

The page features three large, light blue, 3D-style circles of varying sizes. Two thin blue lines intersect at the top left, forming a large 'V' shape that frames the circles. The largest circle is at the bottom right, a medium one is at the top right, and a smaller one is in the middle right.

# Business Confidence Survey

**October 2013 – January 2014**

This pilot Business Confidence Survey was undertaken by Business Initiative Leading Development (BUILD) together with Associates for Development Services Limited (ADSL). The survey was conducted with businesses in Dhaka city.



**Contents**

About Business Initiative Leading Development ..... 2

About ADSL ..... 2

About Business Confidence Survey..... 3

Methodology of the BUILD – ADSL Survey ..... 4

Summary of Key Findings..... 8

    Investment Scenario ..... 8

    Overall Business Condition ..... 9

## **About Business Initiative Leading Development**

Business Initiative Leading Development (BUILD) is an independent and legal research-backed fact-based public private dialogue (PPD) platform founded by the Dhaka Chamber of Commerce and Industry (DCCI), the Metropolitan Chamber of Commerce and Industry (MCCI, Chittagong Chamber of Commerce & Industry (CCCI) and the SME Foundation launched in October 2011. BUILD has four thematic working committees (trade & investment, financial sector development, SME development and taxation), each co-chaired by a private sector leader and a Secretary of a relevant Ministry of the Government of Bangladesh (GoB).

## **About ADSL**

Associates for Development Services Limited (ADSL) is a consulting company operating in Dhaka, Bangladesh and has been contracted by BICF to undertake M&E related assignments and report independently on the study findings. ADSL is registered with the World Bank and Asian Development Bank. ADSL is capable of pooling together the expertise of in-house and associated experts and professionals from the developed and developing countries to address development issues in a manner that ensure quality delivery. Our approach to consulting for change strongly emphasize on research needs and advocates recognition of research-policy linkages, with a view to achieve sustainable socio-economic changes

## About Business Confidence Survey

A business confidence survey (BCS) has been completed recently with a limited focus on Dhaka city only – the capital and major business hub of Bangladesh. Previously another smaller pilot was conducted by BUILD in conjunction with AIUB. However, due to limitations in the methodology and survey technique, a second pilot was conducted. This pilot 2013 BCS has been undertaken by Business Initiative Leading

Development (BUILD), a public-private dialogue platform and a local research focused consultancy firm Associates for Development Services Limited (ADSL). This pilot survey, though limited in scope, has been conducted in another interesting period – as Bangladesh’s ninth parliament expired, leading way for the tenth general elections.

### What is a Business Confidence Survey



The Business “Confidence” or “Expectation” Survey is a popular method to take a pulse of the economy. Business confidence surveys provide essential information for economic surveillance, short-term forecasting and economic research – but most importantly, they are widely used to detect turning points in the economic cycle.

### Limitations of the BUILD – AIUB Survey

This survey was undertaken by MBA students of AIUB under the guidance of the lead researcher. The major limitation of the study was the quality of findings. As the survey enumerators were carrying out interviews for the first time, they had difficulty in undertaking the actual interview despite having undergone day-long training. They were further hindered by the questionnaire which was developed in English whereas in majority of the cases, the interview was actually conducted in Bangla. Therefore, the enumerators had to translate the questions on the spot, which was often inaccurate, thereby affecting the overall quality of survey findings. In order to improve the quality of the findings, more than 50% of the respondents were re-interviewed. The findings in the summary note are based on the analysis of the re-interviews conducted

## Methodology of the BUILD – ADSL Survey

The Business Confidence Survey was carried out using samples from the BUILD’s 3 chambers of commerce (DCCI, MCCI and SME Foundation) membership databases which served as the population that comprised on 3786 firms. Although OECD handbook advocates for the use of official government business registers for business confidence surveys, they also acknowledge that in the absence of business registers, chambers of commerce membership lists could also be used as long as the member enterprises are representative of the enterprise sector as a whole. This pilot survey was limited to Dhaka, however the population was highly representative as these are the largest business chambers in Dhaka.

**Table 1: Survey Population**

Sl	Sector	Sub-Sectors	Total Count	Total
1	Manufacturing	Food	171	1190
2	Manufacturing	Textile	342	
3	Manufacturing	Garments	298	
4	Manufacturing	Leather	51	
5	Manufacturing	Chemical and Pharmaceutical	150	
6	Manufacturing	Electronics and Light Engineering	178	
7	Service	Wholesale and Retail	872	2596
8	Service	Hotel and Restaurants	88	
9	Service	Transport and Communication	320	
10	Service	Cyber and Telecommunication	138	
11	Service	Real Estate	1178	
<b>Total</b>			<b>3786</b>	

One of the major finding from the BUILD-AIUB experience was that it is essential to have experienced enumerators as well as an alternate Bangla questionnaire to carry out the survey effectively for high quality data. Furthermore, this round was carefully designed and findings were thoroughly tested using established statistical methods. The overall survey design was undertaken by a panel of experienced advisors:

- **Dr. Shahadat Hossain** – Professor, Applied Statistics at the Institute of Statistical Research, University of Dhaka
- **Dr. Nazneen Ahmed** – Senior Research Fellow at the Bangladesh Institute of Development Studies
- **Dr. M. Ismail Hossain** – Professor and Chairman, Department of Economics at North South University

### Confidence Indicators

Confidence indicators are derived from business and consumer surveys are of key importance in assessing short-term economic developments in consultation with private sector experts. These sentiment indicators give crucial information on business and consumers assessments of the current economic situation and their intentions and expectations for the future.

## Key Indicators and variables:

Key Indicators	Variables
1. Economic condition	Employment, Availability of inputs, Exchange rate, Inflation, Electricity Price, Petroleum price, Gas price, Transport cost, Wage rate
2. Access to finance	Banking credit (working Capital), Banking credit (Investment capital), Interest rate, Letter of Credit opening, Letter of credit settlement, Other sources of finance (SME, Microfinance, stock market, NBFi etc)
3. Legal environment and business regulation influence	license and permits , Dealing with govt. agencies, Unofficial payments, business dispute
4. Tax environment and Custom	Tax on profit, VAT rate, Turnover tax rate, Customs Clearing Time, Customs duty
5. International Business	Trade agreements (WTOs, SAFTA, FTAs), Trade facilitation, Recession in USA and Europe, Bilateral relationship, Tariff and Non- tariff regulation
6. Infrastructure for business	Transportation situation, Telecommunication, electricity supply, water supply, gas supply, internet access
7. Business Environment	Import/Export systems, Extortion, smuggling, Labor association, Dealing with tax related issued by NBR, ACC etc , Policy uncertainty, Corruption, Availability of skilled labor, labor unrest/ relations, Political situation, Syndicate

With a view to undertaking the proposed BCS, a questionnaire has been designed to measure the impression of business communities on the above mentioned indicators. It encompasses collection of wide range of information on a business cycle. Priority variables are set according to:

- Provide idea on measuring productivity
- Response to rapid change in economic activity
- Measure expectations such as future production plans and business climate

### Variables and Scale

There were 46 variables grouped under 7 indicators used in this business confidence survey. The respondents were asked about opinion related questions in five point scale on each variable of the indicators about three time period of past, current and upcoming six months to rank the influence on their business. The three consecutive time period corresponds to January-June 13, July-December 13 and January-June 14. The flowing table shows the scale of ranks used in the survey.

**Table 3: Categories of manufacturing and service sector**

Manufacturing		Service	
1.	Food	1.	Retail and Wholesale
2.	Textiles	2.	Hotel and Restaurants
3.	Garments	3.	Real Estate
4.	Leather	4.	Transportation and Communication
5.	Chemicals and Pharmaceuticals	5.	Cyber and Telecommunication
6.	Electronics and Light Engineering		

### **The Survey Sample Frame**

OECD Business Confidence Survey is considered the international standard for carrying out BCS. The OECD handbook on Business Tendency Surveys recommends the use of comprehensive *business registers* of the kind that national statistical agencies maintain for their regular enterprise surveys as the sample frame. However, the handbook also acknowledges that many business tendency surveys are carried out by chambers of commerce or employers' associations and use their membership list as the survey frame. The limitation of such is that it only provides information about the enterprises that belong to the association and their use for monitoring developments in the entire enterprise sector depends on the extent to which the member enterprises are representative of the enterprise sector as a whole. In practice, many surveys based on membership lists have been shown to provide reliable information on movements in total output or industrial production. BUILD have plan to carry out BCS in Bangladesh bi-annually.

The sampling methodology for the Business Confidence Survey 2013 starts with a few restrictions imposed on the population. The survey population was restricted to membership of BUILD's three partners, namely DCCI, MCCI and SME Foundation, and REHAB, the real estate association. The total number of enterprise is 3786 businesses. The second restriction was geographic – the survey was limited to Dhaka centered businesses. The population frame is as follows:

### **Survey Approach**

Structured Questionnaire interview were conducted to collect opinions of the enterprises on selected indicators. The survey respondents were the managers or owners of some selected enterprises who were well informed about their business operation. In order to explain the reason behind opinions expressed in questionnaire interview, KIIs with 5 respondents was conducted. KII respondents were selected purposively.

### **Sampling Strategy**

The data frame was segregated into two strata; service and manufacturing. Simple random sampling technique was applied over the two strata to estimate the required sample size. At 95% confidence level with 5% margin of error and 50% variability, a required sample of 349 could be obtained. Taking into account of non-responses, the overall sample was increased by 10% giving an approximate sample of 384. A threshold sample of 400 was taken for the study.

A business confidence survey is supposed to represent the views of the overall business community. Thus GDP of Bangladesh has been taken into account to divide the population into two main categories: Manufacturing and Service. Table 3 provides sector wise contribution to GDP from FY12 to 13.

**Table 4: Sector wise Contribution to GDP from FY12 to13**

Sectors	Contribution to GDP (in %)	
	FY 12	FY 13
Manufacturing	18.96	19.54
Wholesale/Retail	14.24	14.05
Hotel and Restaurants	0.74	0.75
Transport & Communication (including Cyber and Telecommunication)	10.74	10.80
Real Estate	6.86	6.73

Based on the sector wise breakdown above, the ideal sample distribution and sample sizes in two broad sectors called manufacturing and service are as follows:

**Table 5: Ideal Sample Size based on GDP Contribution**

Broad Category	GDP Contribution (FY13)	Ideal Ratio	% Contribution	Ideal Sample Size (based on total survey population)
Manufacturing	19.54%	1	38%	150
Service	32.33%	1.655	62%	250
<b>Total sample</b>				<b>400</b>

At 95% confidence level with 7.5% margin of error and 50% variability, a required sample for manufacturing business was 150 and with 5.9 % margin of error a required sample for manufacturing business were 150. For overall sample, margin of error was 5%, whereas for manufacturing and service the margins of error were 7.5% and 5.9% respectively.

The total sample was stratified sub-categories of the manufacturing and service sector. There were 6 subsectors under manufacturing sector and 150 samples were equally divided into 6 subsectors and 5 subsectors under service sector, 250 samples were equally divided into 5 subsectors to attain the final sample to be surveyed. Simple random sampling was applied to each subsector for this survey.

**Table 6: Required Sample from each stratum**

Category	Required Sample
1 Food	25
2 Textiles	25
3 Garments	25
4 Leather	25



5	Chemicals & Pharmaceuticals	25
6	Electronics & Light Engineering	25
7	Wholesale & Retail	50
8	Hotel & Restaurants	50
9	Transport & Communications	50
10	Cyber & Telecommunications	50
11	Real Estate	50
<b>Total</b>		<b>400</b>

In order to ensure the statistical significance, reliability and adequacy of the results obtained for different time periods, year wise T test, Cronbach's alpha coefficients and Kaiser-Meyer-Olkin (KMO) & Bartlett's tests were used respectively. The paired-test was used to compare year wise data and data based on firm size to determine whether there is a significant difference between the average values of the same measurement made in two different time period – from the analysis it was evident that findings varied from one time period to another and across the size of different businesses. The Cronbach's alpha, which checks for internal consistency and often used to estimate reliability of samples, indicated that there was high level of internal consistency (acceptable range of coefficient alpha should be above 0.7, and Cronbach's alpha coefficient value of 0.816 was obtained). To investigate the appropriateness of factor analysis used to calculate the indices, Kaiser-Meyer-Olkin (KMO) and Bartlett's test statistic was used (if the KMO value is greater than 0.6, it is considered as adequate and result of 0.77 or higher was obtained). Bartlett's test measures the correlation of variables. Based on analysis it was revealed that both KMO and Bartlett's Test of Sphericity was statistically significant and acceptable.

## Summary of Key Findings

### Investment Scenario

In the beginning of 2013 fiscal year, less than 40% of the business community was certain about investing in their businesses. This low level of business confidence was mainly due to the unfavorable political situation. While other factors such as lack of internal funding or increase in the cost of raw materials were also noted, majority had noted that the frequent political disruptions created an uncertain environment.

Recent data collected shows that between July – December 2013, 37% of businesses had made investment. Majority of the investments were made by large and medium firms (44% and 50%) respectively while only 32% of investments were made by small firms. The top three reasons for investments were growing market demand of the firm's product, increase in business opportunity (in other areas) and, increasing profit margin. Overall manufacturing sector had more investments than service sector. For the manufacturing sector, the top investors were textile (70%) and leather goods (74%) industries while Cyber & Telecommunication (41%) and Transport (40%) were top investors in the service sector.

Nearly a quarter of the business community (25%) is uncertain whether they will be investing between January – June 2014. This uncertainty could be attributed to the elections that are coming up shortly which might indicate a change in government. However despite the political uncertainty, overall 48% of the businesses stated that they will be investing in second half of the 2014 fiscal year (from January 2014 to June 2014). During the last political transition in 2009, only 35% businesses had noted that they are likely to invest. The confidence level of the businesses community could be stated to be improved as nearly half the half the businesses are likely to invest. For firms that are uncertain and stated that they are not likely to invest noted unfavorable political scenario as their top reason for lack of confidence.

Between January – June 2014, manufacturing sector is slightly more likely to invest than service sector but overall all key sub-sectors are likely to grow. When analyzed by firm size, large, medium and small are all equally likely to invest. In particular 74% of the Leather sub-sector had invested in the first half of the 2014 fiscal year and this trend is expected to continue indicating strong growth. Leather and leather goods were identified as a thrust (high-potential) sector in 2013. This growth is also expected significantly for the Chemical, Garments, Electronic & Light Engineering and Retail sub-sectors. Similar reasons were noted by the businesses as reasons for investment: increase opportunity, increased demand for the firm’s product and increasing profit margin.

On the other hand while 70% of Textile industry had invested between July – December 2013, only 36% are expected to invest between January – June 2014 indicating a decline in the growth for this sub-sector. Similar decline should also be expected from the Food industry.

### **Overall Business Condition**

The overall business condition is expected to improve by 0.24 points only by June 2014. The expected change for 2014 is comparatively smaller as the current condition is just 0.03 points below neutral. In 2013 only small firms perceive that the overall business condition is negative. All firms also expect overall positive business condition in 2014.

Present business condition for the overall manufacturing sector is positive although not substantially. In 2014, the Manufacturing industry expects further improvement in overall business Out of the 6 manufacturing sectors, 4 experienced the negative business condition, in particular, the Leather and the Textiles sectors. At present only Food and Garments sectors perceives overall business condition as negative. By June 2014, all manufacturing sectors expect improvement in overall business conditions - in particular Leather and Chemicals & Pharmaceuticals.

By June 2014, the service industry expects to improve by 0.2 points only. At present all service sectors, that is: (i) Retail and Wholesale; (ii) Hotel & Restaurant; (iii) Transport & Communication and; (iv) Real Estate; other than Cyber & Telecommunication perceive overall business condition to be negative. All sectors expect their business condition to improve by June 2014 except Retail & Wholesale which expects further deterioration.

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