessmen. A modest application of ICT in government offices would not contribute to increase productivity, as perceived by 72% of the respondents, with a high negative rank (-1.23). Businessmen are not yet sure as to what extent **ICT is an important part of government's vision** for the future of the country and whether the government communicates its vision to the citizens actively (-0.07 in 2005). This negative apprehension (-1.76 in 2004, but significantly fell to -2.0 in 2005) has been generated due to government's very poor initiative for developing laws relating to the use of information technology such as e-commerce, digital signature, etc. ICT application in the government office is very rare, as is highlighted by about 80% of total respondents. Moreover, Internet use by businesses to buy and/or sell products and services is very low, as commented by 80% of the respondents (-1.58). Businessmen, to some extent, believe that gradually **competition among the internet service providers** is becoming stronger, which will ensure better quality of internet services such as high quality, infrequent interruptions and low prices (0.05 in 2005 as against -0.02 in 2004).

IV.5 Human Resources: Scarcity of Skilled Professionals

As perceived by the top business executives, there is a wide dissatisfaction about the quality of human resources in the country. Bangladesh's development prospects are

severely constrained due to lack of proper vision with respect to human resource development. Indeed, businesses will not expand unless there is skilled manpower available in the country. At present the educational system does not meet the needs of a competitive economy. Traditional educational policy which is hardly demand-driven is adversely affecting the task of building the required skilled personnel in the business sectors. Figure 5 shows that some improvements were observed during the last couple of years in this respect. However, uneducated workforce is still considered to be one of the major factors impacting negatively on country's business environment. Response scenario for various indicators has been presented in the Annex.

Figure 5: State of Human Resources, 2004 and 2005



(a) Demand-driven Education System

According to the business executives (85%), **educational system does not meet the needs of a competitive economy**, although the strong dissatisfaction in 2004 (-1.88) has lessened to some extent in 2005 (-1.57). Public schools, which comprise the major strand of basic education system, are found by business leaders to be of very poor quality; more than 90% of respondents gave strongly negative observations (-1.84 in 2005, which was -1.99 in 2004). Besides, basic education in two important subjects, such as math and science, lags behind most other countries. Although some improvement was observed in the perception in 2005, the overall level lies below the minimum required line (-0.96).

(b) Availability of Scientists and Engineers and the Existence of “Brain Drain”

Business leaders noted that **scientists and engineers are not available** as were needed in view of growing demand emanating from industrial and commercial activities in the country. More importantly, country’s potential skilled people are increasingly migrating to other places for better wage and living standards. As a result, businesses are suffering from lack of skilled personnel. As many as 90% of top business executives had strong views regarding the unavailability of talented people (-1.82 in 2005, which was -1.81 in 2004) in the country.

(c) Labour-Employee Relations and the Nature of Hiring and Firing

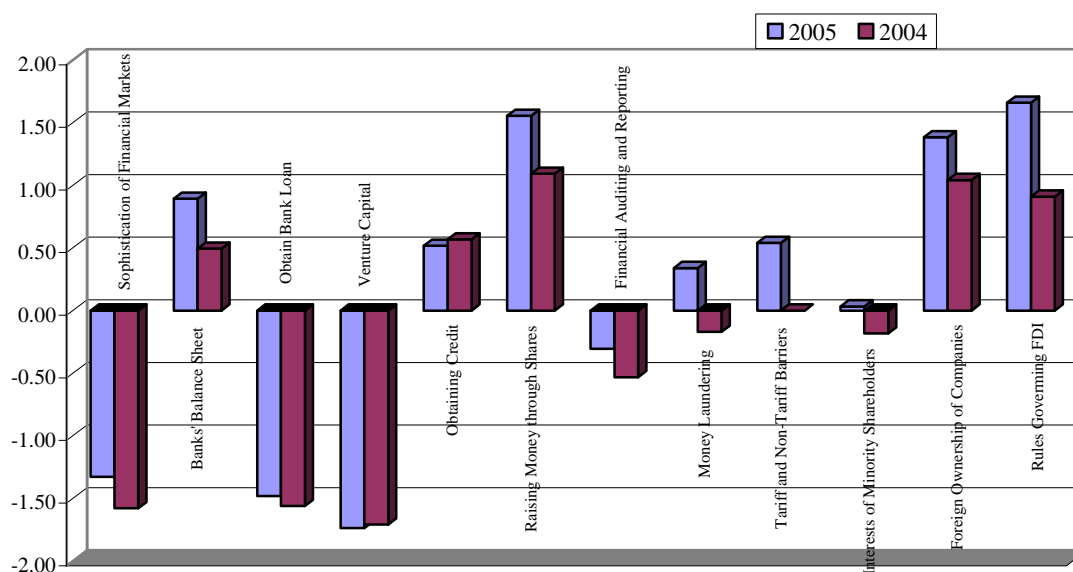
According to half of the respondent business executives, **labour-employer relation** in the country was usually cooperative and the situation is improving over time (in 2004 the average weighted response was 0.13, but it has improved to 0.22 in 2005). It is the employer who determines the hiring and firing of workers. Instead of a common wage structure, wages are set up according to each individual company’s decision. However, payment to workers is not highly related to productivity (-0.77 in 2005, which was -0.82 in 2004). There is a slight improvement observed by the business executives as regards **hiring of women in the private sector jobs**; however, the level of employment is still below the average and often women are employed in less important jobs (-0.56 in 2005, as compared to -0.80 in 2004). Women, however, are paid less than men and there is an indication of deterioration in the situation (-0.48 in 2005 as against -0.27 in 2004). Positive change was observed in the case of hiring of women, where maternity laws are not considered as hindrance and the situation has improved in 2005 (0.69 in 2005 as against -0.65 in 2004). However, the government has almost no initiative to provide childcare facilities, especially to working mothers.

IV.6 Finance and Openness: Strengthen the Corporate Governance Practice

Most of the businessmen considered the level of sophistication of financial markets lower than the international norms, but at the same time they observed some positive changes in various indicators over time. Some improvements are observed in terms of such indicators as banks’ sound balance sheets, easier way of collecting money through capital market, improvement of money laundering situation, environment for foreign direct investment, etc. However, significant improvements are required in the case of credit distribution system, availability of venture capital, financial auditing and reporting standards, etc. Companies need to focus more on corporate governance in order to establish a strong footing in the local market at a time when international orientation of local businesses is becoming increasingly necessary. Figure 6 highlights various aspects

of the issue of finance and openness that characterise business environment of the country. Response scenario for various indicators has been presented in the Annex.

Figure 6: Finance and Openness in 2004 and 2005



(a) *Financial Conditions of Banks, Money Laundering through Banking System and the Disbursement of Credit from Financial Institutions*

Businessmen believe that banks are generally healthy and have sound balance sheets and the situation has been improving over time. In 2004, about 60% of businessmen gave a positive weight (0.49) to indicator of *financial condition of banks* which has improved in 2005 when 70% of businessmen have given a weight of about 0.89. Since bank loan is one of the major sources for financing local businesses, this is a good indication. However, the country's capital market is suffering due to its failure in attracting new companies for enlistment in the stock exchange. Businessmen believe that raising money by issuing shares in local stock market is not difficult for a good company and the situation has considerably improved in 2005 (1.55) as against 2004 (1.09). A significant *improvement has been observed by the businessmen in the case of money laundering through the banking system*. During 2004, about 48% of the businessmen have weighted the performance at -0.17, which has improved in 2005 over the minimum average (0.34), presumably because of central bank's recent initiatives for establishing prudential regulations for the banking system. Formidable difficulties still persist in getting credit from financial institutions. More than three-fourths of country's top business executives believed strongly that a *good business plan is not sufficient enough to get credit from the bank unless sufficient collateral is shown* (-1.48 in 2005, which was -1.56 in 2004). The situation has further worsened in the case of getting venture capital for innovative but risky projects (weighted average is -1.74 in 2005, which was -1.71 in 2004). More importantly, about 50% of the respondent companies have faced some difficulties in

obtaining credit from the banks (0.52) in 2005, which showed deterioration compared to the previous year (0.57).

(b) Financial Auditing and Reporting Standards

It is important to improve *financial auditing and reporting standards* of companies in order to attract more foreign capital in local businesses, which is at present below the average (-0.30 in 2005, which was -0.53 in 2004). It is becoming important for local companies to look for capital from international financial market in view of recent crisis in the foreign exchange market. However, without having a reliable financial auditing and reporting system in place, along with improvements in other areas, it is not easy to mobilise capital in the international capital market. Interests of minority shareholders are, to some extent, protected by law and are recognised, to some extent, by majority shareholders. In 2004, the weighted average as regards this perception was -0.18, which has improved to -0.03 in 2005.

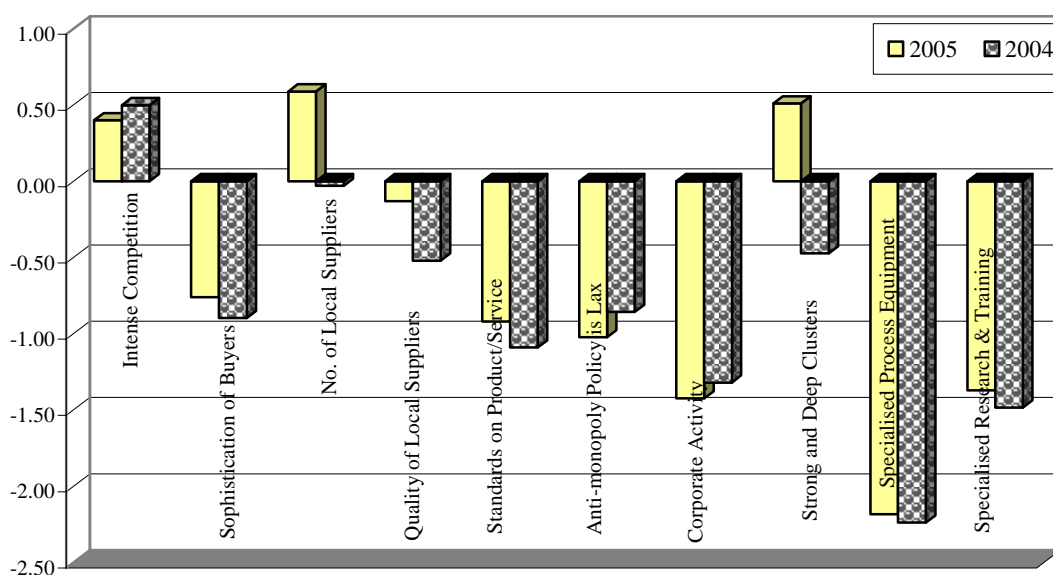
(c) Foreign Ownership of Companies

Foreign ownership of companies is prevalent and encouraged and the situation has improved in 2005 as compared to 2004. More importantly, rules governing foreign direct investment are supportive and favour FDI in the country. More than 80% of businessmen have considered the business environment in Bangladesh, at least in terms of policy support, highly favourable (1.66).

IV.7 Domestic Competition: Lack of Policy, Regulations and Sophistication

Domestic competition situation, according to country's top business executives, is poor (Figure 7). As revealed by the various indicators, this poor status has negative implications for producers, suppliers as well as consumers. Response scenario for various indicators has been presented in the Annex.

Figure 7: Situation of Domestic Competition in 2004 and 2005



(a) *Competition in Local Market and Availability of Local Suppliers*

More than 50% of the respondent businessmen perceived that there is some degree of **competition in the local market** in most industries (0.40 in 2005, but 0.50 in 2004). But the competitive environment is influenced by poor standards revealed by consumers, suppliers and producers. Buyers in the local market are unsophisticated and make choices based on the lowest prices, which may hinder the development of industries producing high quality products (-0.76 in 2005 as against -0.90 in 2004). **Availability of local suppliers** is still not sufficient and, therefore, the supply of materials, components, equipment and services is not competitive, which affects producers. However, about 60% of the businessmen have considered that the situation has improved since the weighted average of -0.03 in 2004 has significantly improved to 0.59 in 2005. But there is a problem of availability of quality local suppliers, which has improved overtime but still remains below the average level (-0.13 in 2005 as against -0.52 in 2004).

(b) *Regulations for Quality and Standards*

There is a serious inadequacy in policy implementation which affects the overall business environment in the country. More than 70% of the businessmen have criticised the government for having **very lax regulations and standards on product/service quality** or for having no such regulations at all. However, there is significant improvement observed in the perception in 2005 (-0.92) as compared to 2004 (-1.09). Besides, country's anti-monopoly policy is lax and not effective for promoting competition; the perception in this regard has deteriorated in 2005 (-1.02) as compared to 2004 (-0.86). As a result, corporate activity is dominated by a few business groups, as strongly perceived by two-thirds of the

respondents (weighted average is -1.42 in 2005 as against -1.32 in 2004). Lack of competitive environment in the country with the dominance of a few business groups has affected the interest of the small and medium scale industries which provide about 70% of industrial employment in the country.

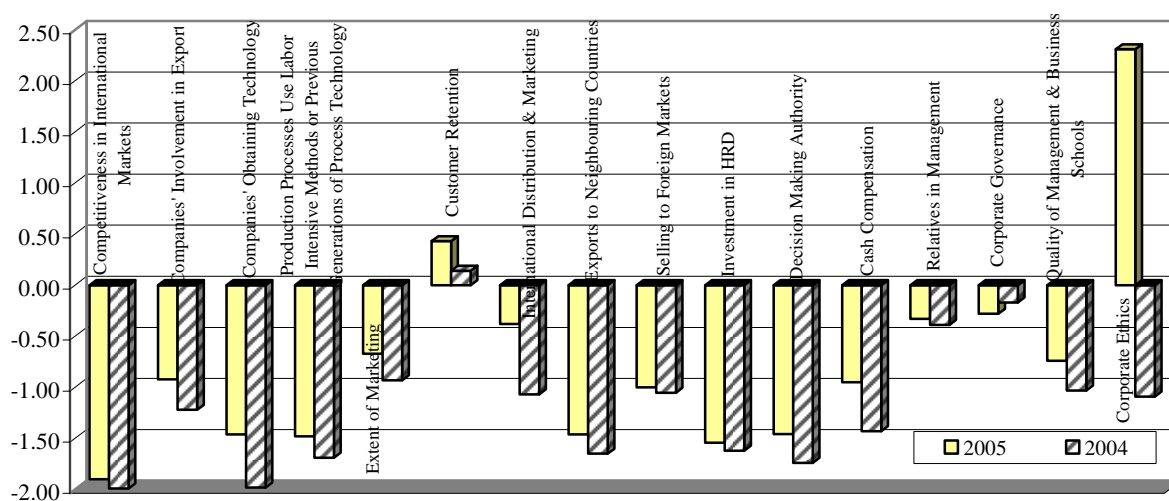
(c) Lack of Clusters as well as Diversification

There is a lack of specialised value chain system in the country, which has reduced country's competitiveness in the world. ***Businessmen have suffered for not having strong and deep clusters throughout the country***, which otherwise could increase business competitiveness significantly. More than 50 per cent of businessmen stated that the availability of such clusters is partly non-existent (weighted average is 0.51 in 2005 as against -0.47 in 2004), although they found some significant improvement in the current year. However, Bangladesh is heavily dependent on the imported specialised process equipment and machinery in order to meet the needs of the industrial sector (-2.18 in 2005 as against -2.24 in 2004). As a result, a significant amount of foreign exchanges has been utilised to meet the import cost, which creates pressure on the country's poor balance of payments (BOP) situation. One of the major reasons for not having any base for local supply of industrial equipment is lack of specialised research and training services in the country (-1.37 in 2005 as against -1.48 in 2004).

IV.8 Company Operations and Strategy: Further Improvement Needed

Company operations and strategy are below the average standard, this adversely affects their competitiveness in the global market. However, companies are increasingly developing their operational strategy because of intense pressure from the global business players. Instead of traditional comparative advantage in natural resources, low cost labour, companies are trying to focus more on market access, diversification of export, improvement of marketing system, and efficient management system, etc. Figure 8 shows various scenarios that prevailed during the years 2004 and 2005 as regards company operations and strategy. Response scenario for various indicators has been presented in the Annex.

Figure 8: Company Operations and Strategy in 2004 and 2005



(a) *Nature of the Exporting Companies' Primary Involvement*

An overwhelming majority of all companies (more than 90%) are competitive, thanks to their advantage in terms of low cost; for many advantage was in the use of natural gas as the major source of energy (-1.90 in 2005); **Exporting companies are primarily involved in resource extraction or production** (-1.46 in 2005 as compared to -1.98 in 2005). Moreover, companies are heavily dependent on labour intensive methods or old generation of process technology for production (-1.48 in 2004 as compared to -1.69 in 2005). There is also a crisis of efficient marketing system in the country, which is limited and outdated and, therefore, unable to extend its outreach. However, there is a significant change observed in the marketing system (-0.67 in 2005 as against -0.93 in 2004) because of increasing integration in the global value chain, especially in the case of country's major exportable goods.

(b) *Regional Market Access*

Survey respondents have emphasised the need to increase **market access to neighbouring countries**. More than 80% of the top executives opined that access to neighbouring countries is seriously limited (-1.46 in 2005 as against -1.65 in 2004). Exporting companies are primarily targeting a limited number of foreign markets, which is an indicator of the vulnerability of the export market for domestic products. International distribution and marketing channel is largely owned by foreign companies. However, the weighted average of responses indicates that the situation is improving and local companies are assuming some ownership of the distribution channel (-0.38 in 2005 as against -1.07 in 2004).

(c) *Management Problems Associated with Skilled Human Resources and Existence of Corporate Ethics*

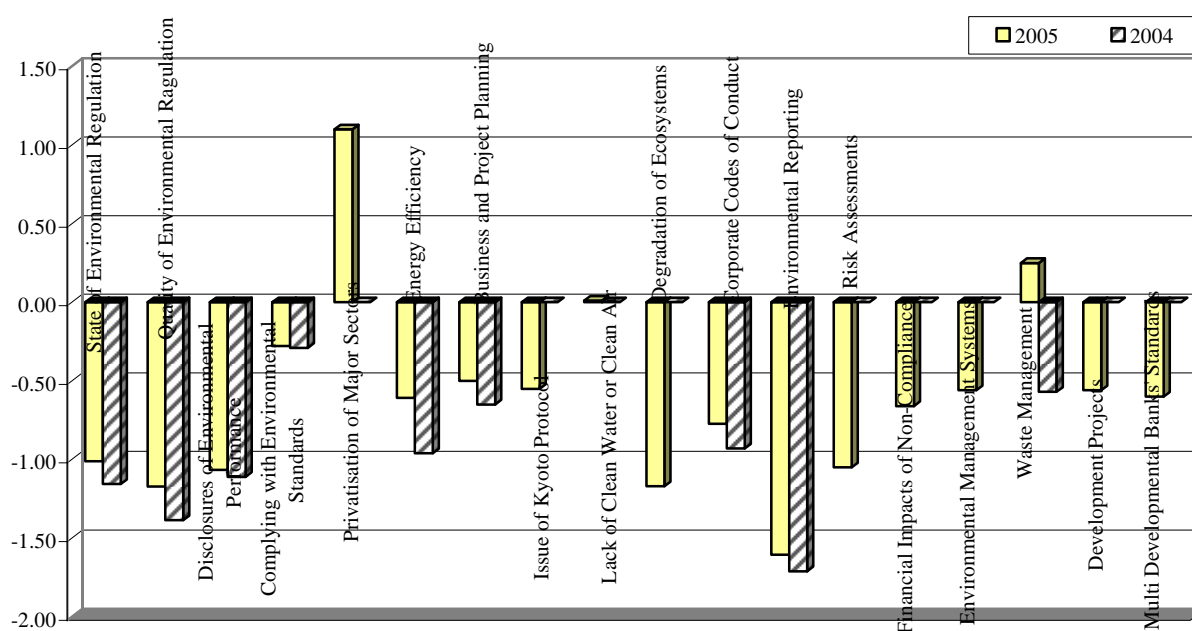
About 50% of the business leaders mentioned that senior management positions are usually filled in by relatives in order to establish absolute control over the companies' decision-making process. Many companies were practicing a centralised decision-making system (weighted average is -0.33 in 2005 as against -0.39 in 2004). More than 80% of business executives have strongly observed that top management controls all important decisions and they have very little willingness to delegate the authority to subordinates (-1.54 in 2005 as compared to -1.62 in 2004). Management does not have adequate accountability to the relatively smaller shareholders, which was perceived by 44% top business executives in 2005 (with a weighted response of -0.28), which shows a modest deterioration as compared to 2004 (weighted response was -0.17). There is a lack of development of human resources because of constraints in demand as well as in the supply sides. According to majority of business executives (63% in 2005 as compared to 67% in 2004), ***management and business schools are very limited and the quality of their education is poor*** although they have improved to some extent in 2005 (average weighted response is -0.74 in 2005 as compared to -1.03 in 2004). On the other hand, more than 80% of country's top business executives strongly believe that companies have very little interest to invest in training and employee development (weighted response is -1.54 in 2005 as against -1.62 in 2004). There has been a substantial improvement as regards the ***corporate ethics of firms***. About 57% of respondents felt that standard of corporate ethics was good which has substantially and significantly improved in 2005 (2.31) as compared to 2004 (-1.09).

IV.9 Environmental and Social Responsibility: Lax Regulations

Country's top business executives agreed, to a moderate extent, that overall environmental regulation of the country is lax compared to most countries. About two-thirds of country's business executives have stated that environmental regulation is below the minimum standard level though the indicator showed some improvements in 2005 (weighted average is -1.01 in 2005 as against -1.16 in 2004). Confusing and contradictory environmental regulations, non-existence of government-mandated disclosures of environmental performance and pollutant releases, low priority given to energy efficiency, etc. have had negative impact on an environmentally safe business environment in the country. At the same time, companies have a lack of interest to comply with environmental standards in order to retain competitiveness in the global market. Response scenario for various indicators has been presented in the Annex.

Figure 9 illustrates various scenarios as regards state of environmental and social responsibility observed during 2004 and 2005 surveys.

Figure 9: State of Environmental and Social Responsibility, 2004 and 2005



(a) *The Nature of Environmental Regulations, Lack of Management System and Non-participatory Management Policy Practicing*

Business executives are strongly of the view that ***environmental regulations in the country are confusing and enforced erratically*** (weighted response in 2005 is -1.17 as compared to -1.39 in 2004). More than two-thirds of the businessmen have replied that government-mandated disclosures of environmental performance and pollutant releases are non-existent, which has slightly improved in 2005 as compared to 2004 (-1.07 in 2005 as against -1.11 in 2004). Due to poor environmental laws and regulations and their enforcement, companies are yet to observe international standards. More than 50% of business executives mentioned that companies view environmental management systems purely as part of regulatory compliance (weighted average is -0.56) instead of international competitiveness. Due to poor laws and regulations, companies do not need to consider financial impacts of non-compliance with environmental and social standards. Increasing global competition has intensified pressure on the companies to comply with the environmental and social standards; however, companies sometime consider such compliance more costly relative to gains in the international market. It has been observed that about 50% of companies believed that development projects that have the potential to affect specific communities rarely consult or gain support from those communities (weighted average is -0.56 in 2005). More than 50% of respondents believed that Multilateral Development Banks' (WB, ADB, etc.) environmental and social standards do not apply to companies' operations (weighted average is -0.6 in 2005).

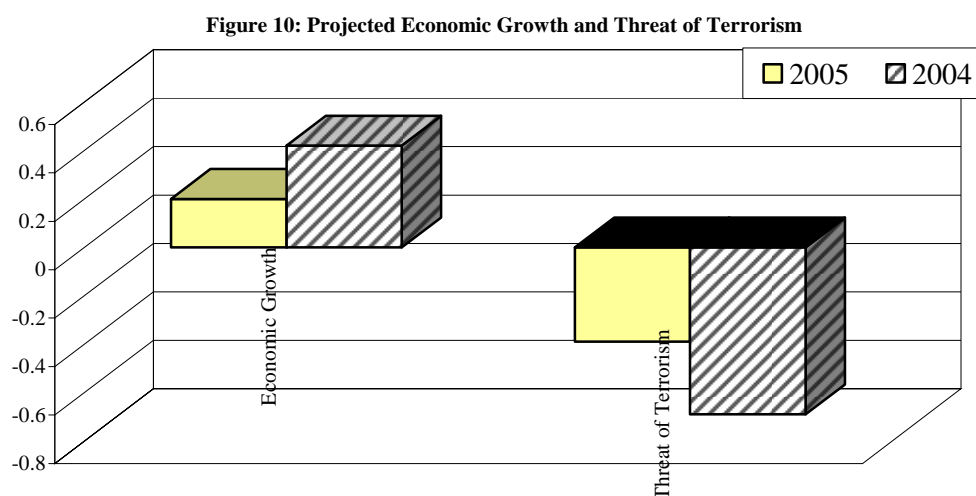
(b) *Complying with Environmental Standards, and Awareness and Practice of Corporate Social Responsibility (CSR)*

There is somewhat negative perception as regards ***complying with environmental standards in order to achieve competitiveness in the market*** (weighted average is -0.28 in 2005). Energy efficiency and transition to new and renewable sources of energy are low priorities for the companies, which have substantially increased energy consumption in the country (weighted response is -0.61 in 2005 as against -0.96 in 2004). However, it was viewed by more than 70% of business executives that privatisation of major sectors improves long-term competitiveness and efficient use of energy and materials (1.11 in 2005, but the issue was not included in 2004). Although very slowly and still below the line of minimum level (-0.50 in 2005 as against -0.65 in 2004), businessmen now consider long-term factors for their business and project planning. Companies in the country have a very low level of ***awareness as regards environmental and social standards***. Less than 50% of country's top business executives mentioned that companies have very negligible level of concern (0.25 in 2005 as against -0.57 in 2004) regarding cleaner production, material flow management, waste reduction and recycling. However, the positive change is significant in 2005 compared to 2004. The same kind of observation is found in the case of lack of awareness among the companies that harvest or process natural resources such as food, forest or fishery products. Companies have rarely shown their concern about degradation of ecosystems (69% of company-executives provide a weight of -1.17). ***Corporate codes of conduct and other corporate social responsibilities are rarely practised*** (weighted average is -0.77 in 2005 as compared to -0.93 in 2004). About 90% of the business executives mentioned that companies do not follow any corporate environmental reporting system (weighted average is -1.60 in 2005 as against -1.71 in 2004). Companies hardly conduct environmental and social risk assessments as a part of overall business risk assessment (weighted average is -1.05 in 2005, not included in 2004).

IV.10 Company Level Performance: Less Optimistic

Businessmen were found to be less optimistic in Bangladesh's economic growth during the second half of 2005 as compared to 2004. Less than 50% of businessmen opined that there is some prospect for growth in 2005 (weighted average is 0.2), although proportion of such businessmen was more than 50% in 2004 with relatively better assessment of the economy (weighted average is 0.42). One of the reasons for poor economic performance could be the threat of terrorism in the country. About 55% of businessmen considered terrorism as a major threat for country's economic growth in the future (weighted average is -0.39), which also showed some improvement as compared to 2004 (weighted average is -0.69). Figure 10 illustrates various scenarios as regards the issue stated above.

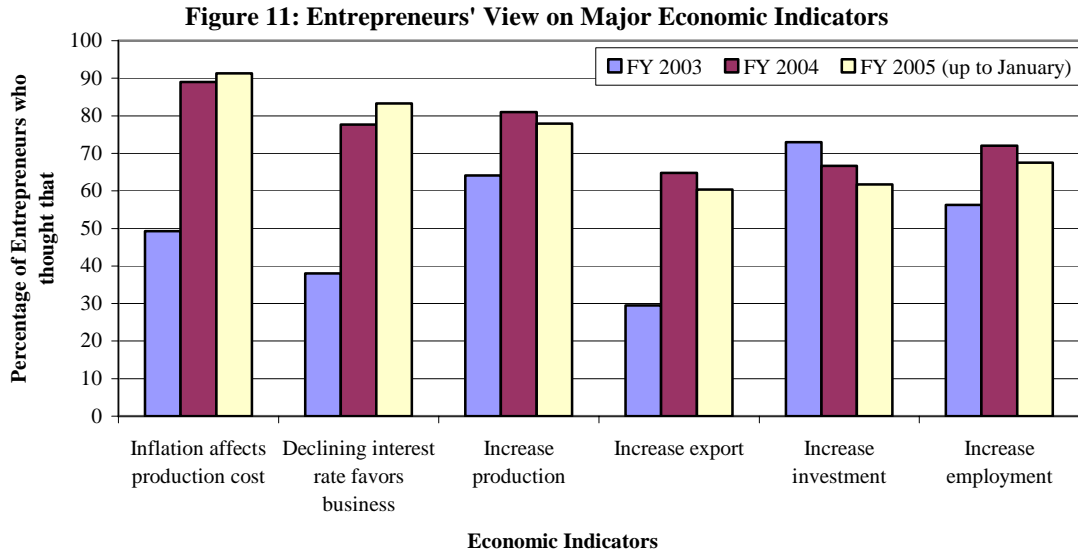
However, recent incidences of country-wide bombing are likely to affect business environment seriously in the coming months and would slow down the process of growth. Response scenario for various indicators has been presented in the Annex.



Country's top entrepreneurs have expressed increasing concern as regards poor condition of business at the micro level in 2005, which led them to take less expansionary policy (or even contractionary policy) with respect to companies' production, export, investment, and employment. Figure 10 shows entrepreneurs' perception on micro business environment, and according to country's top business leaders, 2005 was relatively less business friendly than the previous year.

IV.11 Macroeconomic Performance of the Country: Mixed Perceptions

Entrepreneurs view on major economic indicators such as inflationary pressure, interest rate, industrial production, export performance, investment and employment was placed in this section. Investment scenario was considered both from the perspective of non-resident Bangladeshis' investment and overseas investment. The details on each of the issues are discussed below.



(a) **Inflationary Pressure:** Rising inflation in 2005 was a serious concern for all businessmen. In FY2003 about half of the total surveyed executives complained about higher production cost due to high level of inflation, and their number jumped up to more than 90% in 2005. About 20% of companies are strongly affected by inflation in the form of rising production cost, which was about 10% last year. Table 8 shows the impact of inflation on different sectors at the industry level. It is found that inflation raised cost of production of more than 80% of RMG firms surveyed in 2005. All pharmaceutical companies were more or less affected by inflation and about 40% of them were affected in a substantive manner; besides, about 17% of financial institutions, which were not affected in 2004, mentioned that they were affected in 2005.

**TABLE 8: EFFECT OF INFLATION ON PRODUCTION COST BY SECTORS
(IN PERCENTAGE)**

Sectors	July 2003- June 2004	July 2004- January 2005
RMG	82.4	82.2
Pharmaceuticals	80.0	100
Other Manufacturing	90.0	89.5
Real Estate and Construction	87.5	87.5
Financial Institutions	83.3	100.0
ICT	100.0	100.0
Others	100.0	90.9.0

Source: CPD Survey

(b) **Interest Rate:** Businesses perceived that they benefitted from declining interest rate more in 2005. About 5% of total companies felt that the positive impact was high, which was half in the previous year. In RMG, about 90% of companies have enjoyed at least some benefit from the declining interest rate, which was about 75% in the previous year.

About 9% of financial institutions and 17% of ICT companies benefited substantially thanks to low cost of capital, which was not observed in the previous year. Bangladesh Bank has recently taken contractionary measures to reduce inflationary pressure by increasing the rate of interest with a view to increase the cost of borrowing. Such measures may constrain growth of the private sector if other supportive measures are not put in place.

(c) Industrial Production: Overall industrial production has not decreased significantly (or has remained unchanged) in 2005 compared to the previous year. However, level of production has been redistributed within the industry - from “high” to “medium”, or “low” to some extent. RMG and pharmaceutical sectors have experienced relatively “less” increase in production, while financial institutions could not increase production in 2005 beyond that of the previous year. ICT sector has experienced high level of growth in terms of production (83.3%) in 2005 as compared to 2004 (66.7%), probably because of low cost capital support and the high local and global demand.

(d) Export Performance: After a sharp rise in 2004 (65.8%) as against 2003 (29.5%), companies’ export could not continue comparable growth performance in 2005 (60%). About 13% of companies have experienced decrease in export in 2005 as compared to 5.6% of the previous year. “High” level of growth in export, in general, could not be maintained by most of the companies, which tilted the balance in favour of “medium” and “low” level. According to Table 9, export of RMG was significantly affected as export was reduced by 28% companies. The same is true for pharmaceuticals, where export growth has decelerated to some extent. However, there has been an increase in export of ICT based products in 2005.

TABLE 9: 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.

(e) Investment: It is found that proportion of businessmen who either curtailed or refrained from any investment has increased (38%), as compared with 27% in FY2003 and 33% in FY2004. In this context, it was found that an increasing number of

businessmen had a plan to expand their existing business. However, proportion of businessmen investing in new businesses has somewhat increased (15%) compared to the previous year; although the position was much better in FY2003 (25%). Investment in RMG and other manufacturing companies was being curtailed. However, some new investments were found to be taking place in pharmaceuticals, and real estate and construction sector.

(f) Employment: Employment growth slowed down in 2005 (67.5%) when compared to the previous year (72%). More importantly, companies were found to increasingly curtail their staff strength. This was so particularly in the case of RMG and pharmaceuticals while an opposite scenario was revealed in the case of real estate, construction and financial institutions. It appears that companies suffer from both internal and external pressures which affect business competitiveness and have dampening effect on companies' production, export, investment and employment.

(g) Non-resident Bangladeshis Investment: Non-resident Bangladeshis (NRBs) are increasingly investing in local businesses, which is validated by about 67% of total business executives (as against 55% in 2004). However, some redistribution has occurred in sectoral preference in 2005. Although real estate seems to be the top preference for investment, banking and ICT are becoming more important, investment in RMG or restaurants has fallen significantly. It appears that NRBs' preference for investment in different sectors is closely associated with current and future potentials of different sectors.

(h) Overseas Investment: Executives' perception on Bangladeshis' investment abroad showed a downward movement in 2005 (41.7% as against 57.8% in 2004). Investment abroad has diversified in the form of various economic activities (such as retail trading, food processing, pharmaceuticals, tourism, gas filling station, etc.) instead of concentrating on some limited areas as observed in the last year. RMG (21.7%) is a preferred area for overseas investment, followed by hotels (18.8%) and real estate (17.4%). According to the business executives, some Bangladeshis have been investing in ICT sector as well (Table 10).

TABLE 10: 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

Note: Entrepreneurs who fully or partially agreed on these issues are considered.

Source: CPD survey.

V. CONCLUSION AND POLICY RECOMMENDATIONS

Poor performance of country's overall competitiveness in the global context has continued in 2005. In view of this, pragmatic actions need to be taken in order to improve the competitiveness of the country's business environment. One significant aspect, derived from the CPD survey, was that the threat of terrorism imposes significant cost on business and if it is not checked, it would create a real problem for the country.

The Executive Opinion Survey identified a number of areas where Bangladesh needs to improve in order to become competitive globally and within the country itself. Based on the finding reported here and focusing on the present condition of business competitiveness in Bangladesh, a set of policy recommendations has been formulated and presented below.

V.1 Government and the Public Sector and Public Institutions

The overall perception in terms of administrative inefficiency and ineffectiveness of national parliament continued to remain overwhelmingly negative. Overall composition of public spending is wasteful. The situation as regards grafts has further deteriorated, so has been the case with illegal payments to influence government policies, laws, regulations, and diversion of public funds to favoured companies. It is, therefore, imperative that the government ensures effective operationalisation of the Anti-Corruption Commission, sets up an ombudsman agency and implements and monitors governance-related indicators mentioned in the poverty reduction strategy paper (PRSP).

There was a tangible improvement in terms of incidence of common crime and violence. The reliability of police service, although still at a very low level, moderately improved in 2005. This, to an extent, has happened due to the introduction of the Rapid Action

Battalion (RAB). However, the events that occurred in the months following the survey might worsen the negative perception about overall security situation. It is found that judicial system in the country is heavily influenced by political interference. It is recommended that the government immediately separates the judiciary from the executive, simplifies procedures, and introduces effective mechanisms to ensure transparency and accountability of the judiciary.

V.2 Infrastructure and Technology

Country's technological readiness and infrastructure lag behind most other countries. Rail, road, port facilities and inland water ways are still highly underdeveloped. The electricity supply is of poor quality. Air transport system is inefficient and further deteriorated in 2005. It is suggested that public investment in infrastructure development should be of highest priority. Development of domestic infrastructure of the country should be properly linked with regional transport network in order to reap the benefit of enhanced intra-regional investment and trade. Public-private partnership would also facilitate establishment of improved transport network in the country.

Lack of vision and mission are major stumbling blocks for ICT development in the country (e.g. poor ICT laws, poor use of ICT in government offices and other public services). There is very limited access to internet in schools. However, some sporadic improvements have been observed due to competition among ISPs and service of mobile telecommunication system. Increasing competition in internet service ensured some improvement in quality of services, infrequent interruptions and low prices. Mobile or cellular telephones are accessible and affordable as in the world's most technologically advanced countries. In this case, government should immediately enact ICT laws and implement it at all levels. Government should promote the use of ICT starting from the school level to the higher administrative level. The use of on-line procedures for government services can reduce bureaucratic delays and discretion, as well as increase speed and consistency of service. By facilitating automation in public institutions, the discretionary exercise of authority by government officials and potential for unofficial costs can be reduced significantly.

V.3 Human Resources

The quality of public schools is very poor and these fail to meet the needs of competitiveness of the economy. Mathematics and science education lag behind most of the countries, although some marginal improvement was observed in 2005, presumably due to introduction of Math Olympiad and other initiatives in the country. On the other hand, there is a negative effect because of brain drain from the country. Education system

needs to be thoroughly revised in line with country's future needs, emphasising more on science, business studies and other potential areas.

Labour–employer relation has improved in 2005. Gender discrimination in the context of wages in the workplace, and arbitrary determination of wages by individual companies are still continuing. Human resources management and compensation practices in the public sector should be modernised. Wages of public sector workers are extremely low and every effort should be made to enhance wages, but should also be based on performance.

V.4 Finance and Openness

Money laundering situation has improved perhaps due to strict monitoring mechanism followed by the central bank. There are some positive changes in the practice of corporate governance, but needs further strengthening. Positive changes have been observed in the case of the interest of minority shareholders, but poor performance was seen in auditing and reporting. For effectiveness of financial services and its openness, the government needs to streamline regulations, accelerate service delivery, and reduce the scope of informal payments. Procedures for the entry of new firms could be simplified, for example, by reducing unnecessary costs and delays and encouraging informal firms to enhance their legal status and, thus, improving their access to finance.

V.5 Domestic Competition

An increasing number of businessmen were apprehensive as regards lax and ineffective anti-monopoly policy which negatively impacts on the business environment. Corporate activity seems to be dominated by a handful of large firms. Although standards of products service were found to be very poor, some significant changes were observed in perception perhaps due to increasing awareness about the quality of products/services. The number of local suppliers is increasing and their quality is improving, which indicates sophistication of producers and consumers. Clusters are few but developing. Government should take appropriate policies and budgetary measures to develop clusters, and ensure technical support to improve quality of products to be competitive in the international market.

V.6 Company Operations and Strategy

Major factors that contribute to competitiveness in the international markets are low cost labour and natural resources. Production processes primarily use labour intensive methods, but a significant improvement has been observed in 2005. Ownership and

control is slowly but increasingly shifting from foreign companies towards local companies. In terms of corporate governance, there is a lack of accountability of management to the investors and Boards of Directors. Recruitment process has improved, instead of recruiting relatives, senior management positions are being filled up by qualified personnel. Companies are gradually becoming responsive to customers and the need for customer retention. In order to improve the corporate governance, Security and Exchange Commission (SEC) needs to set new regulations for all listed companies and regularly monitor the practices followed by these companies.

V.7 Environmental and Social Responsibility

There is a strong negative perception as regards environmental regulations of the country. Environmental regulations are lax, confusing and enforced erratically, although there are some signs of improvement. Corporate codes and social responsibility are rare or non-existent. Businessmen considered that complying with environmental standards significantly reduced competitiveness in the country. Companies were increasingly considering cleaner production, material flow management, waste reduction, recycling and life cycle management as important factors. These would have positive impact on business competitiveness in the global market.

There is no denying that implementation of reform measures and/or amendments to existing policies depend, to a great extent, on the government's positive attitude towards improvement of business environment in the country. If the government seriously considers the current situation of business competitiveness in the country and adopts appropriate measures, the state of business competitiveness is sure to see some significant positive changes in the medium to long run

ANNEX
RESPONSE SCENARIO FOR VARIOUS INDICATORS

Factors	Cumulative Percentage		Average Weighted Response	
	2004	2005	2004	2005
GOVERNMENT AND THE PUBLIC SECTOR				
The parliament is very ineffective as a lawmaking and oversight institution	79.8	73.9	-1.46	-1.34
Public trust in the financial honesty of politicians is very low	98.0	95.6	-2.68	-2.47
The composition of public spending is wasteful	78.1	72.7	-1.30	-1.31
Complying with administrative requirements issued by the government is burdensome	87.6	80.7	-1.76	-1.59
The level of taxes significantly limits the incentives to work or invest	56.6	53.8	-0.46	-0.42
The tax system is highly complex	73.7	74.2	-1.13	-1.22
Agriculture policy is excessively burdensome for the economy	41.7	42.0	0.27	-0.19
When deciding upon policies and contracts, government officials usually favour well-connected firms and individuals	91.0	90.3	-1.85	-1.99
PUBLIC INSTITUTIONS				
The judiciary is heavily influenced by political influences of members of the government, citizens or firms	78.6	76.0	-1.42	-1.34
The legal framework for private business to settle disputes and challenge the legality of government actions/regulations is inefficient and subject to manipulation	86.9	77.4	-1.55	-1.30
Intellectual property protection is weak or non-existent	87.8	88.9	-1.90	-1.87
Property rights, including financial assets and wealth are poorly delineated and not protected by law	62.2	50.0	-0.54	-0.37
Economic policy-making is centralised	90.9	92.4	-2.35	-2.28
The media can publish/broadcast stories of their choosing without fear of censorship	69.7	65.6	1.1	0.84
Police services cannot be relied upon to protect businesses from criminals	93.9	87.1	-2.21	-1.75
The incidence of common crime and violence imposes significant costs on businesses	88.9	75.0	-1.68	-1.27
Organised crime (mafia-oriented racketeering, extortion) imposes significant costs on businesses	78.6	68.5	-1.36	-0.91
Diversion of public funds to companies, individual or group as corruption is common	88.4	88.2	-1.68	-1.77
Undocumented payments in the awarding of import & export permits are common	79.4	83.7	-1.53	-1.64
Undocumented payments in connection to public utilities (e.g. telephone or electricity) are common	91.8	89.1	-2.05	-1.93
Undocumented payments in connection with annual tax payments are common	89.7	87.8	-2.00	-1.93

Factors	Cumulative Percentage		Average Weighted Response	
	2004	2005	2004	2005
Undocumented payments in the awarding of public contracts (investment projects) are common	93.5	86.2	-2.15	-1.94
Undocumented payments in getting favourable judicial decisions are common	61.2	61.3	-0.81	-0.63
Other firms' illegal payments to influence government policies, laws or regulations have large impact in distorting competition	58.9	73.9	-0.68	-1.22
INFRASTRUCTURE				
General infrastructure is poorly developed and inefficient	83.7	80.6	-1.58	-1.37
Railroads are underdeveloped	86.7	86.0	-1.54	-1.48
Port facilities and inland water way are underdeveloped	82.7	84.9	-1.53	-1.39
Passenger air transport is inefficient and infrequent	64.3	72.1	-0.83	-0.95
The quality of electricity supply is worse than most other countries	94.8	88.1	-2.05	-1.74
New telephone lines for business are scarce and difficult to obtain	86.7	87.2	-1.63	-1.58
Mobile or cellular telephones for business are widely available	91.8	91.4	1.85	1.85
Internet access in schools is very limited	91.8	90.3	-2.26	-2.10
TECHNOLOGY				
The level of technological readiness generally lags behind most other countries	85.9	86.0	-1.59	-1.48
Companies are not able to absorb new technology	45.5	33.3	-0.24	-0.49
Licensing of foreign technology is uncommon	51.0	46.2	-0.41	-0.19
Foreign direct investment in the country is an important source for new technology	55.6	51.6	0.20	0.43
Scientific research institutions are non-existent	66.7	59.7	-0.96	-0.73
Companies do not spend money on research and development	88.8	82.8	-1.80	-1.47
In its R&D activity, business collaboration with local universities is minimal or non-existent	86.6	83.8	-1.81	-1.90
Government purchase decisions for the procurement of advanced technology products are based solely on price	69.8	57.9	-1.13	-0.89
ICT is an overall priority for the government	54.5	57.0	0.43	0.44
Government programmes promoting the use of ICT are not very successful	64.6	68.5	-0.88	-0.90
Online government services such as personal tax, car registration, passport, business permit and e-procurement are not available		92.3		-2.42
ICT use by the government has increased its productivity very little		72.2		-1.23

Factors	Cumulative Percentage		Average Weighted Response	
	2004	2005	2004	2005
ICT is an important part of the government's vision of the future of the country and the government communicates its vision to citizens actively		41.5		-0.07
The presence of ICT (computers, PCs, networks, etc.) in government offices is very rare		79.6		-1.58
Laws relating to the use of information technology (e-commerce, digital signature) are not-existent	84.5	83.6	-1.76	-2.00
There is lack of sufficient competition among ISPs to ensure high quality, infrequent interruptions and low prices	46.9	47.3	-0.02	0.05
Internet use by businesses to buy and/or sell products and services is very low		79.6		-1.58
HUMAN RESOURCES				
The public (free) schools are of poor quality	93.9	90.3	-1.99	-1.84
The hiring and firing of workers is flexibly determined by employers	42.4	40.9	-0.01	0.03
Labour-employer relations in the country is usually cooperative	43.0	49.5	0.13	0.22
Wages are set up to each individual companies	80.6	74.2	1.43	1.14
Pay is not related to worker productivity	60.6	61.3	-0.82	-0.77
The educational system does not meet the needs of a competitive economy	86.7	84.9	-1.88	-1.57
Math and science education in the school lags far behind most other countries	68.4	67.7	-1.20	-0.96
Scientists and engineers in your country are widely available	62.2	52.2	0.63	0.54
Labour regulation prevents companies from employing foreign labour	50.0	55.0	0.04	-0.34
Talented people normally leave to pursue opportunities in other countries	89.8	90.4	-1.81	-1.82
Private sector employment of women is limited and usually takes place in less important jobs	70.4	59.1	-0.80	-0.56
For similar work, wages for women are below than that of men	57.1	57.0	-0.27	-0.48
Maternity laws are not a hindrance for hiring women	53.7	52.8	0.65	0.69
Government provided childcare is very limited	92.8	92.5	-2.16	-2.13
The future impact of malaria is not considered as a problem for the company in the next 5 years	79.6	81.7	1.78	1.58
The future impact of tuberculosis is not considered as a problem for the company in the next 5 years	75.0	75.0	1.52	1.39
The future impact of HIV/AIDS is not considered as a problem for the company in the next 5 years	86.7	68.8	2.02	1.01
Considering companies businesses in the next five years, their current policies and programmes will not be sufficient and/or effective to manage the impact of HIV/AIDS	45.5	46.8	-0.51	-0.43
FINANCE AND OPENNESS				

Factors	Cumulative Percentage		Average Weighted Response	
	2004	2005	2004	2005
The level of sophistication of financial markets is lower than international norms	83.5	80.5	-1.58	-1.33
Banks are generally healthy with sound balance sheets	58.8	70.0	0.49	0.89
It is impossible to obtain a bank loan with a good business plan and no collateral	78.4	78.6	-1.56	-1.48
Entrepreneurs with innovative but risky projects do not generally find venture capital	81.3	81.4	-1.71	-1.74
During the past year, obtaining credit for the company has become easier	53.4	49.4	0.57	0.52
Raising money by issuing shares on local stock market is quite possible for a good company	68.0	78.3	1.09	1.55
Financial auditing and reporting standards regarding company financial performance are extremely weak	56.4	44.5	-0.53	-0.30
Money laundering through the banking system is rare	47.7	44.8	-0.17	0.34
Tariff and non-tariff barriers significantly reduce the ability of imported goods to compete in the domestic market		56.1		0.54
Interests of minority shareholders are not protected by law and seldom recognised by majority shareholders	48.4	46.7	-0.18	0.03
Foreign ownership of companies is prevalent and encouraged	69.1	74.8	1.04	1.38
Rules governing foreign direct investment are damaging and discouraging foreign direct investment	64.5	80.5	0.91	1.66
DOMESTIC COMPETITION				
Competition in the local market is intense in most industries	59.8	54.4	0.50	0.40
Buyers are unsophisticated and make choices based on the lowest price	68.0	63.1	-0.90	-0.76
Local suppliers are numerous and include the most important materials, components, equipment and services	39.6	60.0	-0.03	0.59
The quality of local suppliers is poor	53.6	43.5	-0.52	-0.13
Standards on product/service quality, energy and other regulations (outside environmental regulations) are lax or non-existent	75.8	71.2	-1.09	-0.92
Anti-monopoly policy is lax and not effective at promoting competition	54.9	64.7	-0.86	-1.02
Corporate activity is dominated by a few business groups	80.4	83.7	-1.32	-1.42
Strong and deep clusters are widespread throughout the economy	57.1	55.9	-0.47	0.51
Specialised process equipment and machinery are almost always imported	93.2	90.7	-2.24	-2.18
Specialised research & training service are not available in the country	78.0	74.1	-1.48	-1.37
COMPANY OPERATIONS AND STRATEGY				

Factors	Cumulative Percentage		Average Weighted Response	
	2004	2005	2004	2005
Competitiveness of companies in international markets is primarily due to low cost or local natural resources	93.6	91.1	-1.99	-1.90
Exporting companies are primarily involved in resource extraction or production	72.6	65.6	-1.22	-0.92
Companies obtain technology by licensing or imitating foreign companies	92.6	79.9	-1.98	-1.46
Production processes use labour intensive methods or previous generations of process technology	86.2	85.9	-1.69	-1.48
The extent of marketing is limited and primitive	72.9	68.5	-0.93	-0.67
Firms in the country are highly responsive to customers and customer retention	45.3	58.7	0.14	0.43
International distribution and marketing from the country is owned and controlled by local companies	71.3	51.1	-1.07	-0.38
Exports to neighbouring countries are limited	86.3	80.4	-1.65	-1.46
Exporting companies sell primarily in a small number of foreign markets	73.7	73.7	-1.05	-1.00
The general approach of companies towards human resources is to invest little in training and employee development	90.5	85.8	-1.62	-1.54
Willingness to delegate authority to subordinates is low -- top management controls all important decisions	88.5	80.5	-1.74	-1.46
Cash compensation of management is based exclusively on salary	78.7	68.2	-1.43	-0.95
Senior management positions are usually held by relatives	50.0	50.0	-0.39	-0.33
Corporate governance by investors and boards directors is characterised by management has little accountability	45.7	43.9	-0.17	-0.28
Management and business schools are limited or poor quality	67.4	63.0	-1.03	-0.74
The corporate ethics of firms in the industry is relatively good	68.4	57.2	-1.09	2.31
ENVIRONMENTAL AND SOCIAL RESPONSIBILITY				
The country's overall environmental regulation is lax compared to most countries	70.8	65.6	-1.16	-1.01
Environmental regulations in the country are confusing and enforced erratically	77.1	72.1	-1.39	-1.17
Government-mandated disclosures of environmental performance are non-existent	70.5	69.3	-1.11	-1.07
Complying with environmental standards reduce competitiveness	42.4	41.2	-0.29	-0.28
Privatisation of major sectors improves long-term competitiveness and efficient use of energy and materials		71.9		1.10
Energy efficiency and the transition to new and renewable sources of energy are a low priority	65.3	57.6	-0.96	-0.61
Business and project planning now consider long-term factors	54.3	53.3	-0.65	-0.50
The country risks and opportunities posed by the Kyoto Protocol to businesses in industry are irrelevant		47.4		-0.55

Factors	Cumulative Percentage		Average Weighted Response	
	2004	2005	2004	2005
Lack of clean water or clean air significantly impacts company's operations or decisions on expanding local business activities		39.2		0.01
Companies that harvest or process natural resources such as food, forest or fishery products, are rarely concern themselves with the degradation of ecosystems		68.6		-1.17
Corporate codes of conduct and other aspects of corporate social responsibility are non-existent	63.2	63.0	-0.93	-0.77
Corporate environmental reporting in your country is non-existent	86.2	89.1	-1.71	-1.60
Companies routinely conduct environmental and social risk assessments as a part of overall business risk assessment		64.9		-1.05
The possible financial impacts of non-compliance with environmental and social standards are rarely considered		60.1		-0.66
Companies view environmental management systems purely as part of regulatory compliance		54.6		-0.56
Companies in the economy consider cleaner production, material flow management, waste reduction and recycling to be important	56.3	48.3	-0.57	0.25
Development projects that have the potential to impact specific communities rarely consult or gain support from those communities		50.6		-0.56
Multi Developmental Banks' environmental and social standards do not apply to all parts of company's operations		52.9		-0.60
ECONOMIC PERFORMANCE				
Country's economy will have strong growth in the next 12 months	56.5	44.0	0.42	0.20
The threat of terrorism in the country imposes significant cost on business	64.6	54.4	-0.69	-0.39
Organised effort to increase competitiveness in the country on the national, regional or industry/ cluster level is non-existent	61.2		-0.75	