

HOPING FOR A BETTER TOMORROW

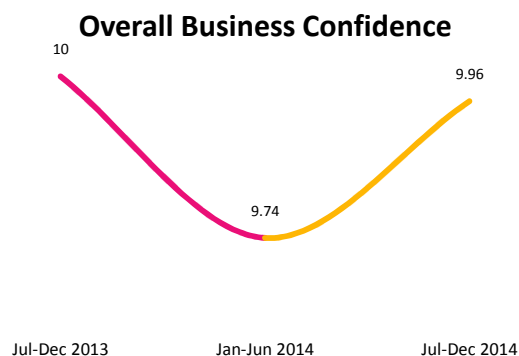
Voices of Business in Bangladesh: The Second Bangladesh Business Confidence Survey

The second Bangladesh Business Confidence Survey was conducted between 15 June and 10 July, 2014, covering 400 businesses in Dhaka and Chittagong. The survey is designed to capture the pulse of the private sector's perceptions regarding the state of their operating environment. The results of such surveys are used globally by governments and policymakers to understand how businesses feel – to identify what has been helping business, and to determine what needs to be improved. As the voice of business in Bangladesh, Business Initiative Leading Development (BUILD) is proud to take on this responsibility, in association with Associates for Development Services Ltd. (ADSL), to help the Government of Bangladesh understand what businesses in the country experience.

We would like to thank ADSL for their painstaking effort in undertaking this survey, and the 97 large, 36 medium and 267 small enterprises who gave their valuable time to respond to the survey, and to provide us with their opinions.

GOOD NEWS AND BAD: BUSINESS CONFIDENCE TAKES A HIT, BUT FIRMS ARE HOPEFUL ABOUT THE FUTURE

The second Bangladesh Business Confidence Survey is based on business perceptions regarding the period of January to June 2014. For the purposes of analysis, we compare it to the results of the baseline first BCS, which covered the period July to December 2013.



Compared to the latter half of 2013, businesses seemed less confident about the situation in the first half of 2014. However, firms expect the situation to improve greatly by the

second half of 2014, and are thus more confident about the future.

BEHIND THE DECLINE

Why do businesses demonstrate a sudden decline in their confidence in the first half of 2014? The Business Confidence Index is a composite index, which means that it is driven by the seven constituent sub-indices. Understanding the pessimism requires understanding each of these indices, and the sub-indices that drive them.

What's not working?

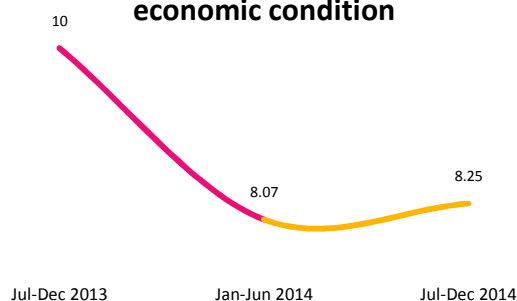
Which sub-indicators are viewed most negatively by businesses?

ALL BUSINESSES

- Electricity Prices
- Political situation
- Transportation cost
- Unofficial payments
- Electricity supply
- Transportation situation
- Interest rates
- Profit tax rates

The results of our survey indicate that the pessimism is driven primarily by overwhelming negative perceptions of the **economic conditions** inherent in Bangladesh in the first half of 2014.

Perceptions about the overall economic condition

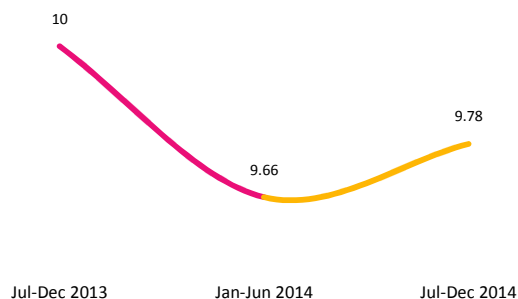


The two factors that seem to have affected firms most in this period are **price inflation** and **wage rate**, which were reported by 40% and 34.8% of businesses to have deteriorated. It is also of interest to note that firms do not expect the situation to improve rapidly, and expect only a partial improvement in the second half of 2014.

The second biggest set of concern for firms seems to be in the area of **Tax and Customs**. Although this index has not deteriorated as much, and although firms seem to expect the

situation to get better in the second half of the year, the rate of improvement expected is not as rapid as the rate at which confidence declined in this indicator.

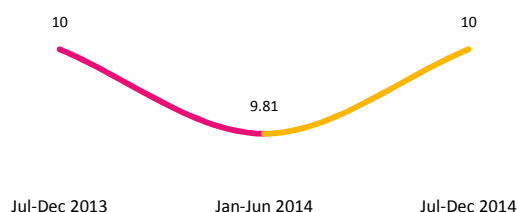
Perceptions about tax and customs



Pessimism about this indicator is driven by concerns with **Tax, VAT and customs duty rates**, which 45%, 39% and 20% of businesses rated as having deteriorated.

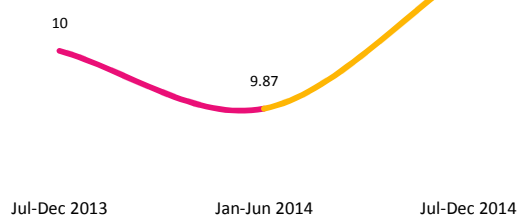
Two other indices deteriorated slightly in early 2014. Firms evinced some concern due to a decline in **International Business** opportunities, driven primarily by concerns regarding **recession in the USA and Europe**, which 23% of businesses thought had a negative effect.

Perceptions about international business



On the other hand, the decline in the **Inputs and Infrastructure** index is primarily due to concerns over **transportation cost, electricity price and electricity supply**.

Perceptions about inputs and infrastructure



Firms remain optimistic that, in both cases, the deterioration will have been reversed by the end of the year.

BUT IT IS NOT ALL BAD NEWS...

The sum of the pessimism shown on the four indices above combined do drive down overall business confidence, but the decline is somewhat mitigated by some perceived improvements in the operating environment for business in Bangladesh.

The most significant optimism demonstrated by firms is around the **Legal Environment and Business Regulation**. Driven by optimism about **license and permit issuance/ renewal, business process automation, and ease of dealing with NBR and ACC**, firms seem to have experienced an improvement in this index, and expect continued steady improvement for the rest of the year.

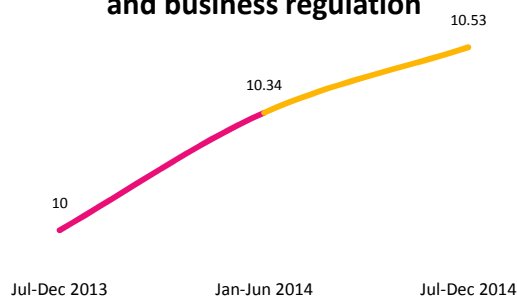
What's working?

Which sub-indicators are viewed most positively by businesses?

- Labor Relations
- Telecommunications
- Availability of labor
- Internet availability
- Trade facilitation
- Availability of skilled labor
- Availability of raw materials/inputs
- License/permit issuance and renewal

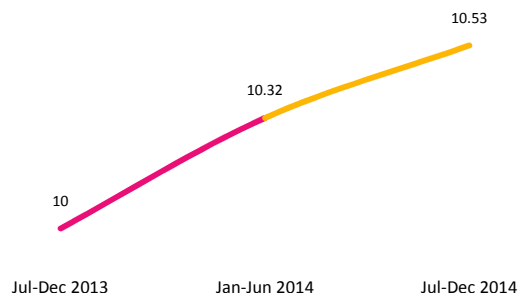
ALL BUSINESSES

Perceptions about legal environment and business regulation



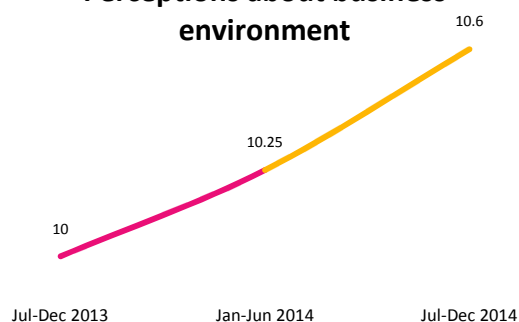
A similar trajectory of optimism is also perceived in the case of **Access to Finance**. Perceived improvements in the **availability of bank loans** and the **opening and settlement of Letters of Credit** have driven this optimism primarily. At the end of 2014, Access to Finance is expected to be the second best performing index of business confidence, which means firms are expecting a somewhat major improvement in the second half of the year.

Perceptions about access to finance



Finally, although the **Business Environment** index improved somewhat in the first half of 2014, firms expect a major improvement in the second half of the year. In fact, firms are optimistic that, in the second half of 2014, this index will improve the most, which means it is expected that this index will end the year as the most positive.

Perceptions about business environment



SO WHAT DOES ALL THIS MEAN?

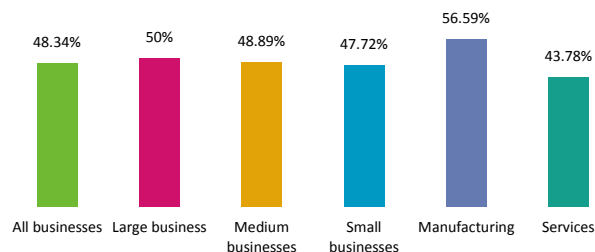
We now know that businesses are slightly more pessimistic about the second half of 2014 than they were in the same period in 2013. We also understand that this pessimism is driven by negative perceptions of primarily the economic condition, but tempered by improvements in the legal and regulatory environment, access to finance and business environment.

To understand the implication of different levels of business confidence, we need to understand the importance of business confidence – in simple terms, higher levels of business confidence increase the likelihood that firms will invest in growing their business, or in establishing new businesses. Therefore, we need to understand how the decline in business confidence has impacted investment by firms.

At the end of 2013, we had asked firms if they had plans to invest in their businesses in the first half of 2014. As we know

now, businesses were optimistic in 2013 about the first half of this year, and this reflected significantly in their investment plans:

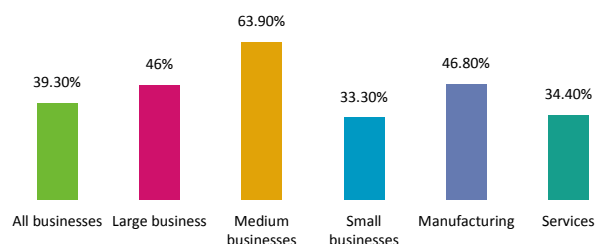
% of firms in 2013 planning to invest in the first half of 2014



Back in 2013, business confidence translated into widespread investment plans, primarily among large firms and especially among manufacturing firms. Other types of firms remained mostly positive as well.

In this survey, we examined whether firms actually invested in their business. As expected, due to the decline in business confidence, the actual investments made were lower than the planned investment in almost all cases.

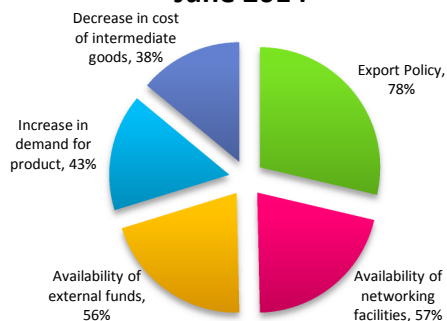
% of firms who actually invested in the first half of 2014



Even more interestingly, the decline in business confidence at the beginning of 2014 coincides with a significant reduction in investment by small businesses in particular. Although about half of small enterprises had planned to invest, only about a third ultimately did so. As the drivers of growth and job creation, small and medium enterprises must invest in expansion and new business; addressing their concerns must be a key priority of the Government.

We also asked businesses who had invested why they invested – the pie chart below summarizes their reasons:

Top 5 factors driving investment in Jan-June 2014



As outlined above, the optimism regarding access to finance and the legal environment for business are demonstrated in the factors driving investment decisions, with the export policy and availability of external funds being primary drivers of investment decisions.

LOOKING FORWARD: WHAT DO WE DO?

The Business Confidence Survey is intended to capture the essence of how business feels about the state of their operating environment for a given period. As such, we can see that businesses were much more pessimistic about the state of affairs in the first half of 2014. But we also do know that firms expect things to improve in the second half of the year. As we have seen, business confidence can impact the decisions of firms to invest and create jobs, and the investment decisions of small enterprises are most affected by low confidence. Therefore, to promote private sector-led growth, the Government must focus on two fronts: i) strengthening and sustaining the positive aspects of the operating environment, and ii) mitigating the challenges posed by the negative factors.

As part of our survey, we asked firms to look forward to the second half of the year, and tell us what factors they are most optimistic about. The results are summarized in the green box on the left. As we can see, businesses were optimistic about the overall employment scenario of Bangladesh, particularly the availability of skilled labor and labor relations. Enterprises are also looking forward to favorable price inflation and exchange rates, which perhaps drives their expectation of having ample supply of raw materials

What's exciting business?

Which sub-indicators are expected to improve in the second half of 2014?

- Employment scenario
- Price inflation rate
- Exchange rates
- Labor relation
- Telecommunication
- Skilled labor
- Raw materials
- Internet connections

ALL BUSINESSES

What's worrying business?

Which sub-indicators are expected to deteriorate in the second half of 2014?

- Political situation
- Electricity prices
- Transportation cost
- Transportation situation
- Corruption
- Interest rates
- Petroleum prices
- Profit tax rates

ALL BUSINESSES

for the rest of the year. In addition, businesses are also optimistic about communication infrastructure, mainly telecommunication and internet connectivity.

We also asked firms to tell us which factors they expect will deteriorate in the second half of the year. These are summarized in the red box on the right. Businesses are mostly worried about electricity and petroleum prices, and the overall situation and cost of transportation. The private sector also expressed concern about the political situation and corruption in the upcoming six months. They also expect the interest rate and income tax rates to be unfavorable in the last half of 2014.

The challenge that lies ahead of us, therefore, is to unleash the growth of the private sector given the expectations above. We stand ready to help the government unleash that growth, and foster an environment that helps business grow, prosper and create the jobs necessary to help Bangladesh achieve its vision of economic growth.

Methodology

Business Confidence Survey (BCS) gathers perception of enterprises about general business conditions in the past six months and their expectations in the upcoming six months. Perceptions are captured through qualitative questions relating to the following indices – economic condition, access to finance, business regulation, tax and customs, international business, input and infrastructure, and business environment.

400 enterprises from two major cities participated in the survey – 325 from Dhaka and 75 from Chittagong. Responses from each of the businesses were used to analyze bi-annual trends of indices. This brief summarizes the trends for three consecutive periods – Jul-Dec 2013 (the base year), Jan-June 2014, and Jul-Dec 2014.

For more details on the Business Confidence Survey, download the full report at <http://www.buildbd.org> OR Contact us at

Business Initiative Leading Development
Dhaka Chamber Building (9th Floor), 65-66, Motijheel Commercial Area, Dhaka-1000, Bangladesh.
Phone: 88-02-9569961, 9561388 (Ext. 18), 88-02-9552562 (Ext. 116).
Fax: 88-02-9550103. Email: info@buildbd.org

