

3rd Business Confidence Survey 2015

Business Initiative Leading Development (BUILD)

Background

- Bangladesh aims to be a middle-income country by 2021.
- Investment (% of GDP) for Bangladesh in year 2014 is 29% (BBS 2013).
- Investment-GDP ratio should be 32% in order to achieve 8-10 % growth rate to achieve the 'Vision 2021' .
- Investment decisions can be significantly influenced by changes in business confidence.
- Uncertainty about the future can reduce confidence, and means that firms may postpone their investment decisions until confidence returns.
- Therefore, understanding business confidence is important for a country that requires large-scale investment to grow.
- All developed and many developing countries undertake this sort of surveys to understand the confidence of the business enterprises.

Business Confidence Survey

- The Business Confidence 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, BUILD undertakes such surveys to better understand the perception of business enterprises about the existing state of business environment

3rd Business Confidence Survey

- The 3rd Bangladesh Business Confidence Survey (BCS) was conducted between **6 February and 6 March, 2015**, covering 400 businesses in Dhaka and Chittagong.
- BUILD has started the BCS since 2013 and has been conducting subsequent surveys every 6 months.
- In this 3rd BCS, we have compared BUSINESS CONFIDENCE INDEX of Jan-June 2014 with July – December 2014 and tried to assess the expected confidence for the period Jan- June 2015.

Methodology Overview

Sampling Strategy

- Simple random sampling technique has been applied over the total population 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. This has been proposed to have an estimate on the total sample size.
- Taking into account non-responses, the overall sample could be increased by 10% giving an approximate sample of 384.
- Threshold sample size **400**
- Considering BBS as the standard, the survey has taken the sampling frame from the list of manufacturing and service enterprises of Dhaka and Chittagong Chambers.
- Survey has been restricted to members of BUILD's partners, namely DCCI, MCCI, CCCI.
- In order to cover the SMEs and the real estate sector, the survey also included information from SME Foundation and REHAB.
- Total number of enterprises in the selected sectors is 3913.

Sample Size based on GDP Contribution

Broad Category	GDP Contribution (FY13-14)	Ideal Manufacturing to Service Ratio	Ideal Sample Size (based on total survey population)
Manufacturing	29%	1	152
Service	54%	1.655	248
Total sample			400

The sample size is distributed proportionately based on the GDP contribution of the sectors.

Required Sample from Each Stratum

Category		Population	Required Sample	Actual Sample
1	Food	171	25	26
2	Textiles	342	25	27
3	Garments	298	25	26
4	Leather	51	25	25
5	Chemicals & Pharmaceuticals	150	25	26
6	Electronics & Light Engineering	178	25	26
7	Wholesale & Retail	872	50	50
8	Hotel & Restaurants	88	50	48
9	Transport & Communications	320	50	49
10	Cyber & Telecommunications	138	50	48
11	Real Estate	1178	50	49
Total		3786	400	400

Business Confidence Index (BCI)

Methodology

Survey Questionnaire

- The survey has been conducted using structured questionnaire and face to face interview techniques.
- BCI has been developed by converting qualitative responses into quantitative data assigning points to each of them.

Assigning Values to the Perception ranking

Substantially Bad	Bad	Unchanged	Good	Substantially Good
0	0.25	0.50	0.75	1

Confidence Indicators

- 7 sets of indicators were used
- Each set of indicator was divided into several sub-indicators.

Indicators and Variables

Domain	Sub-Indicator
1. Economic condition	Employment, Inflation, Wage rate, Exchange 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, NBFIs etc)
3. Legal environment and business regulation influence	license and permits , dealing with govt. agencies, unofficial payments (bribe), business disputes, business process automation, dealing with tax related issues by NBR, ACC etc
4. Tax environment and Customs	Tax on profit, VAT rate, Turnover tax rate, Customs Clearing Time, Customs duty
5. International Business	Trade agreements (Agreements under the WTO, Regional Trade Agreements and Free Trade Agreements), recession in USA and Euro-Zone crisis, bilateral relationships, tariff and non-tariff measures (NTMs)
6. Inputs and Infrastructure for business	Transportation, telecommunication, electricity supply, water supply, gas supply, internet access, availability of inputs, electricity price, petroleum price, gas price, transport cost
7. Business Environment	Import/export systems, extortion, smuggling, Labor associations, policy instability, corruption, skilled labor, labor unrest, political situation, business syndicates

BCI Methodology

First Step: Index Calculation using the Sub Indicator

$$BCI_i = \frac{\sum_{j=1}^n (n_{ij, t}) p_{ij, t}}{\sum_{j=1}^n (n_{ij, 0}) p_{ij, 0}} \times 10$$

Where,

i = BCI for i th Indicator (we consider seven sets of indicators)

j = Sub-indicators of i th indicator

$p_{ij, t}$ = Score given by firm for sub-indicators j in current period

$p_{ij, 0}$ = Score given by firm for sub-indicators j in base period

$n_{ij, t}$ = Frequency of scores for sub-indicator j in current period

$n_{ij, 0}$ = Frequency of scores for sub-indicator j in base period

BCI Methodology

Second Step: Overall Index Calculation using the Indices of the Sub Indicators

$$BCI = \left[\sum_{j=1}^n BCI_i * Wi \right] \times 10$$

Where,

BCI = Aggregate Business Confidence Index

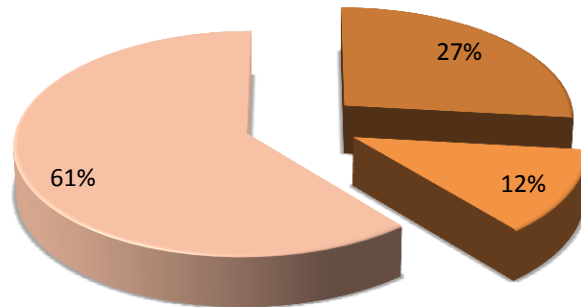
j= Total number of indicators in calculating the Index values of the indices.

= Weight of each indicator I given by firms that is assumed to be same for both period

Key Findings: Firm Profiles

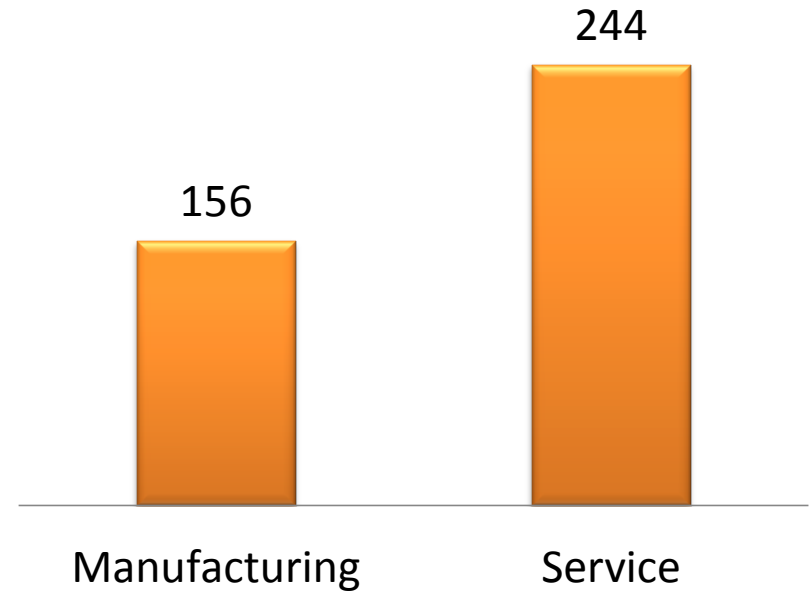
Overall Distribution of Firms Surveyed

Overall Distribution of Firms Surveyed



■ Large ■ Medium ■ Small

Number of Firms Surveyed by Industry

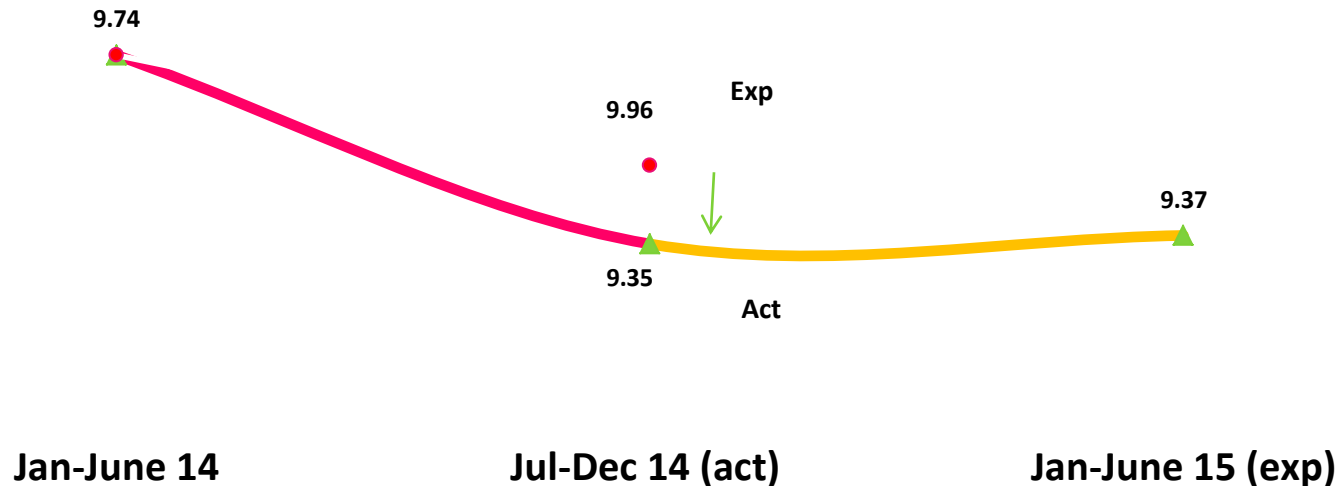


Overall Findings by Key Indicators

Overall Business Confidence

- Overall business confidence index for July to December 2014 (9.35) is lower compared to January to June 2014 (9.74).
- Businesses expect the confidence for January to June 2015 to be higher (9.37).

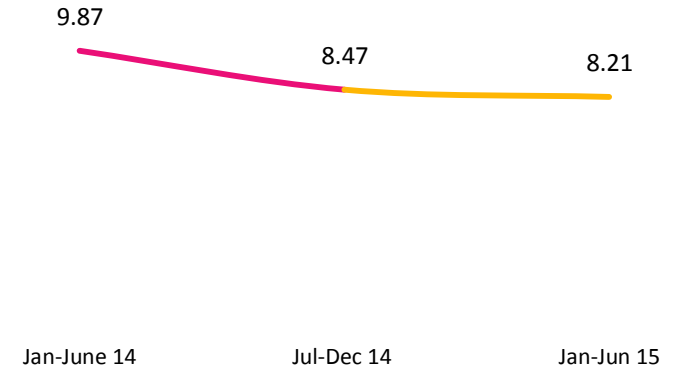
Business Confidence Indices



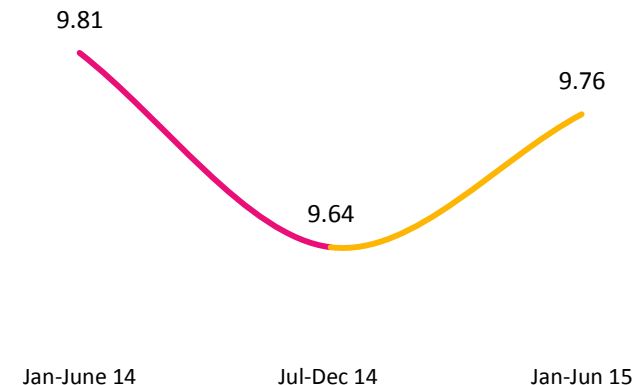
Factors behind lack of Optimism

- Decline in business confidence is due to poor perception on:
 - input and infrastructure,
 - business environment,
 - International business
 - access to finance,
 - legal environment and business regulation.
- Following graphs show the indices in Jan-June 2014, July-Dec 2014 and the expected value of Jan-June 2015.
- Input and infrastructure was lower driven by transportation cost and transportation situation and will continue to do so in Jan-June 2015 as well.
- International business was also perceived to be lower in July-Dec 2014 but expected to be better in Jan-June 2015.

Input and Infrastructure



International Business



Looking forward

What's
Exciting
Business?

Which sub-indicators are expected to improve in Jan- June 2015?

- *Labor Relations*
- *Employment Scenario*
- *Trade Facilitation*
- *Telecommunication*
- *Electricity Supply*
- *Internet Connections*
- *Shortage of Skilled Labor*

ALL BUSINESSES

What's
Worrying
Business?

Which sub-indicators are expected to deteriorate in Jan- June 2015?

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

ALL BUSINESSES

Conclusion

- Businesses are keen to invest as they foresee an increase in demand (for product), business opportunities and profit in the market.
- Actual Investments made were less than the planned investment in the period July-Dec 2014. (Due to negative impact of the political crisis mainly).
- Improvement in Labor relation & Employment, Trade Facilitation and IT Facilities are driving business confidence.
- On the other hand, businesses were unhappy about the political situation, transportation cost, energy prices and bank interest rates.

Conclusion

- Businesses are slightly optimistic about the overall Business & Economic Environment and remained cautious regarding their investment decision for the period Jan-June 2015 .
- They are hopeful as they believe Labor relation & Employment, Availability of Skilled Labor, Trade Facilitation and IT Facilities will improve.
- However, they worry about the underlying negative factors, such as, political situation, transportation cost, corruption, interest rates, petroleum prices and profit tax rates.
- Businesses also suggested for effective business policy and a transparent legal and regulatory environment.