

SANEM Shongzog

COVID-19 and Business Confidence in Bangladesh

Findings from the **6th** Round of Nationwide Firm-level Survey
conducted in October 2021

10 November 2021



Research team

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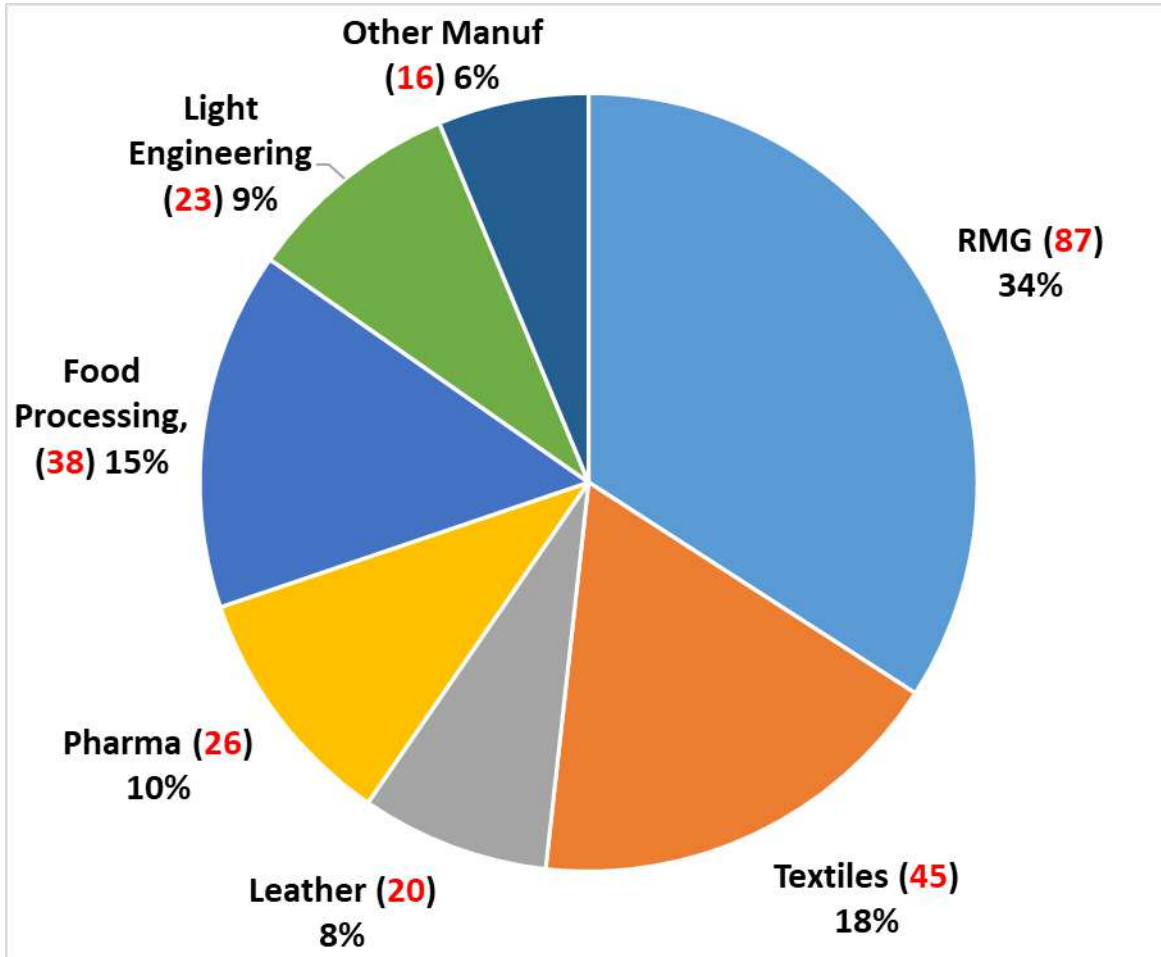


Background

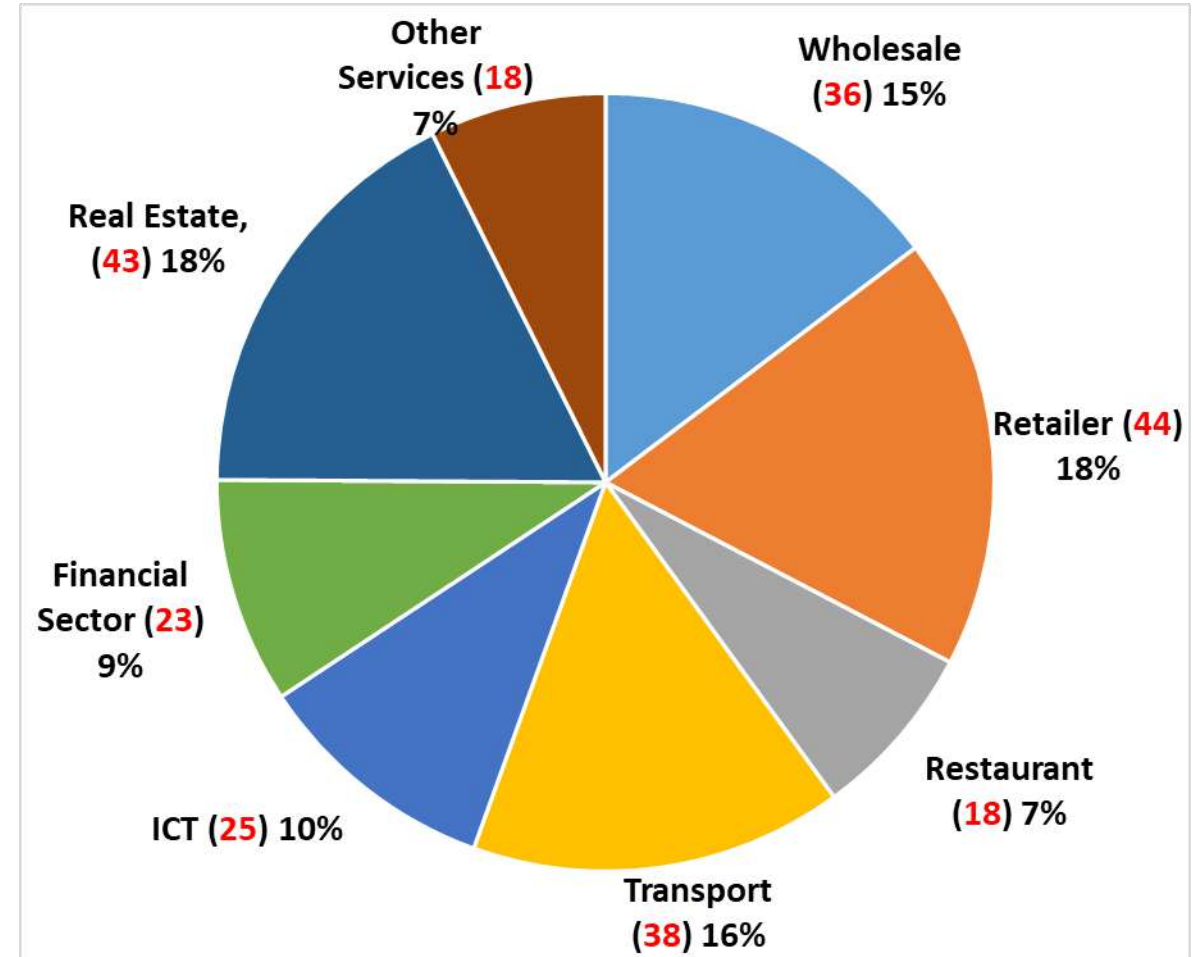
- SANEM initiated the quarterly Business Confidence Survey in July 2020.
- The first round of the survey (held in July'20) revealed the dire state of business in the country. The second (conducted in October'20) and third round (convened in January'21) showed signs of economic recovery.
- The fourth round (held in April'21) exposed a deterioration of business confidence followed by the second wave of COVID-19, but fifth round (conducted in July'21) revealed an improvement of business confidence through nationwide mass vaccination programme.
- However, continuously observing the response from businesses more or less confident about future prospects, is essential to gauge the effectiveness of the policies implemented by GoB (vaccination programmes, stimulus packages etc.) and bring about changes accordingly.
- **The sixth round of the survey was conducted nationwide in October 10-27, 2021 on 500 firms. This round of survey provides insights on economic recovery.**

Sample distribution by sectors in the sixth round

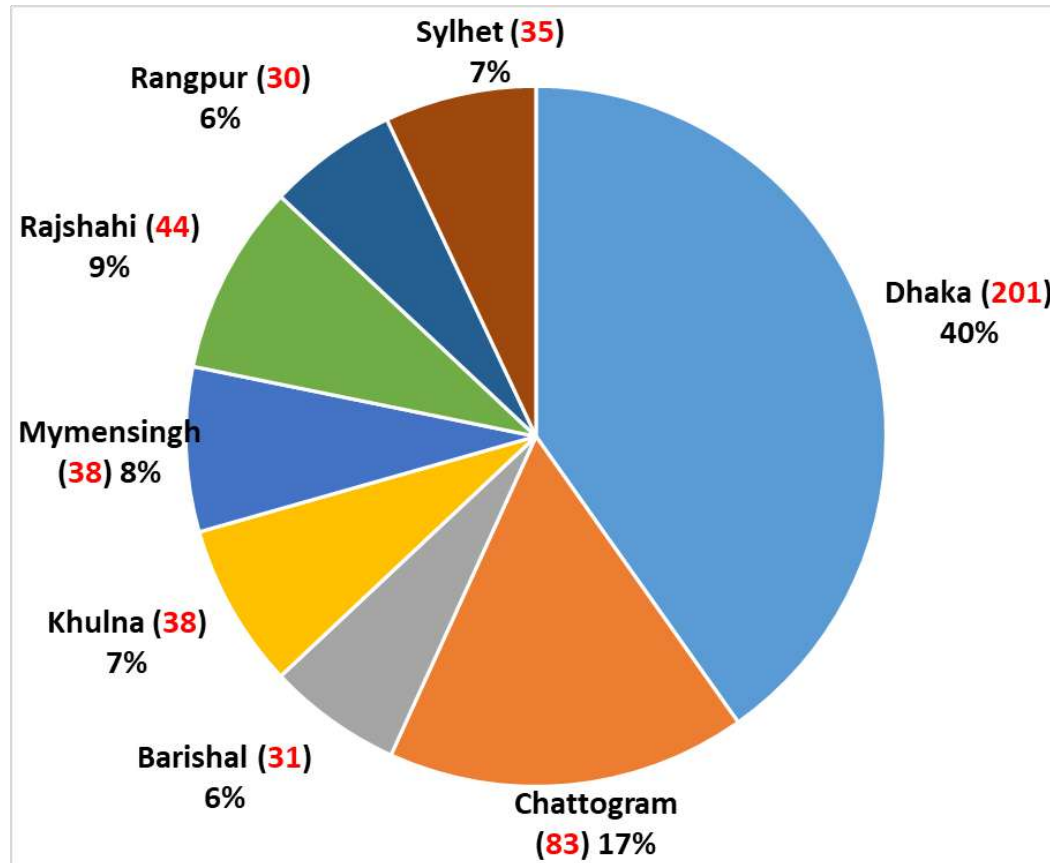
Manufacturing = 255



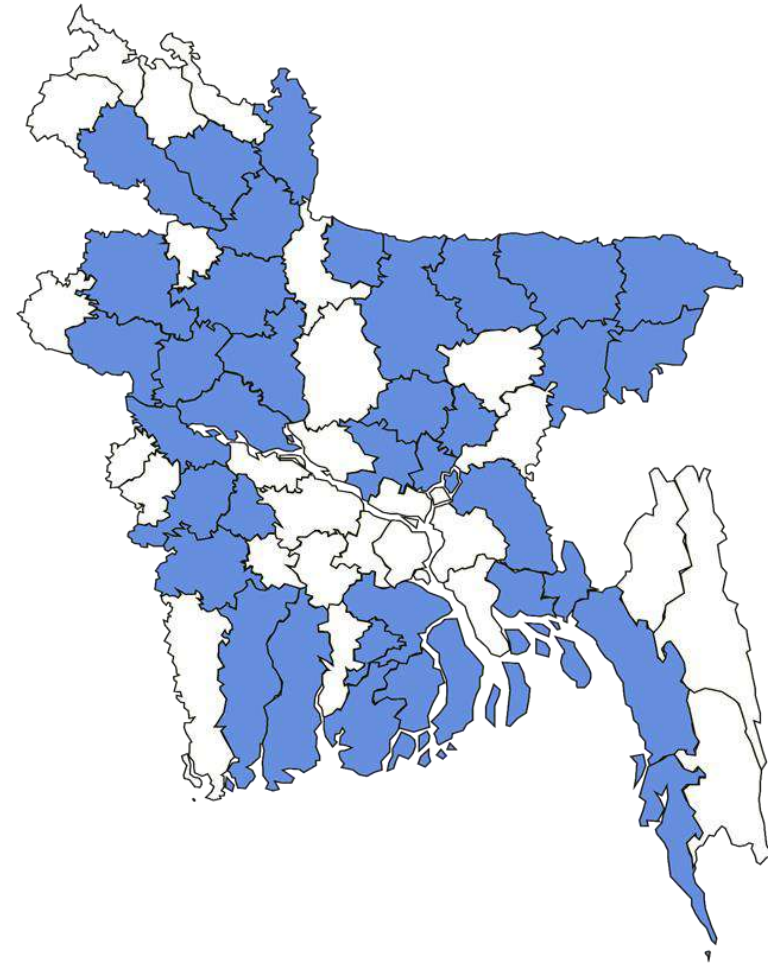
Services = 245



Sample distribution by divisions (8)



Sample coverage of districts (37)



PBSI and BCI

PBSI (Year)

Present Business Status Index (PBSI) in Jul-Sep 2021 compared to Jul-Sep 2020

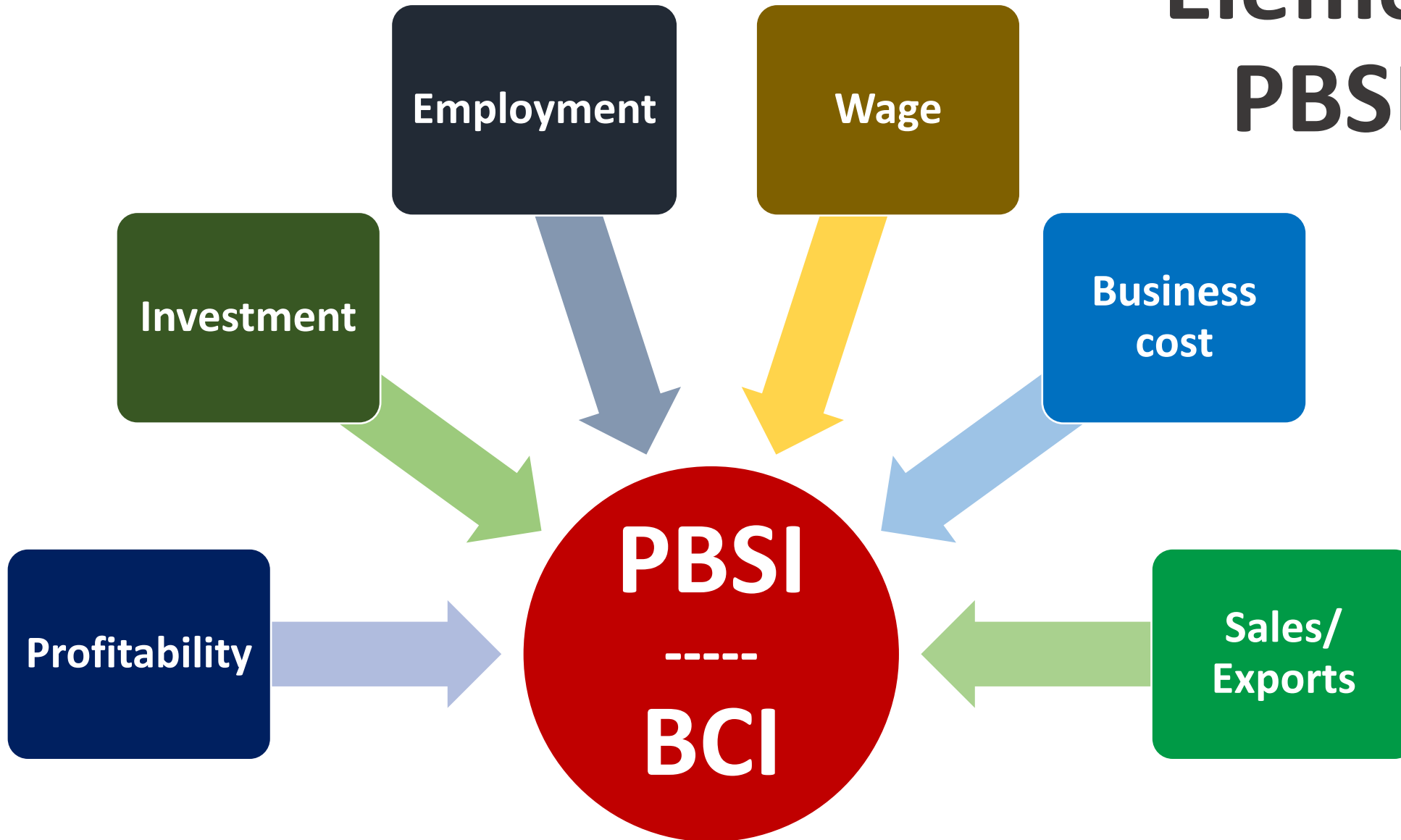
PBSI (Quarter)

Present Business Status Index (PBSI) in Jul-Sep 2021 compared to Apr-Jun 2021

BCI (Next quarter)

Business Confidence Index (BCI) in Oct-Dec 2021 compared to Jul-Sep 2021

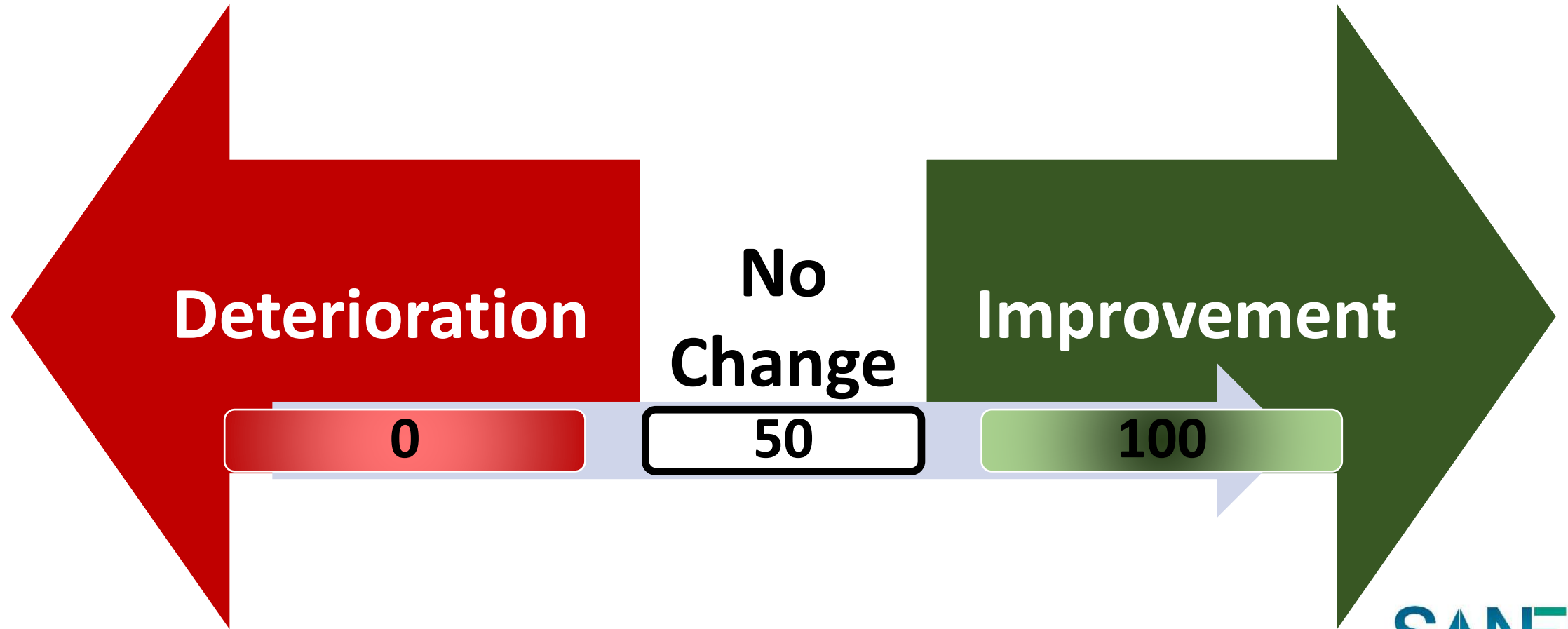
Elements of PBSI/BCI



Scoring of survey responses



Interpretation of Indices



Survey findings: Basic features of surveyed firms

Basic features of surveyed firms (6th Round: Oct-2021)

Indicators	Overall (%)
Firm size	
Micro	43.00
Small	18.60
Medium	9.20
Large	29.20
Export status	
Non-exporter	62.80
Exporter	37.20
Location of firms	
EPZ/SEZ	1.00
Industrial Area	17.00
Outside of EPZ/SEZ/Industrial Area	82.00
Ownership of firms	
Government ownership	0.40
Domestic private company	97.60
Public-private joint ownership	1.00
Domestic foreign joint venture	0.20
Foreign ownership	0.80
Female ownership of firms	
Fully owned by a female	1.40
Partially owned by a female	27.60
No female share or ownership	71.00

Indicators	Overall (%)
Respondent gender	
Female	1.60
Male	98.40
Respondent's years of experience	Average year
Overall	12.4
Manufacturing	13.4
Services	11.5
Employment	Average number
Overall	505
Male	249
Female	256
Operation years of firms	Average year
Overall	17.8
Manufacturing	19.9
Services	15.5

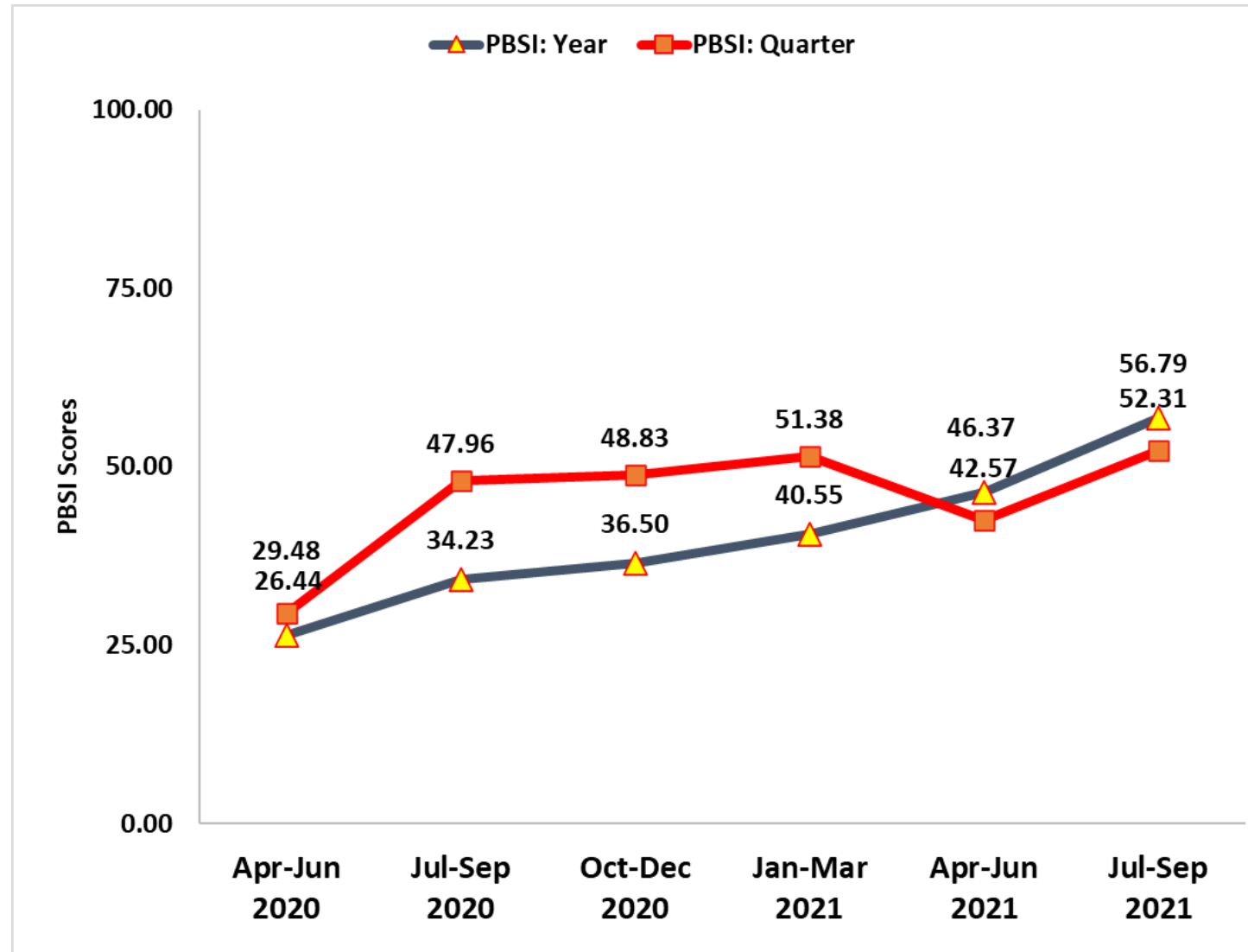
Summary Results



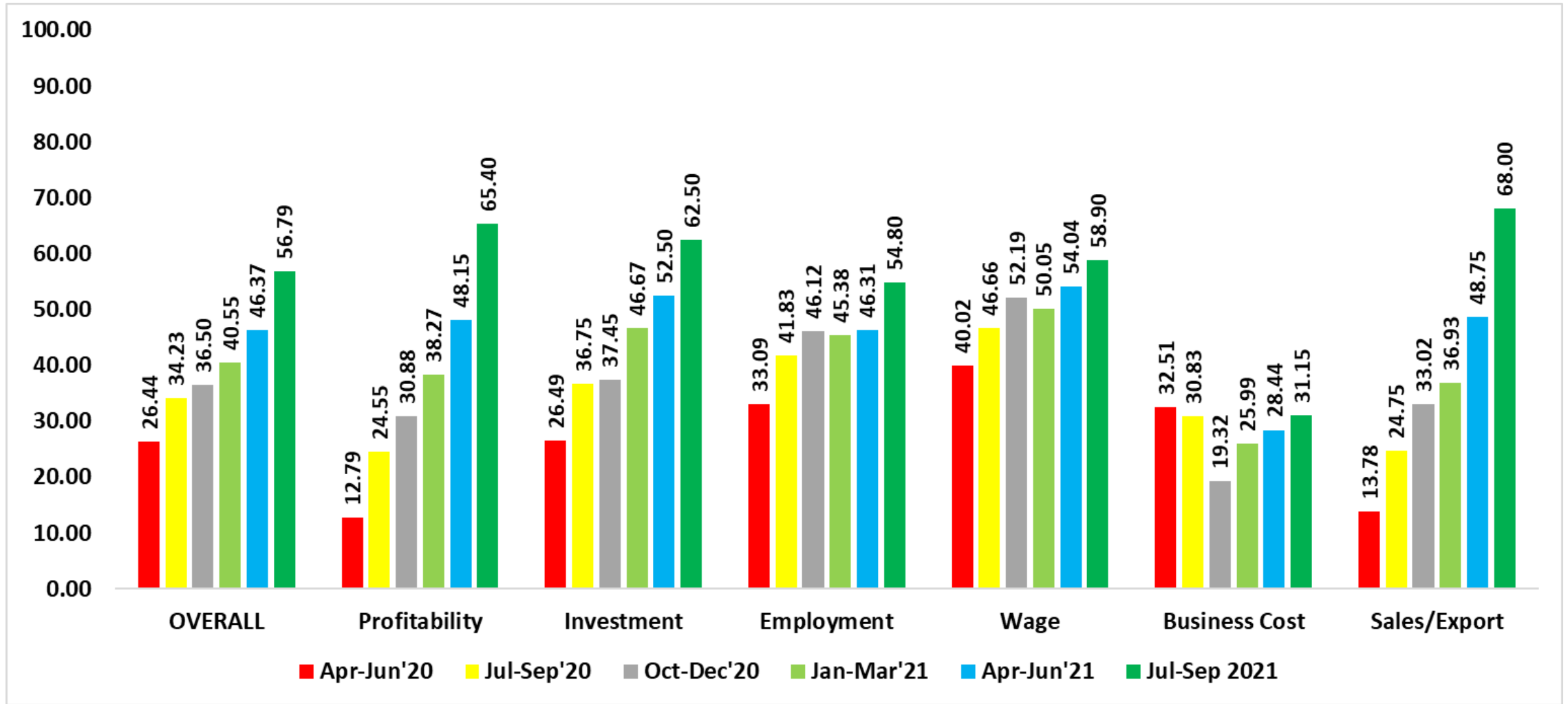
Present Business Status Index (PBSI)



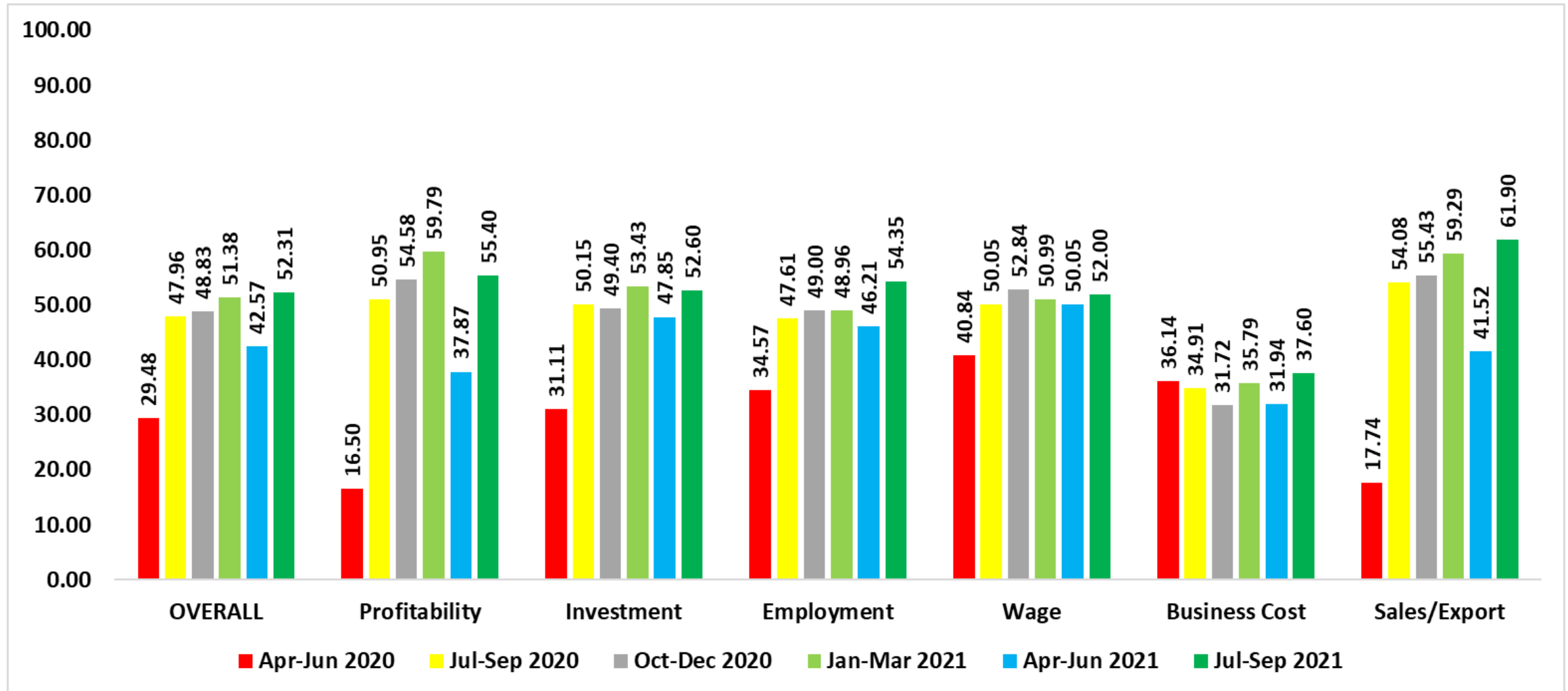
Present Business Status Index (PBSI)



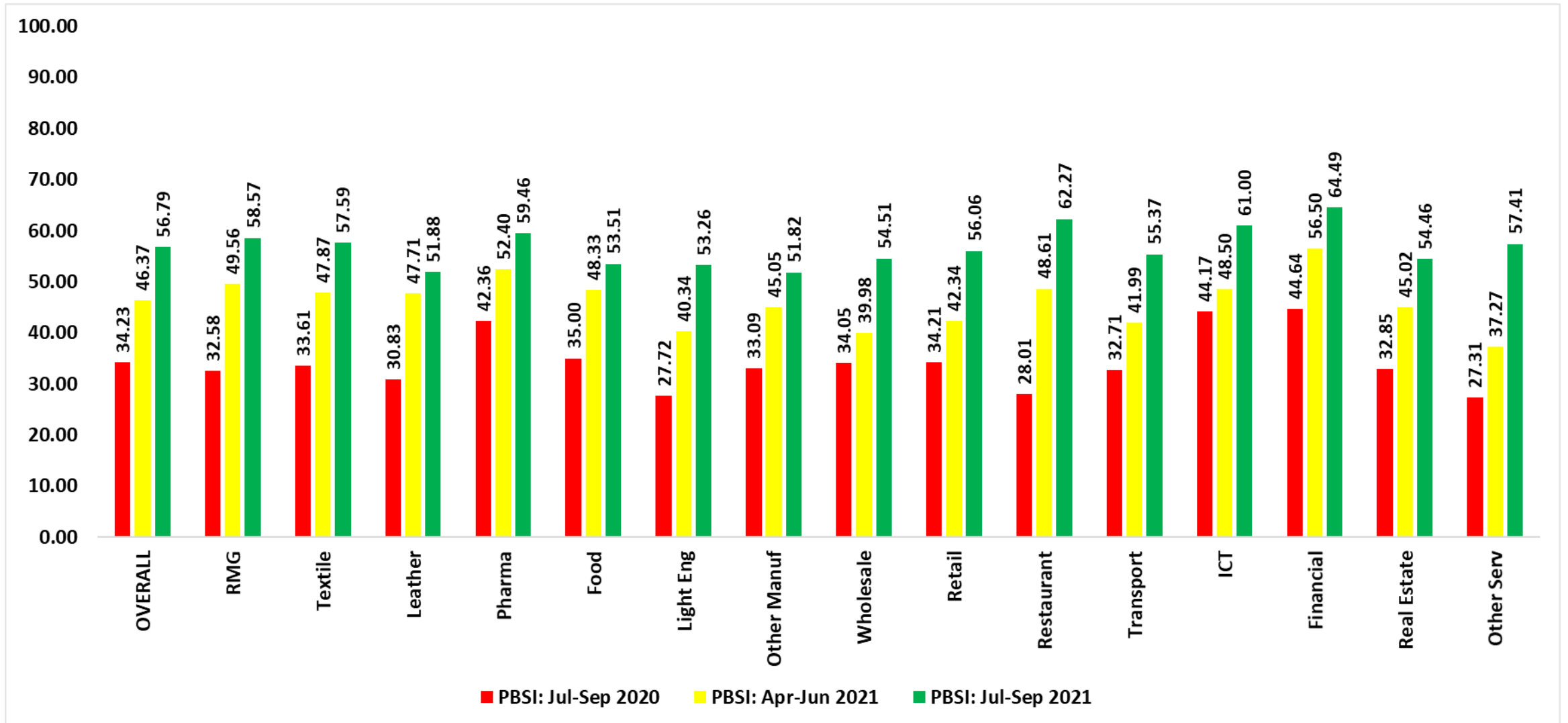
Present Business Status Index (PBSI): Year



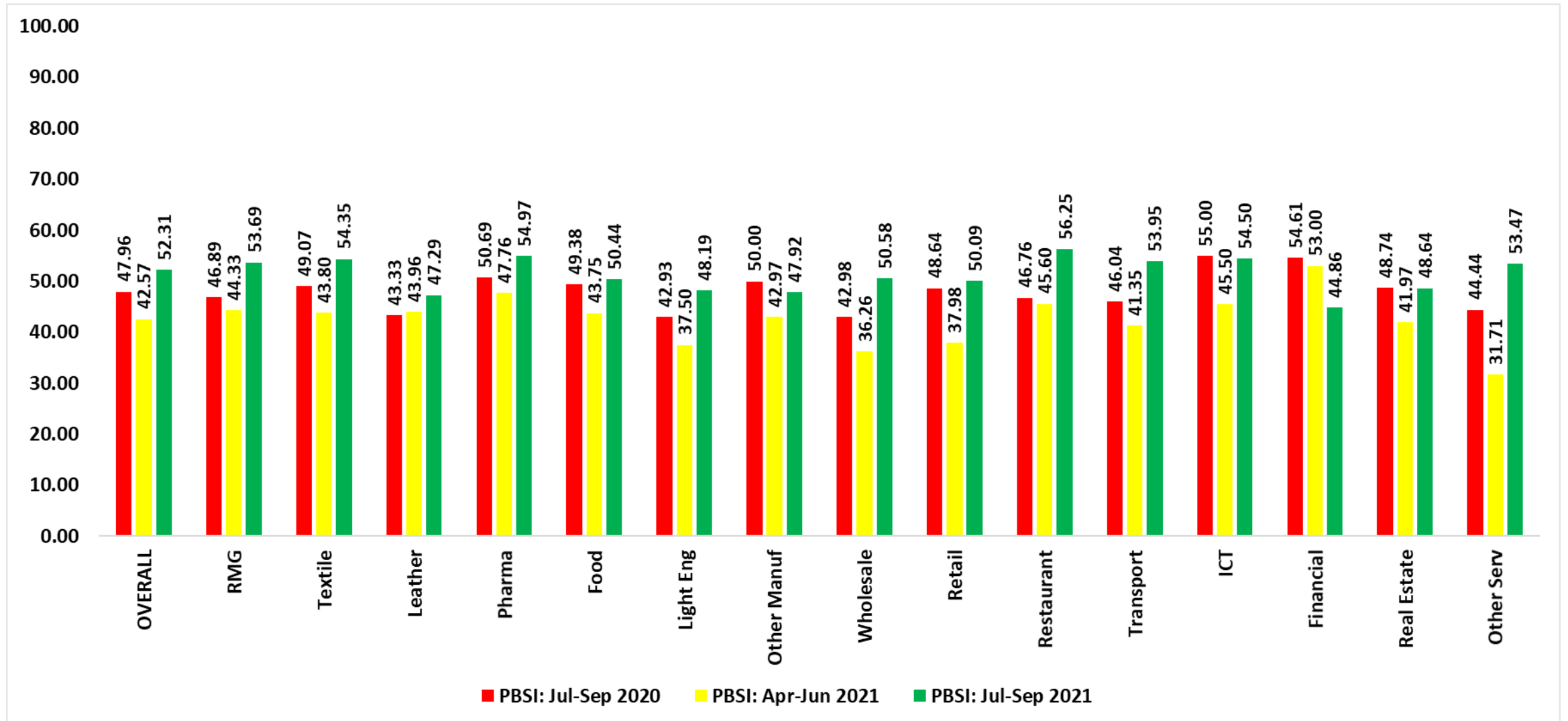
Present Business Status Index (PBSI): Quarter



Present Business Status Index (PBSI) by sector: Year



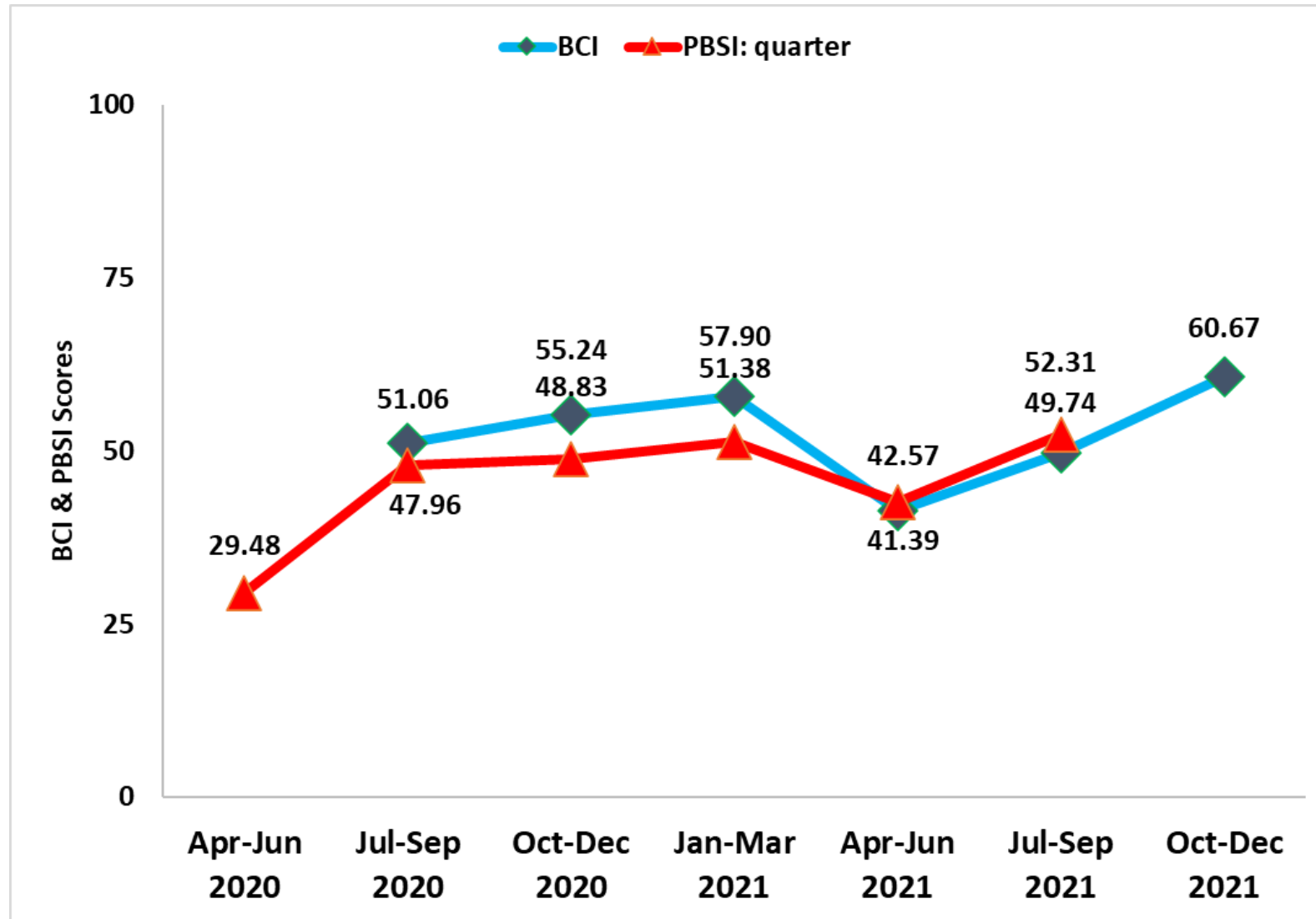
Present Business Status Index (PBSI) by sector: Quarter



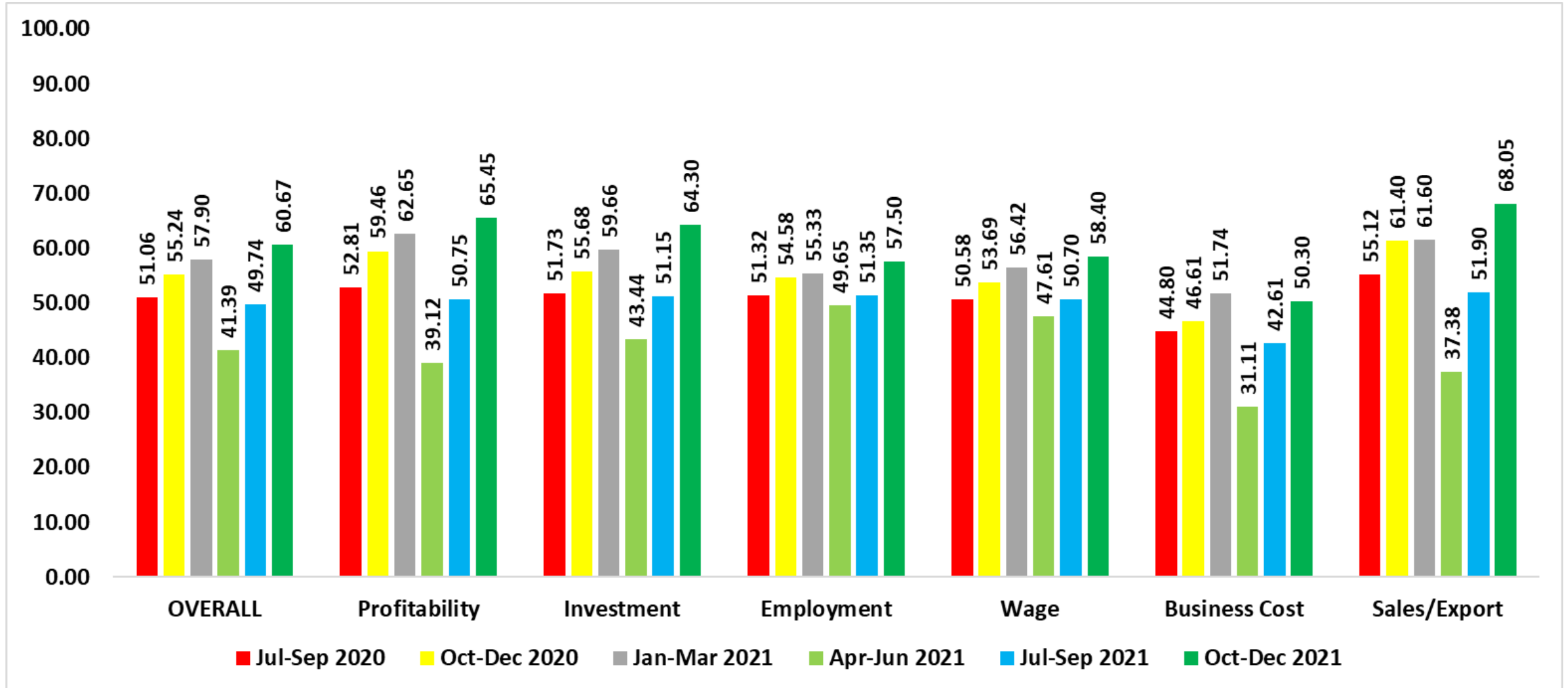


**How has the
business
confidence
evolved?**

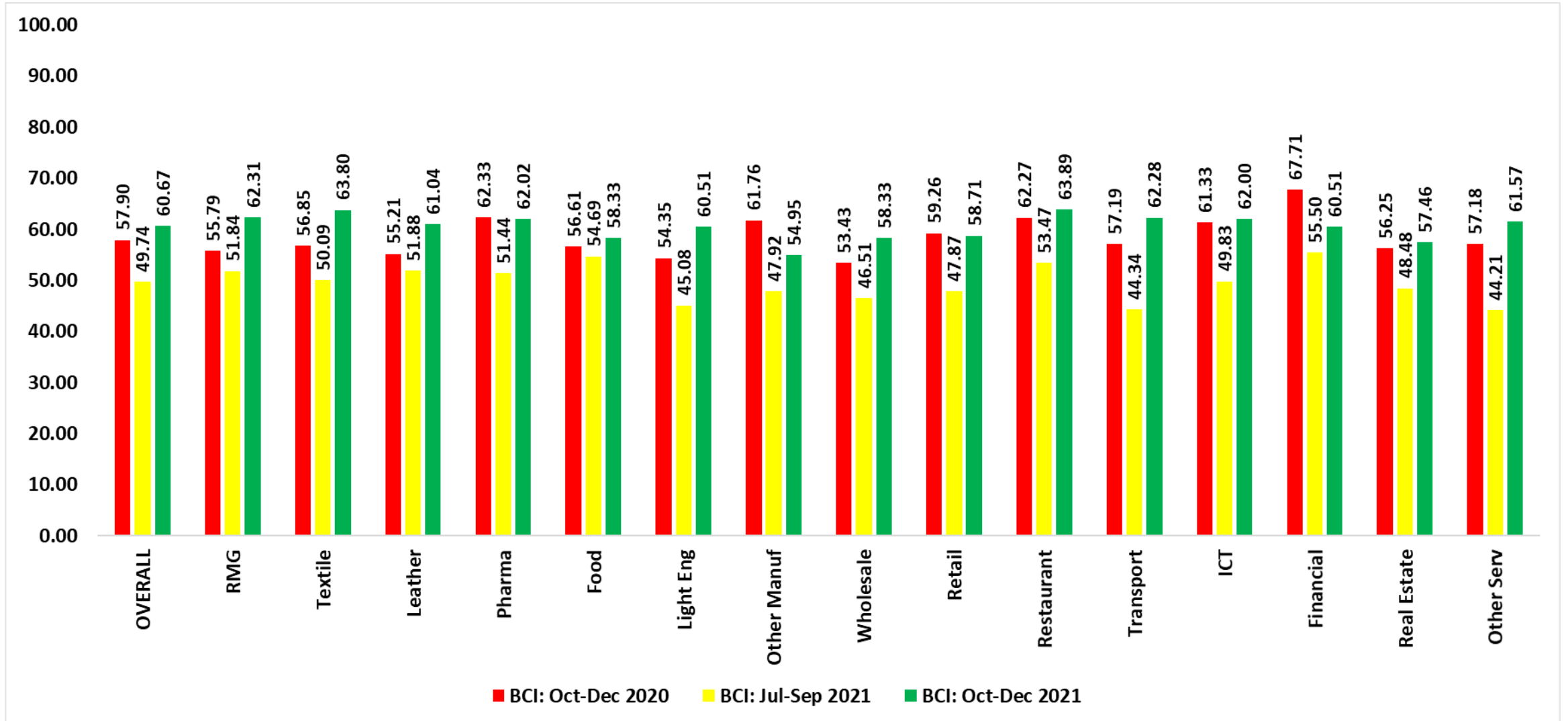
BCI and PBSI



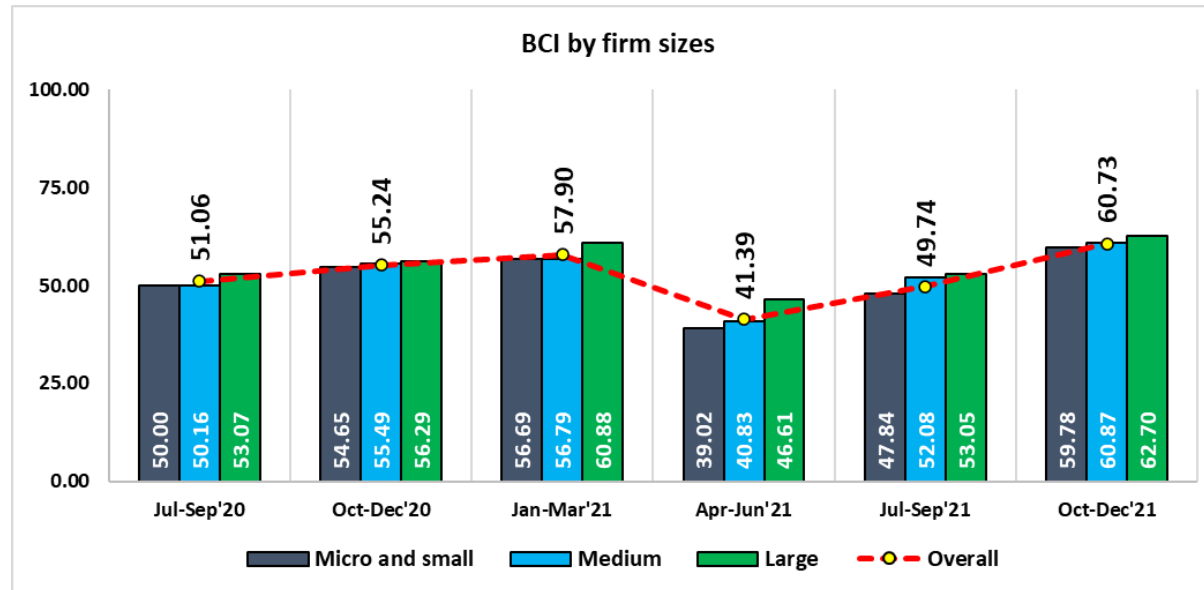
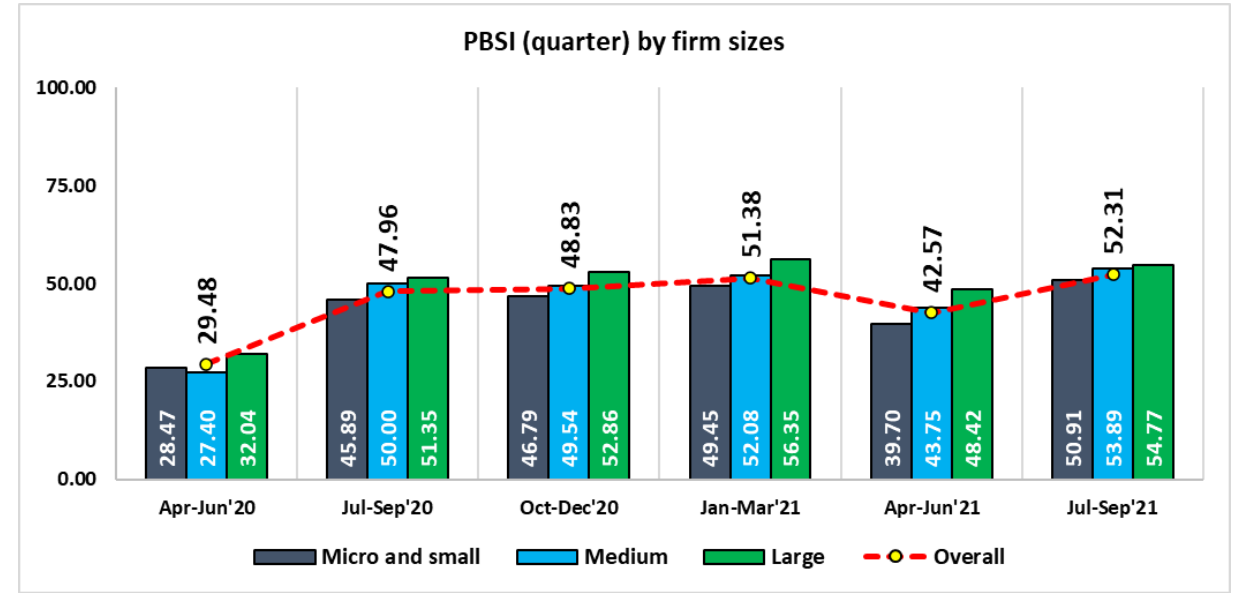
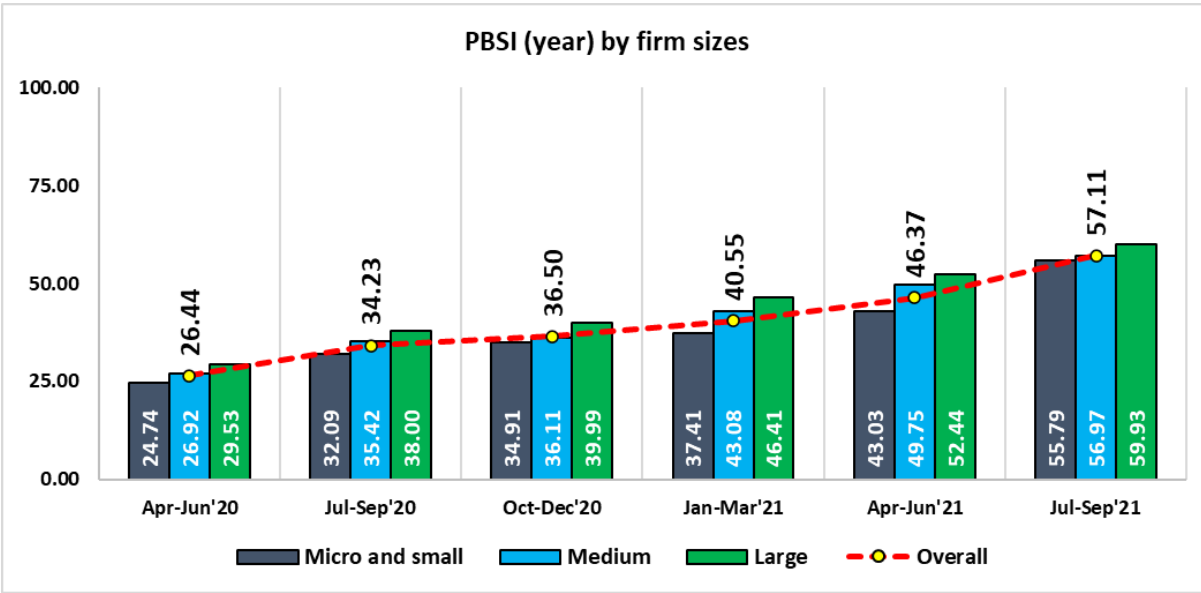
Business Confidence Index (BCI), by indicator



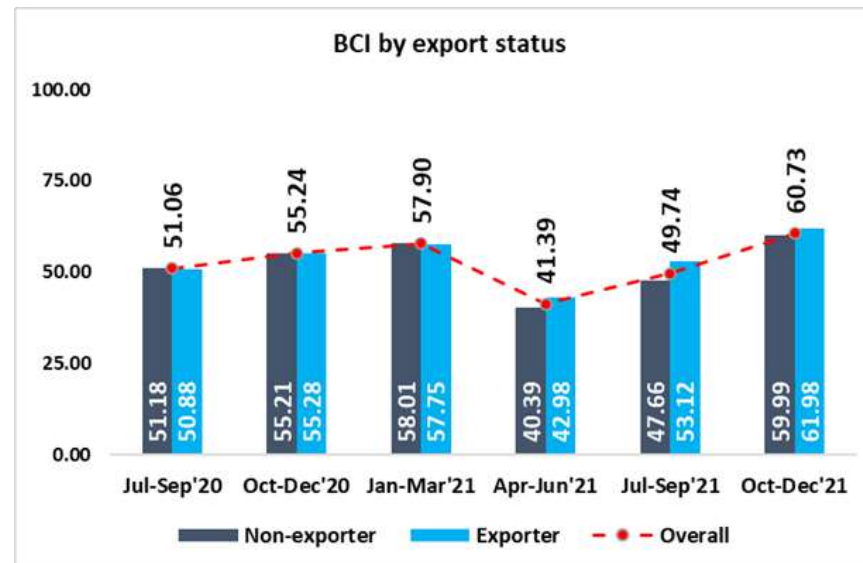
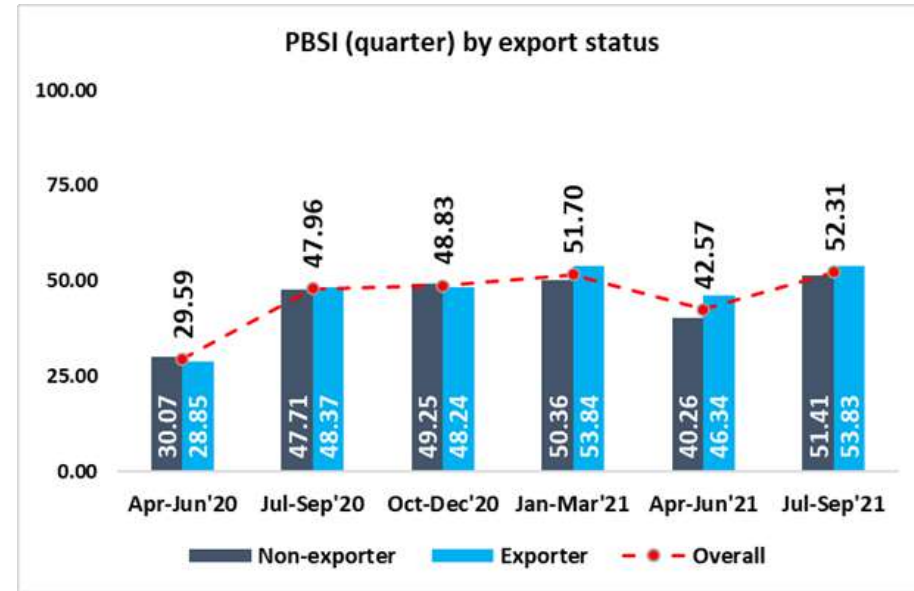
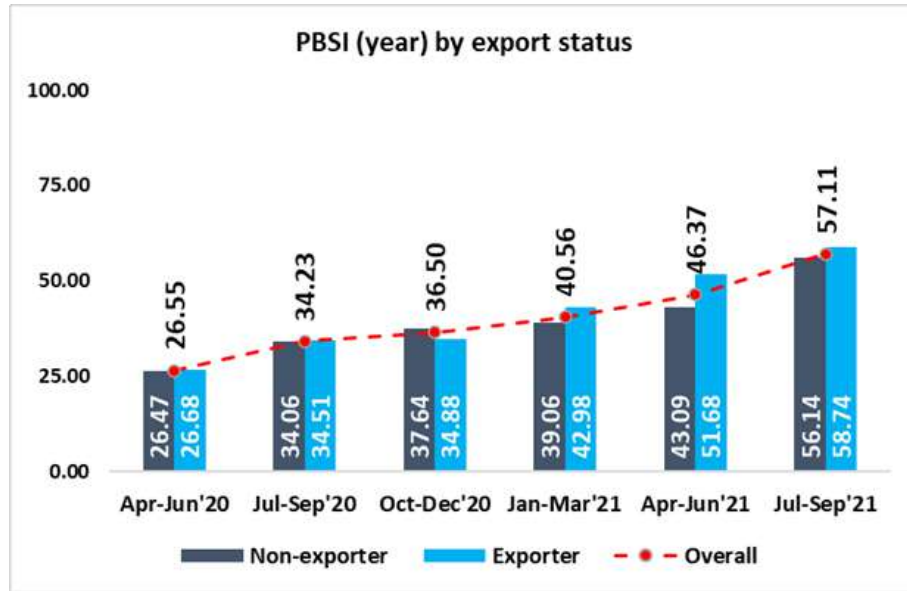
Business Confidence Index (BCI), by sector



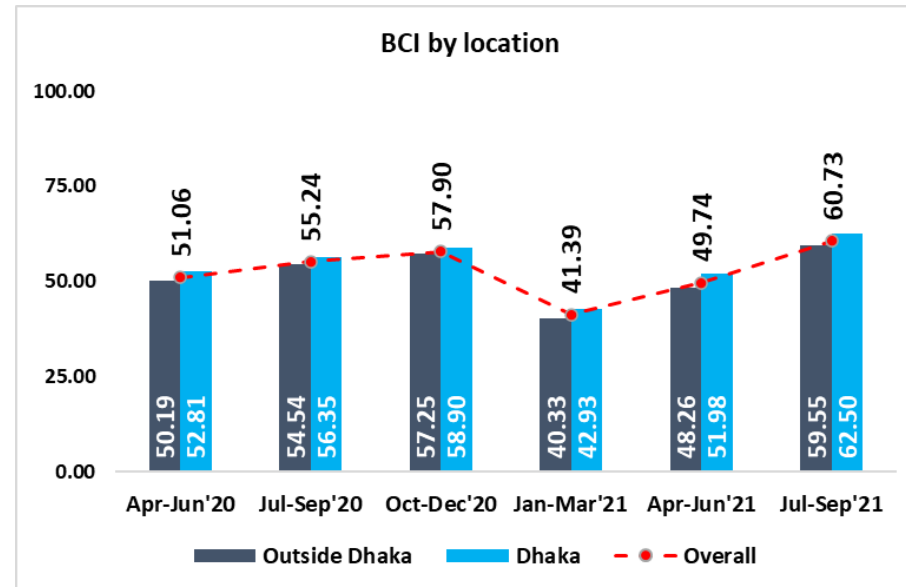
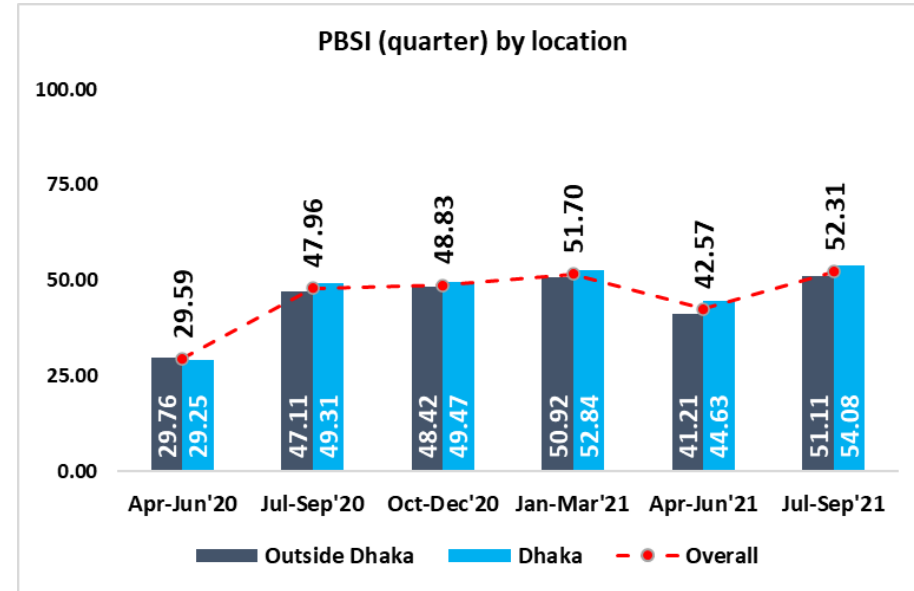
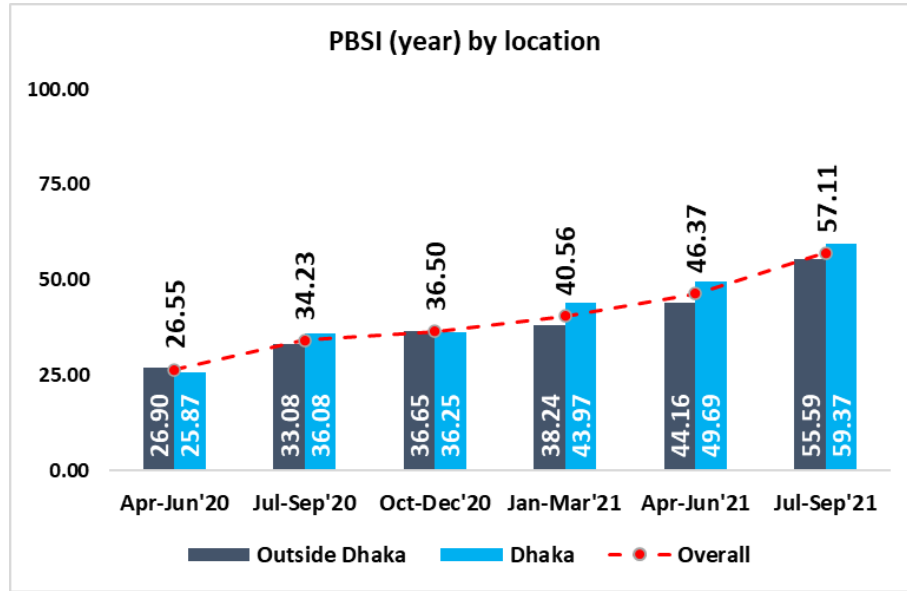
PBSIs and BCI Vs firm size



PBSIs and BCI Vs export status



PBSIs and BCI Vs location

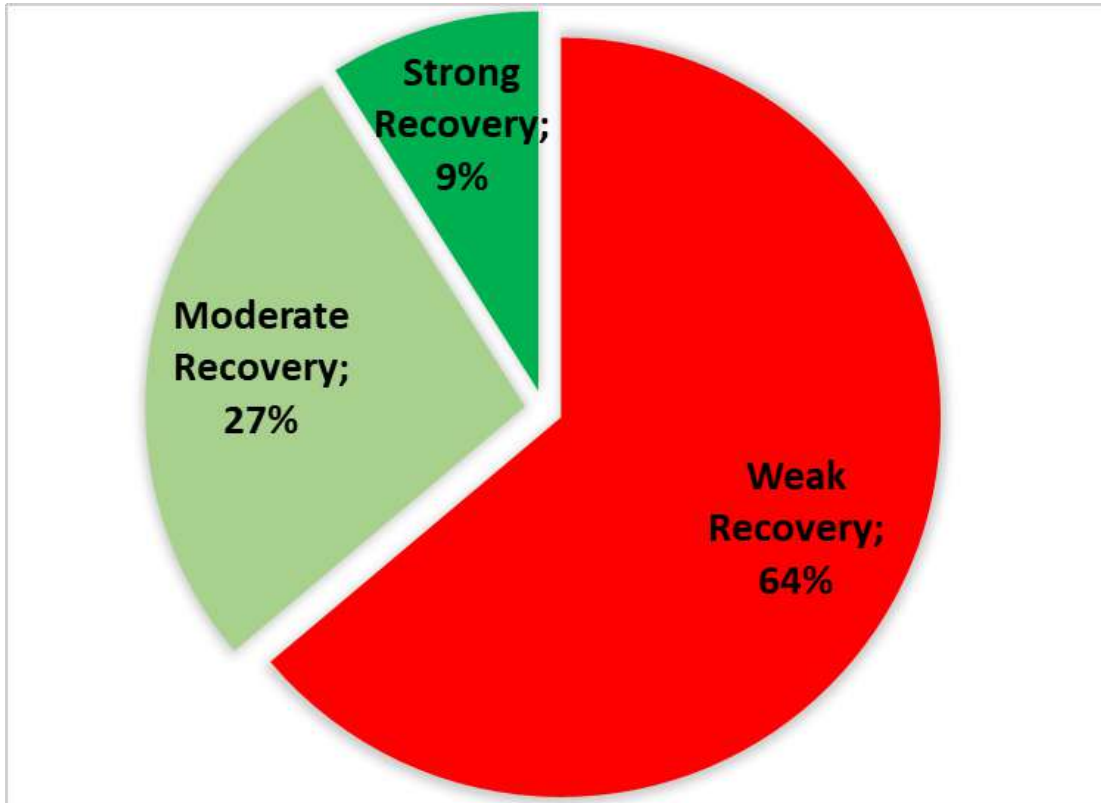




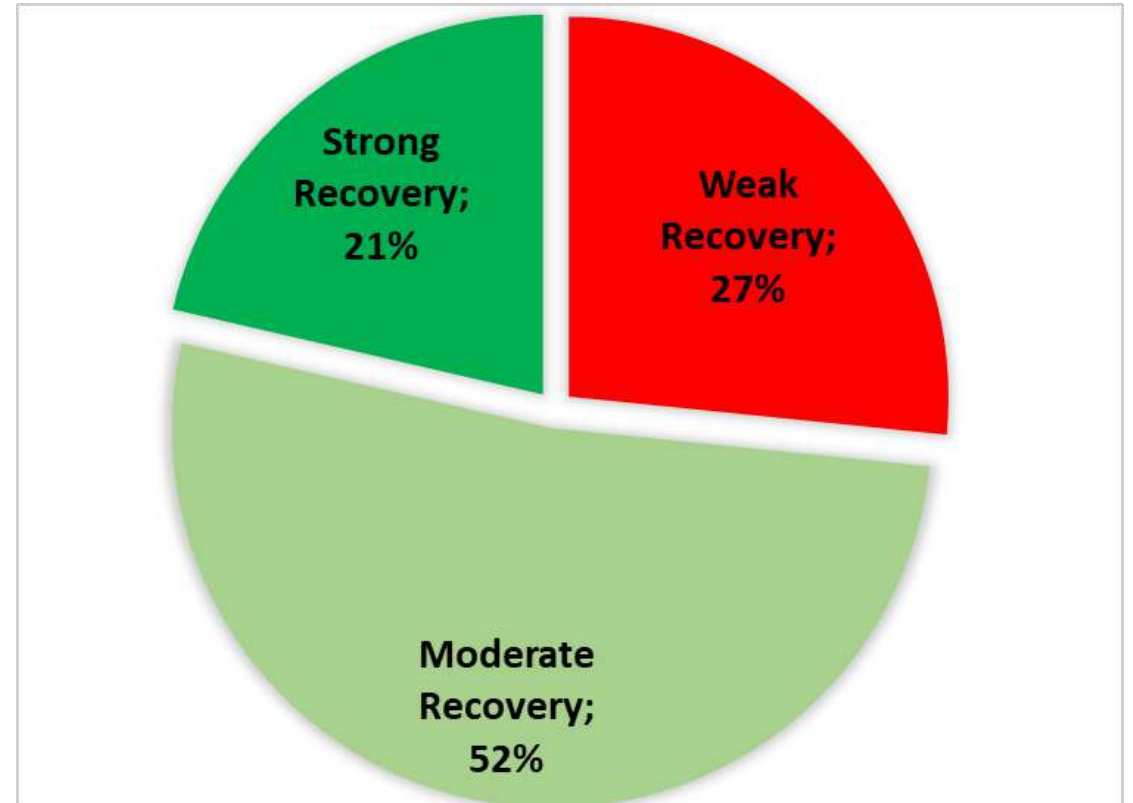
Economic
Recovery

Recovery status

5th Round (July 2021)

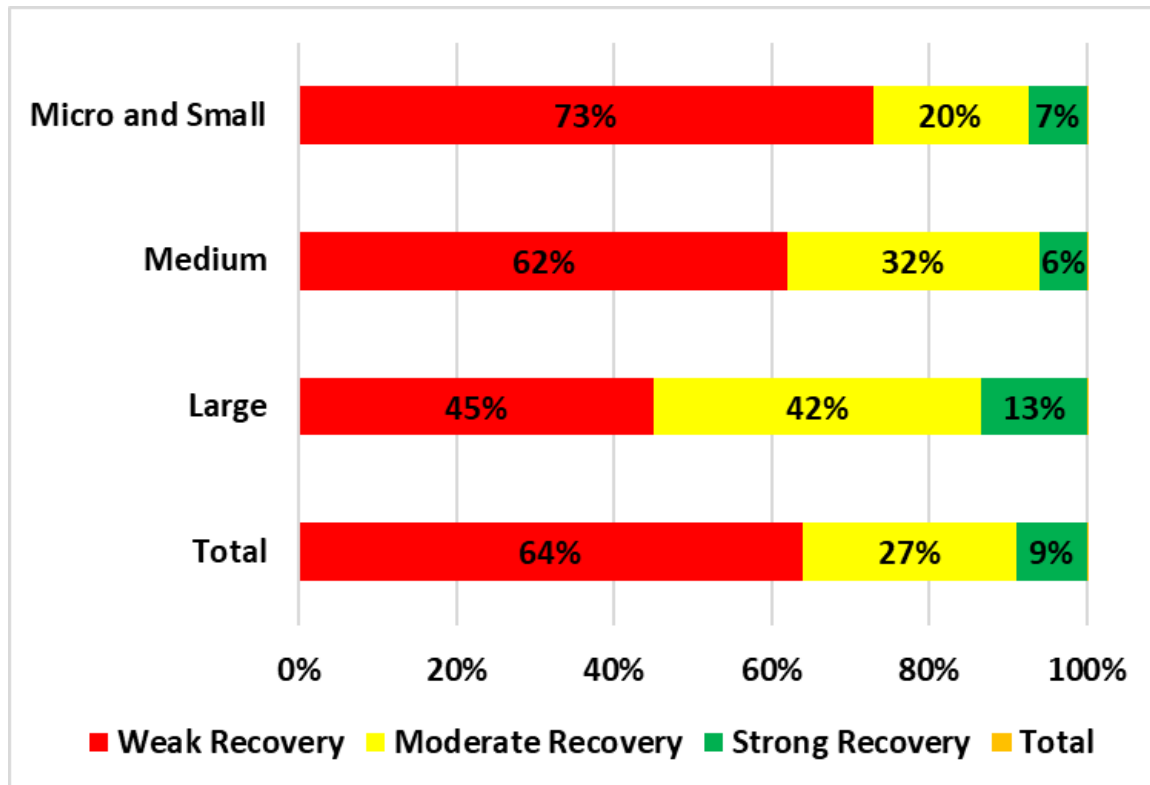


6th Round (October 2021)

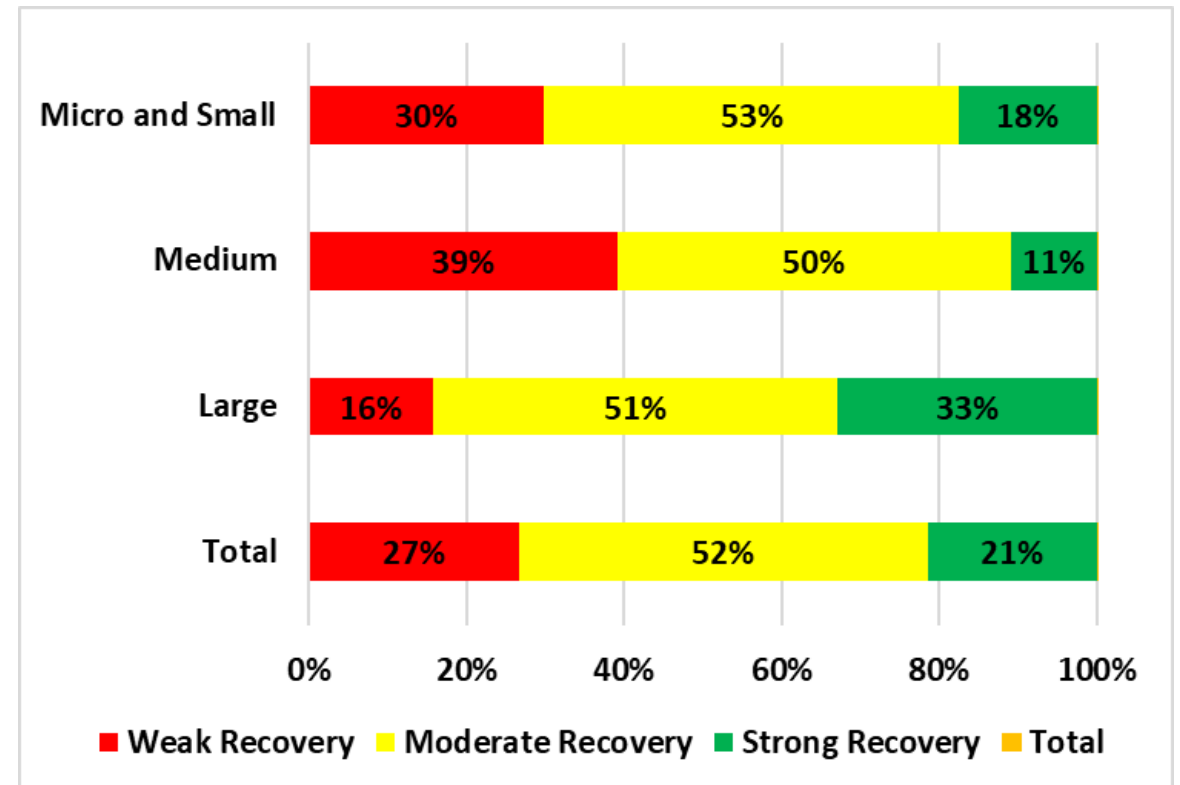


Recovery status by firm size

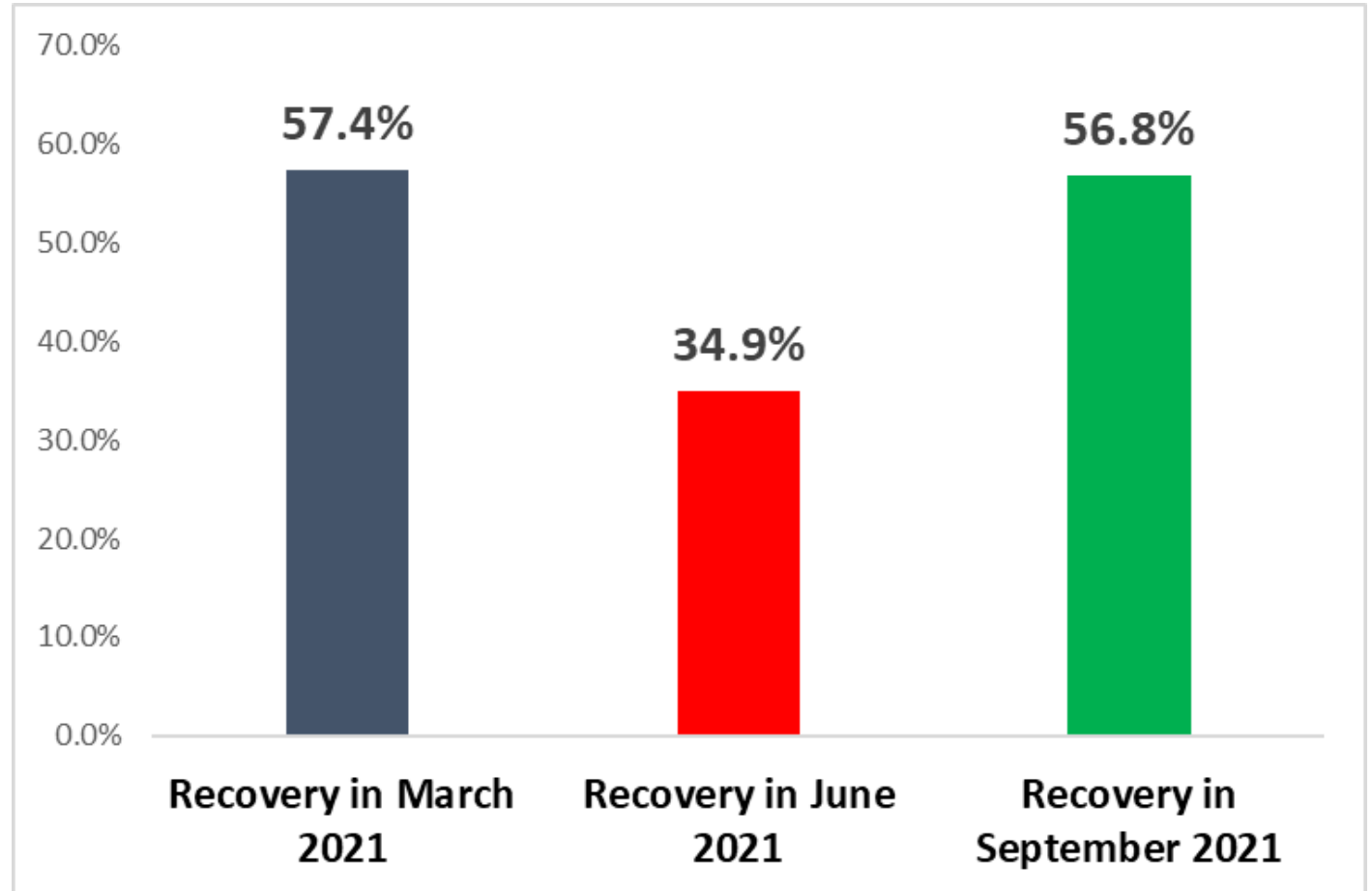
5th Round (July 2021)



6th Round (October 2021)

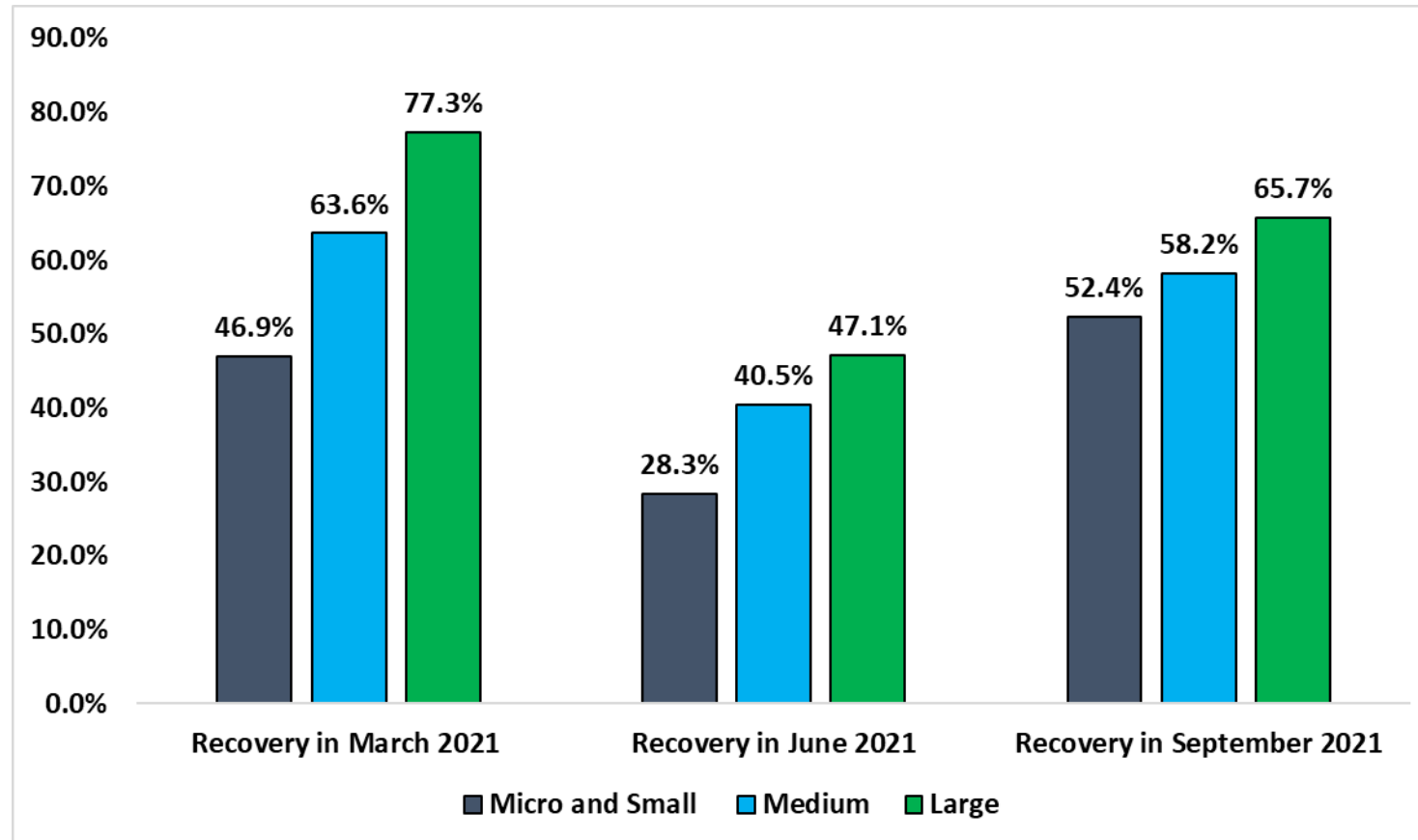


To what extent
firms were
able to
recover their
business since
March 2020?



Recovery by firm size

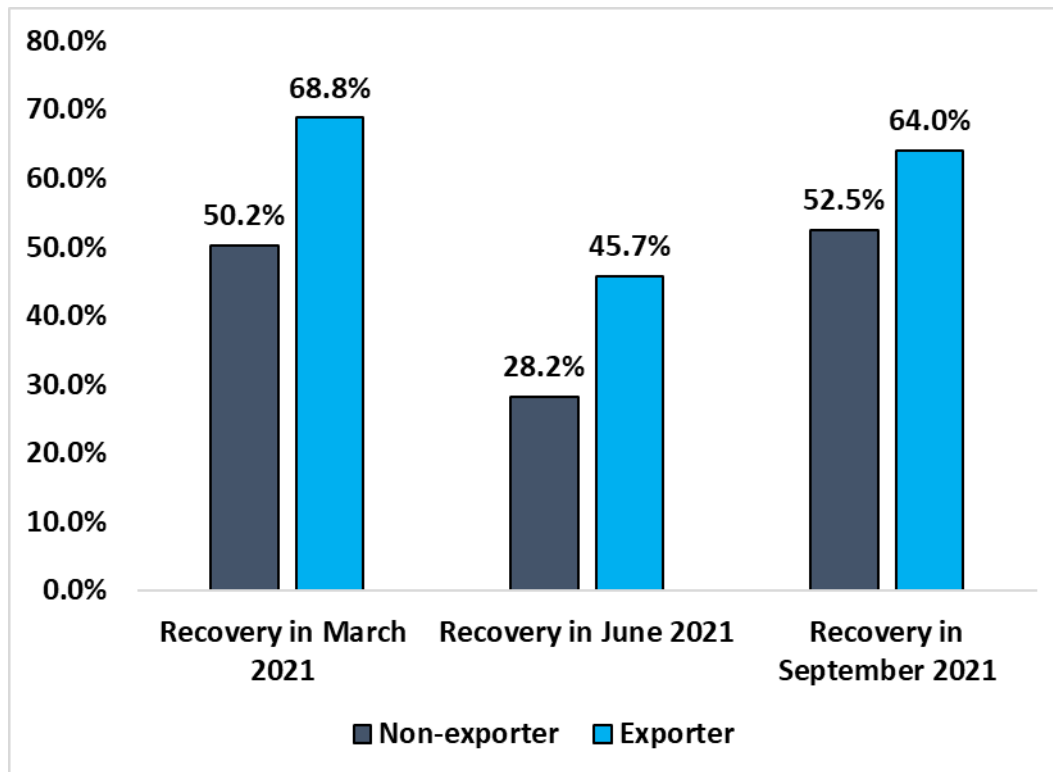
(Magnitude of recovery in March 2021, June 2021 and September 2021 compared to March 2020, %)



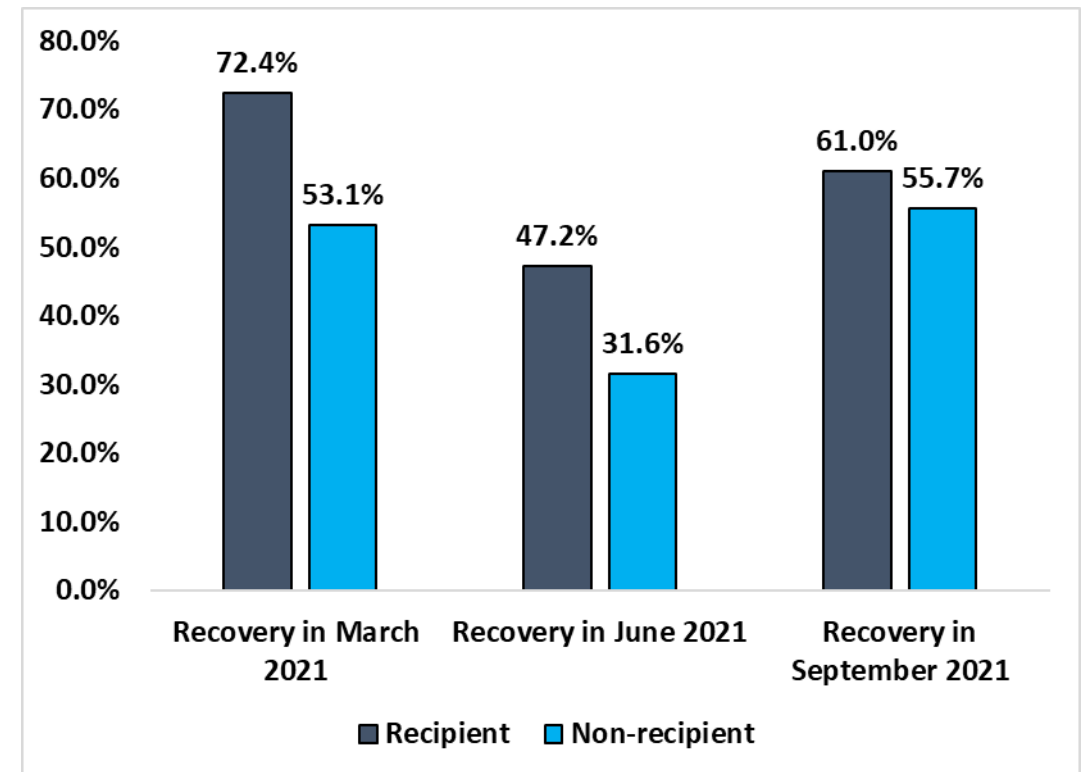
Recovery by export status, and stimulus receipt

(Magnitude of recovery in March 2021, June 2021 and September 2021 compared to March 2020, %)

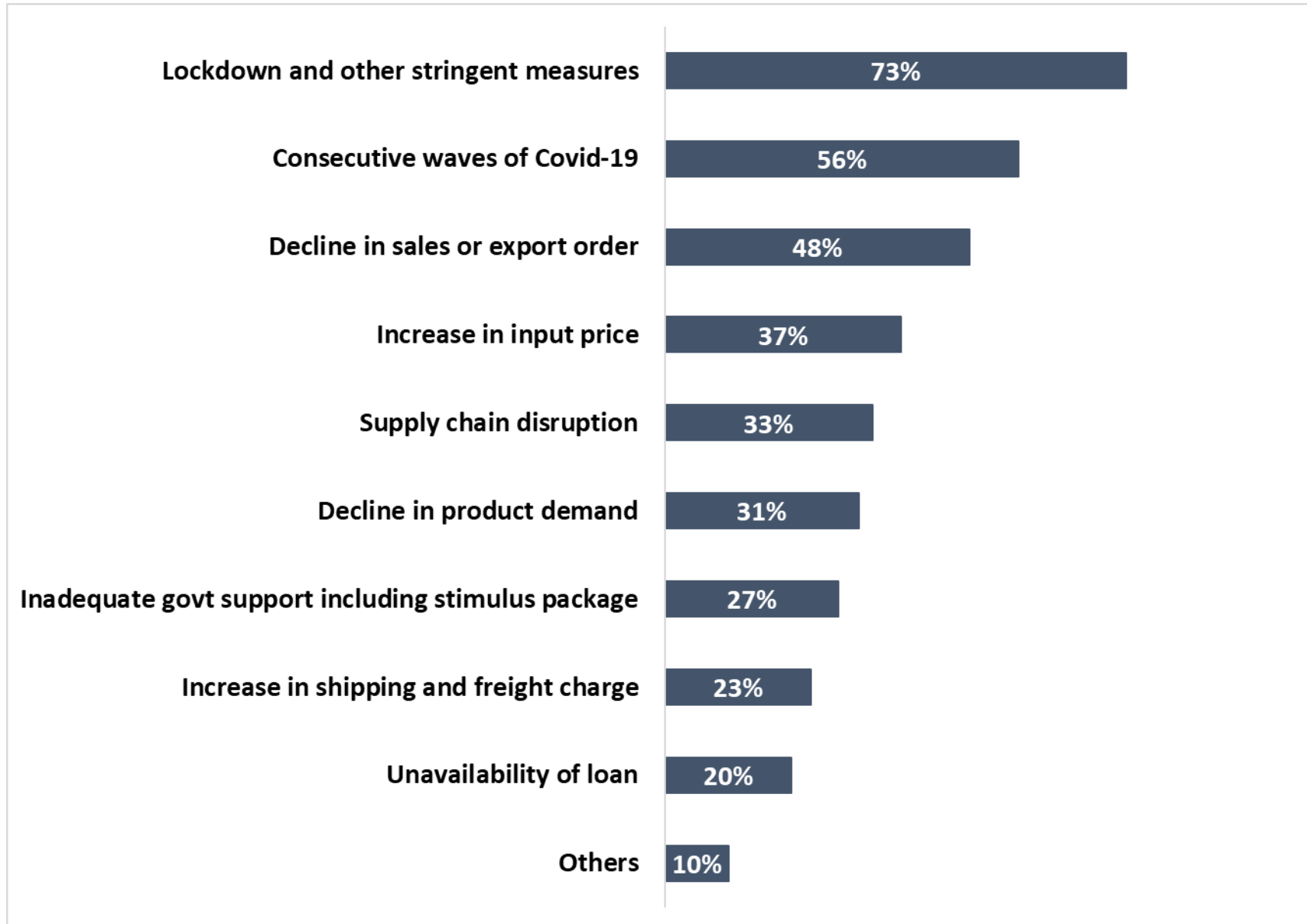
Export status



Stimulus receipt



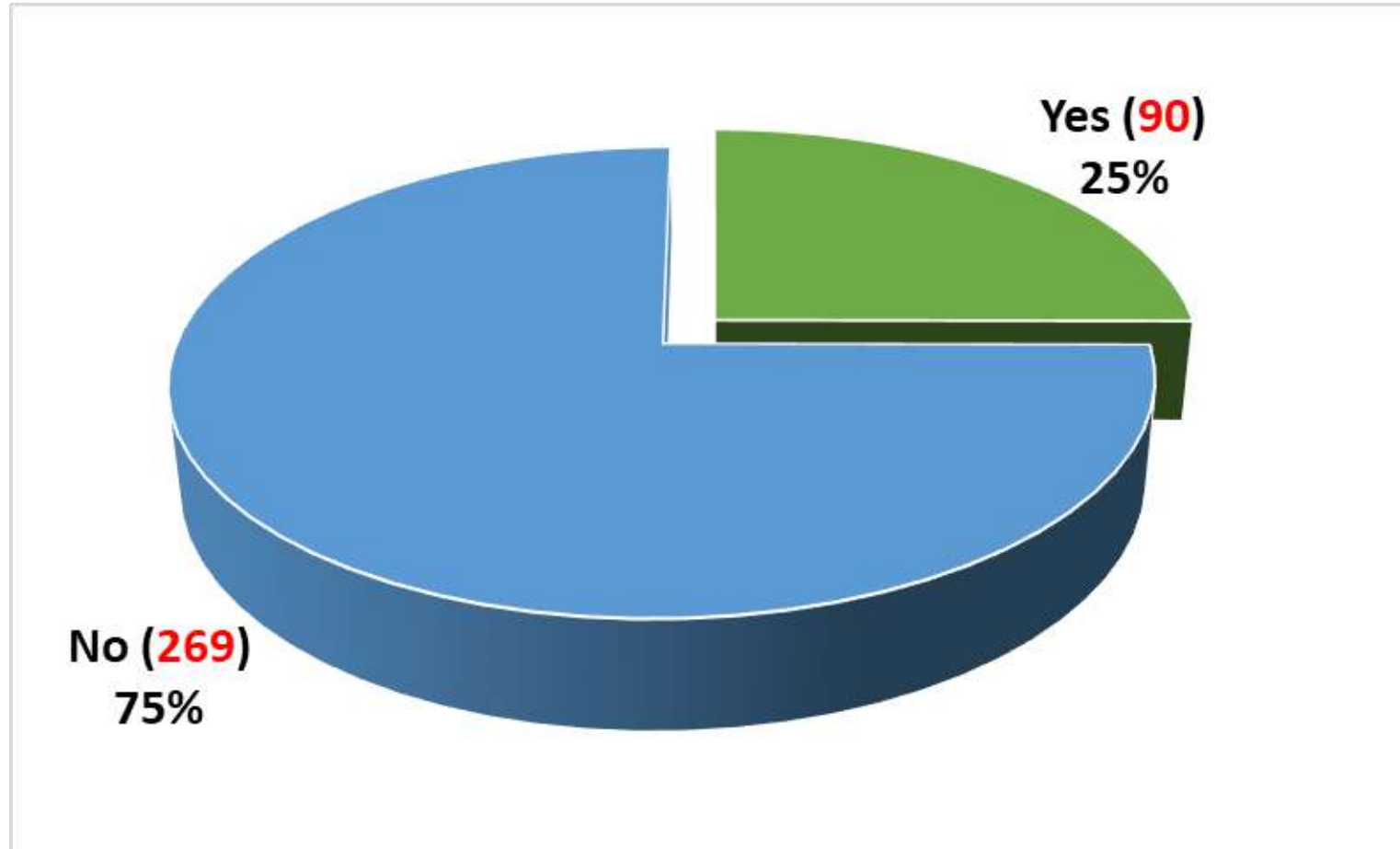
Major difficulties firms faced in the recovery phase



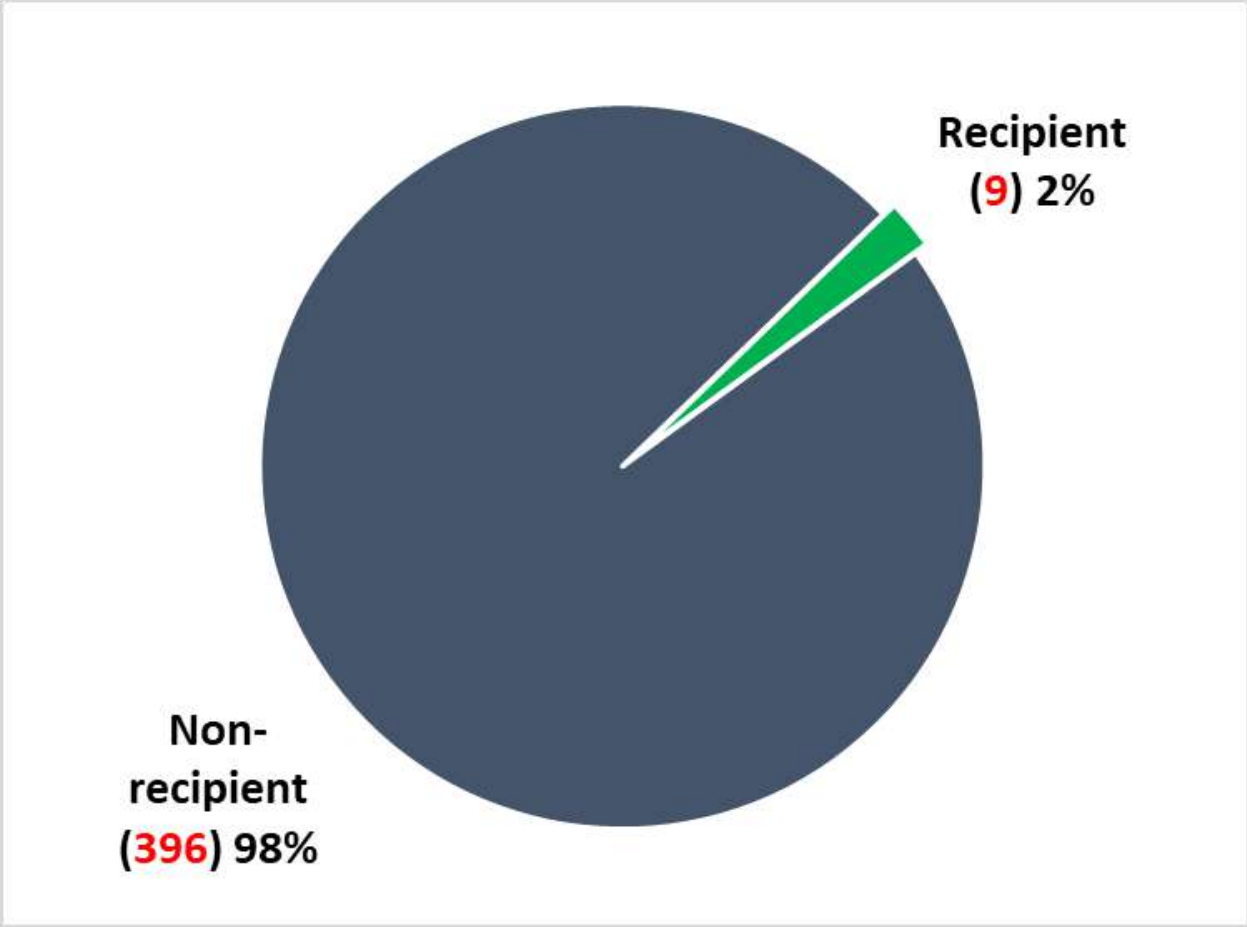
Stimulus package



% of firms attempted to avail the stimulus in the sixth round beyond who received

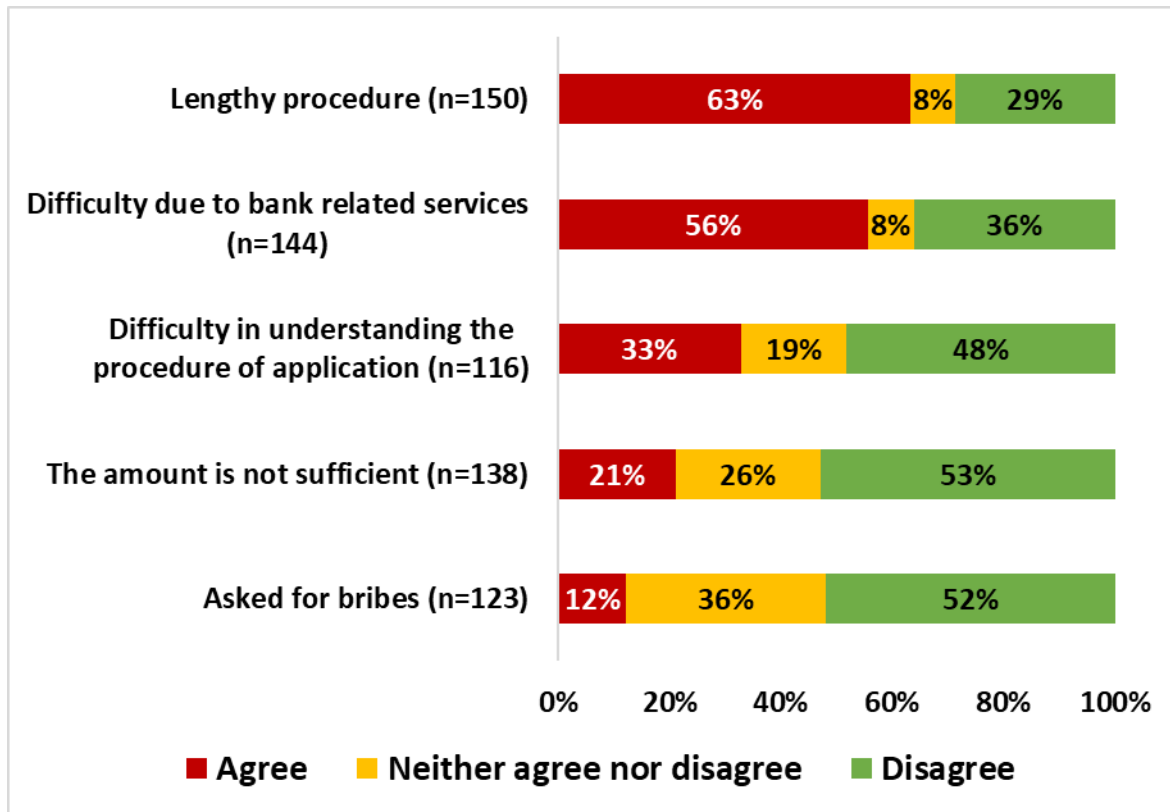


Availing the stimulus who did not avail in the earlier round

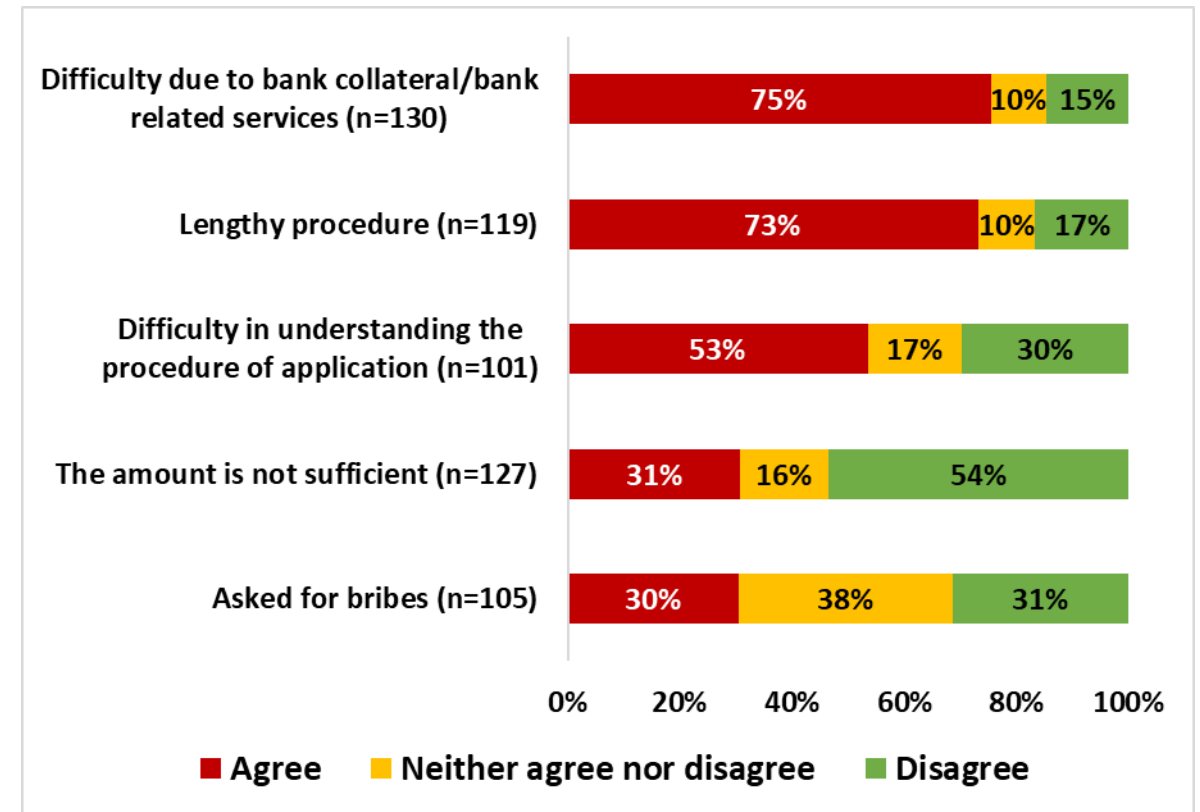


Problems faced in availing or pursuing the stimulus package

5th Round, July 2021



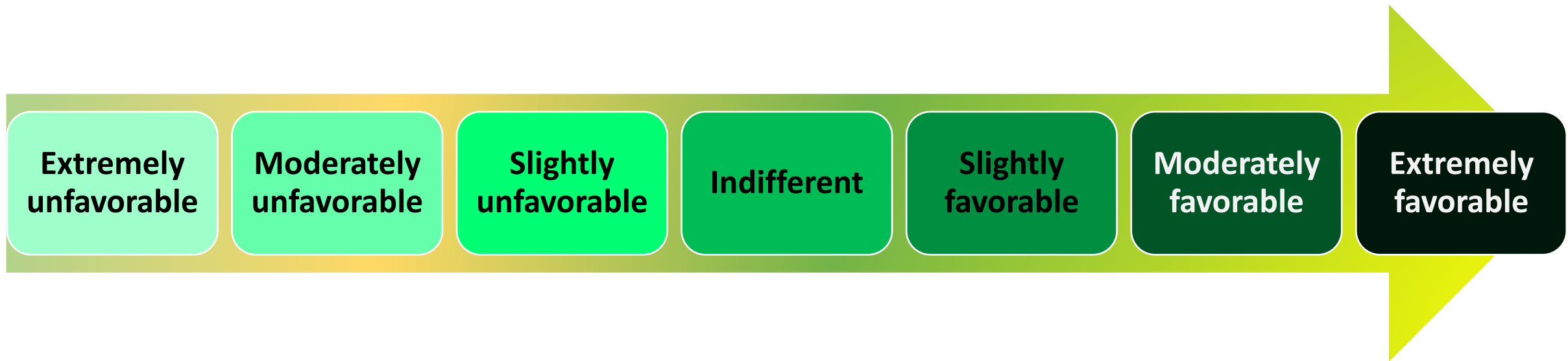
6th Round, October 2021



Business Environment

Using the survey data, we have constructed the Enabling Business-environment Index (EBI)

- **10 indicators, Considering equal weights**
- **Scoring between 0 and 100**



10 indicators of EBI

**Electricity
(connection &
quality)**

**Availability of
skilled
workers**

**Transport
quality**

**Business or
property
registration**

**Access to
finance**

**Overall tax
system**

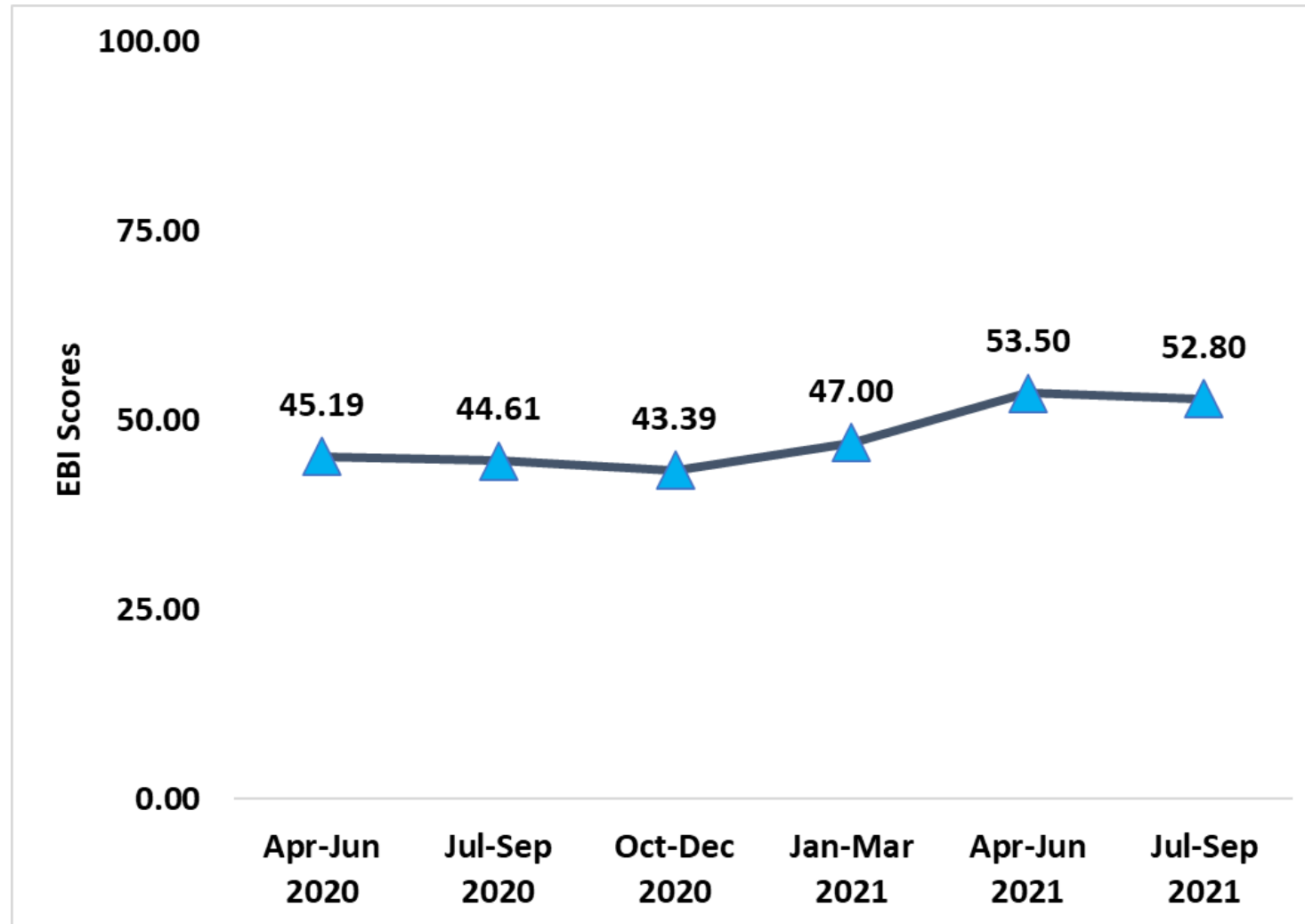
**Government
support for
the industry**

**Management
of the Covid-
19 crisis**

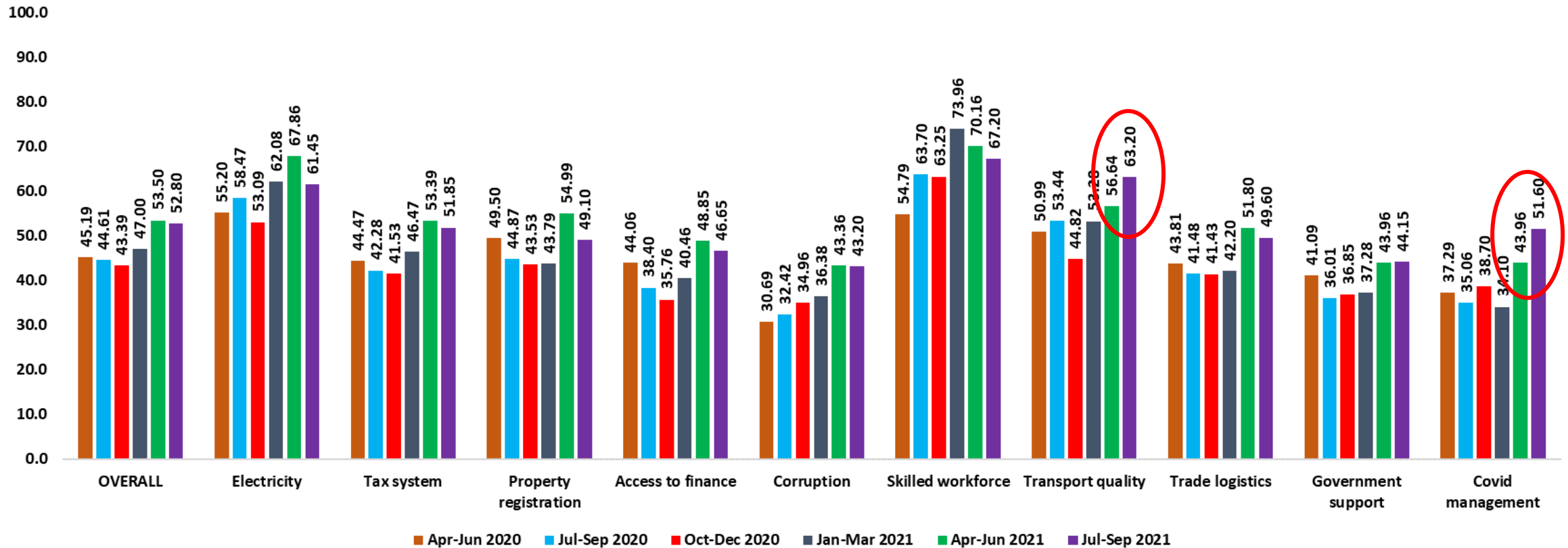
**Trade logistics
(port and
customs)**

Corruption

Overall Enabling Business-environment Index (EBI)



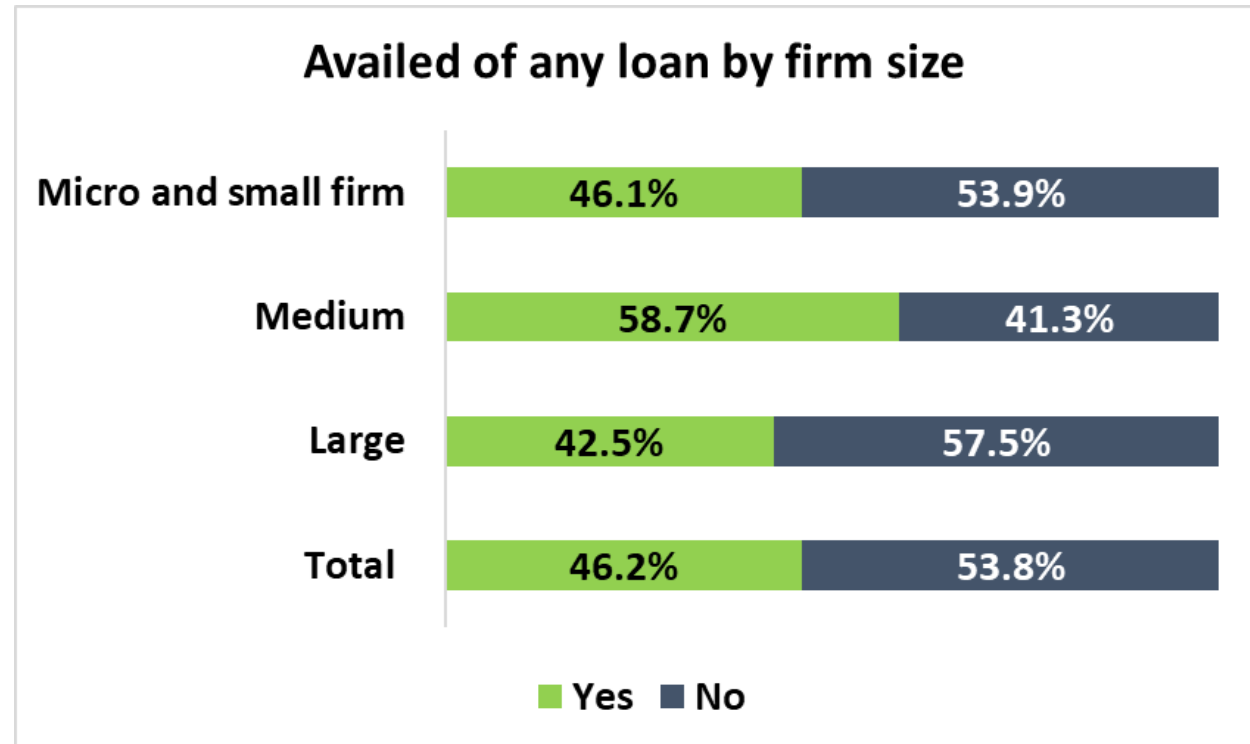
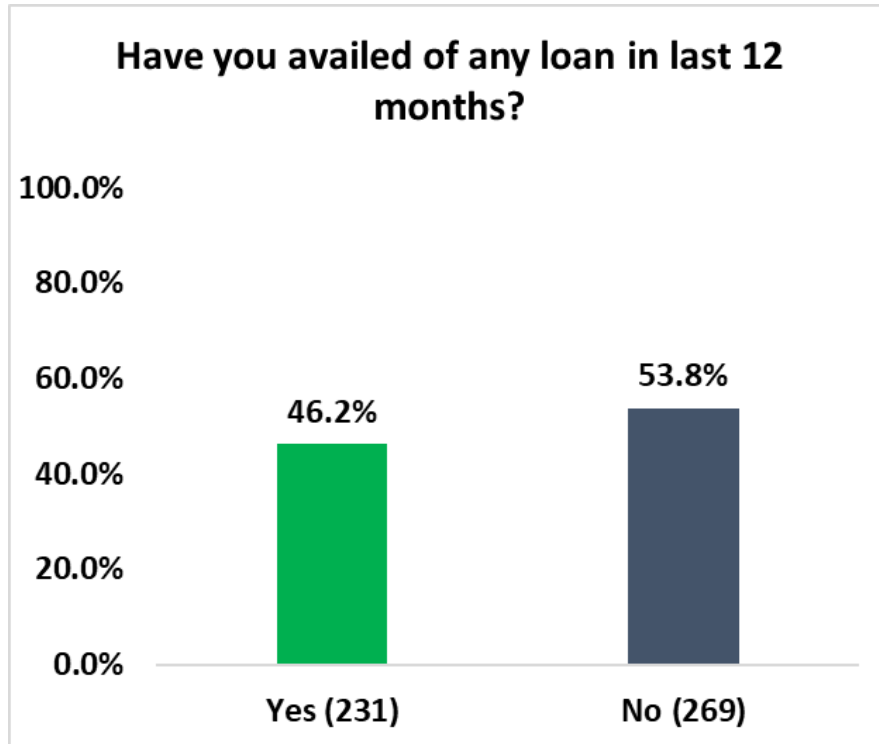
Enabling Business-environment Index (EBI), by Indicator



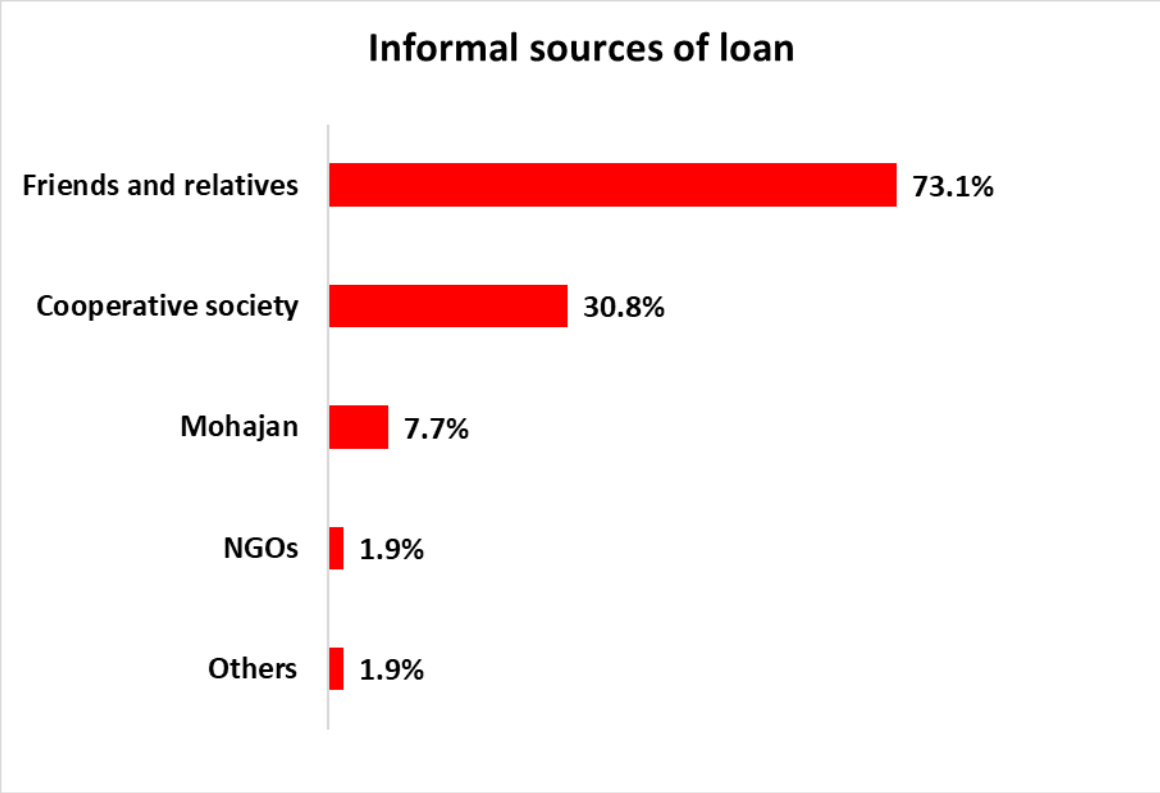
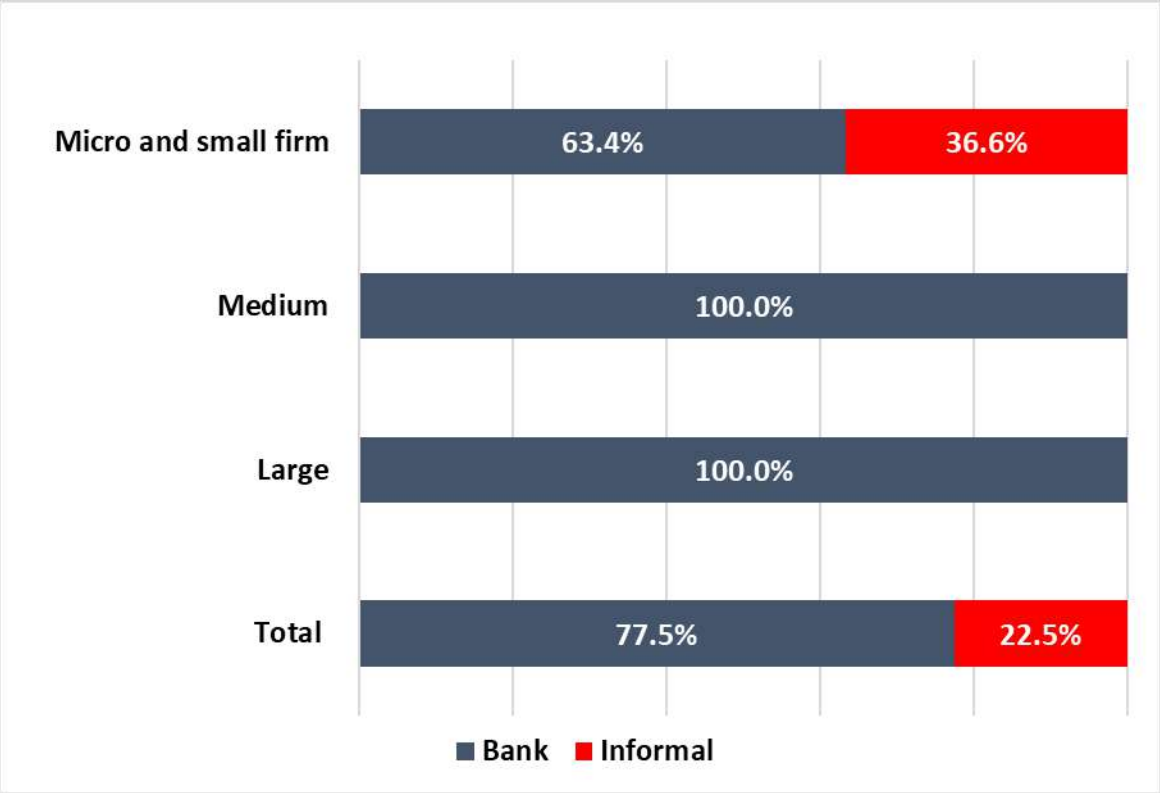


Financing

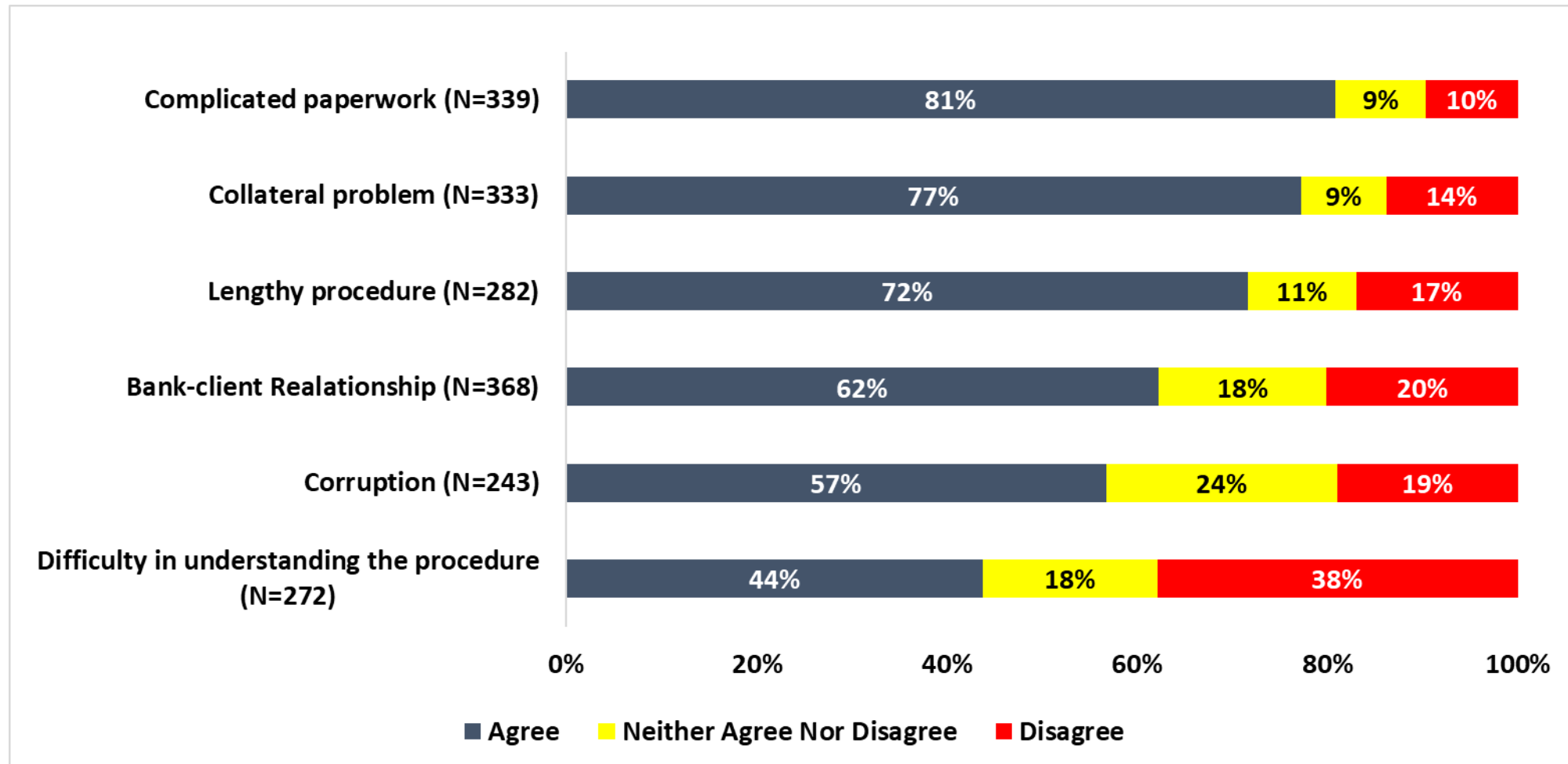
Availed of any loan by firm and firm size



Sources of loan



Major problems in availing of any loan from bank or non-bank financial institution

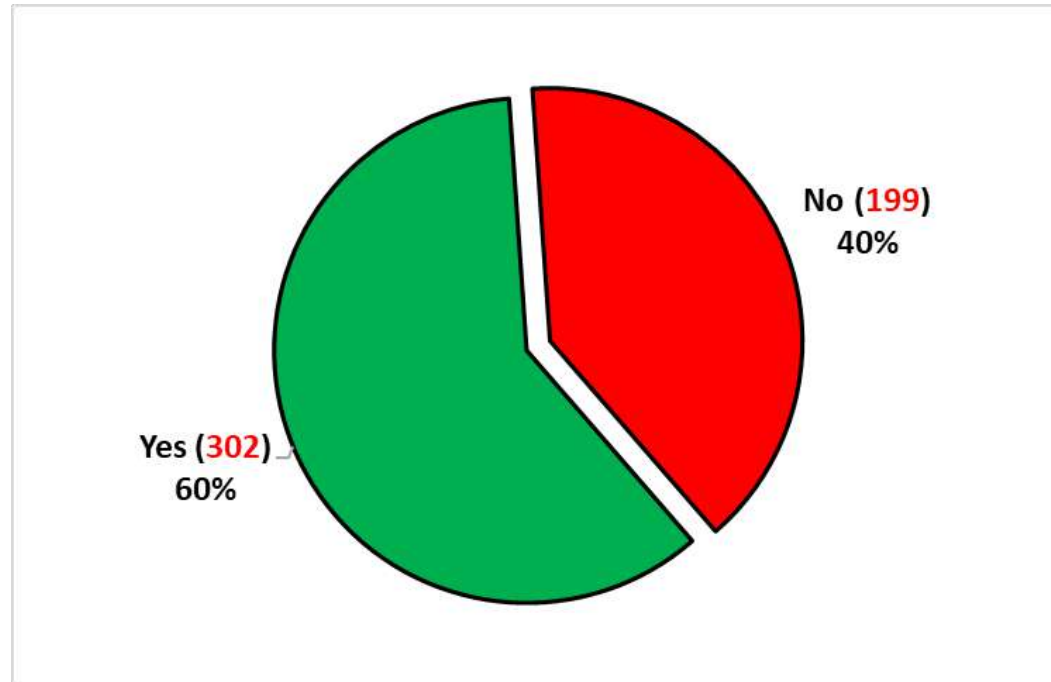


Vaccination

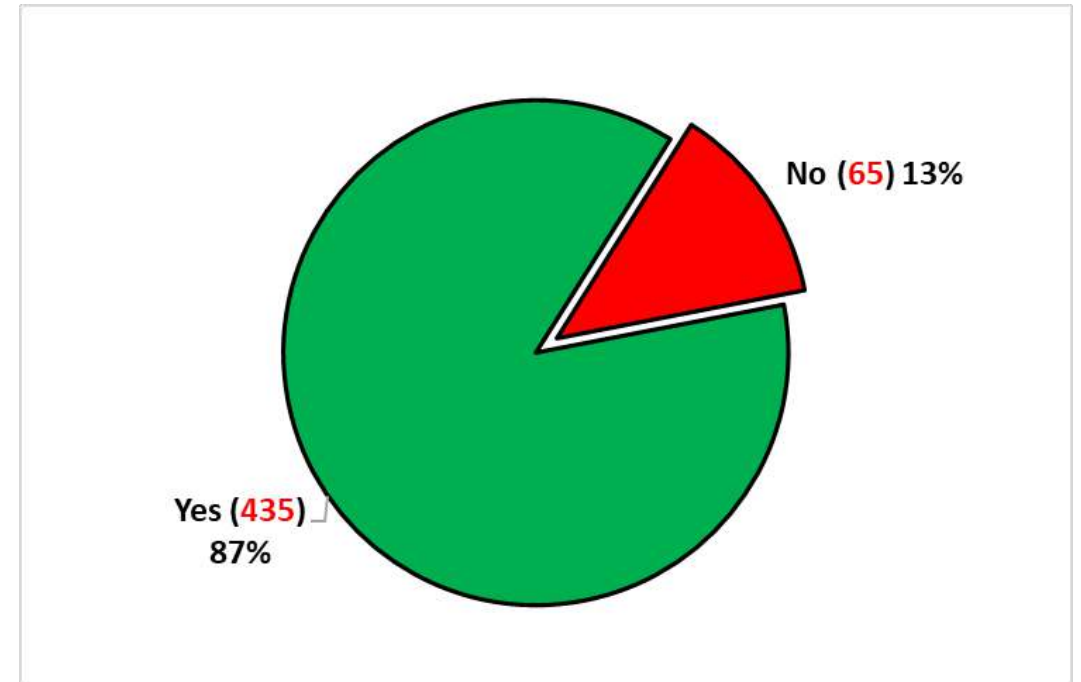
% of respondents (**employers**) with at least one dose of vaccine

(Whether the respondent took at least one dose of the vaccine)

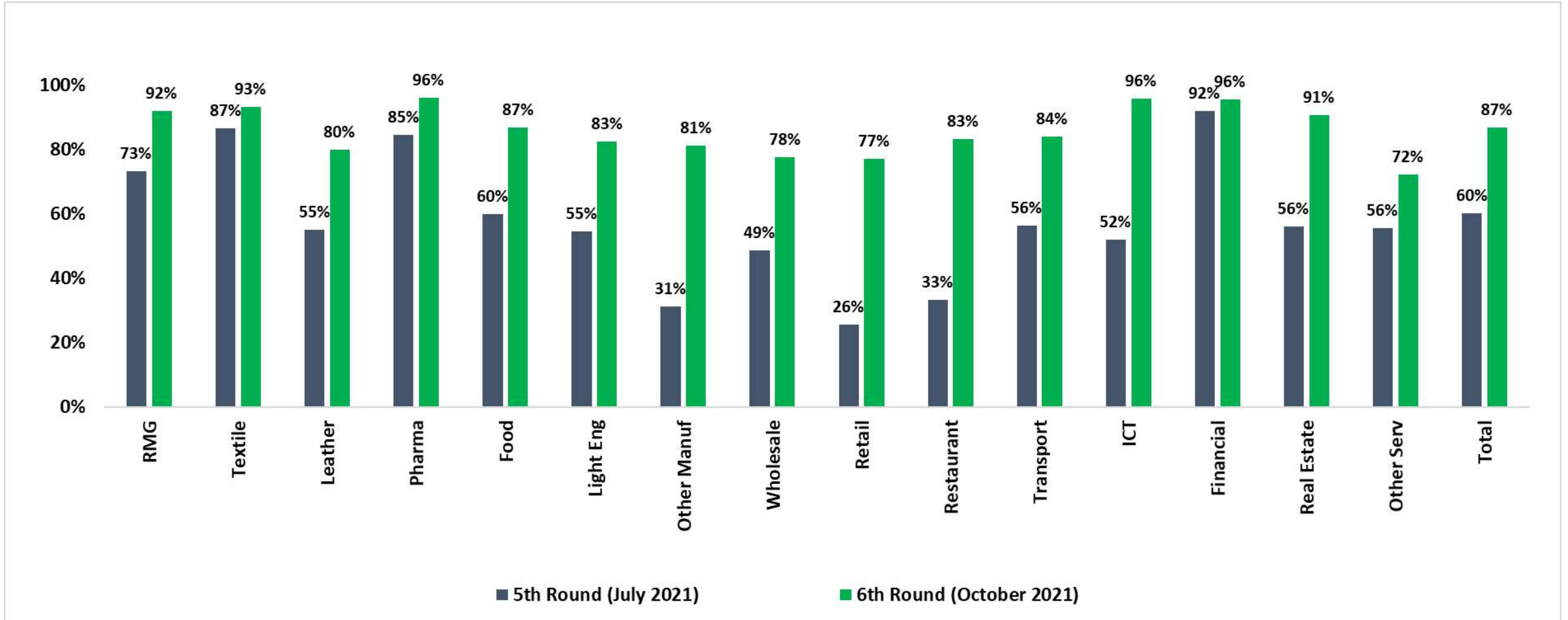
5th Round (July 2021)



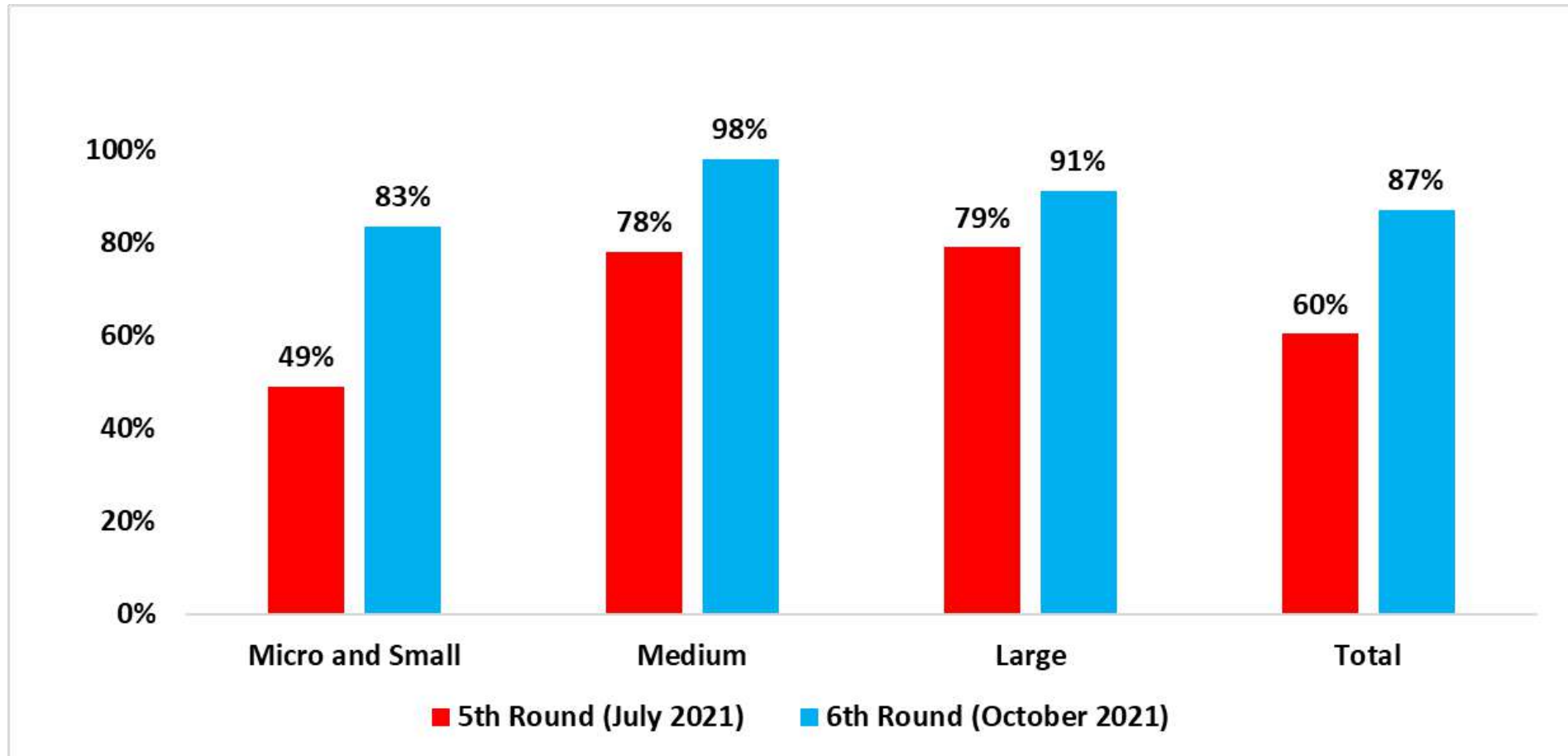
6th Round (October 2021)



% of respondents (**employers**) with at least one dose of vaccine, by sector

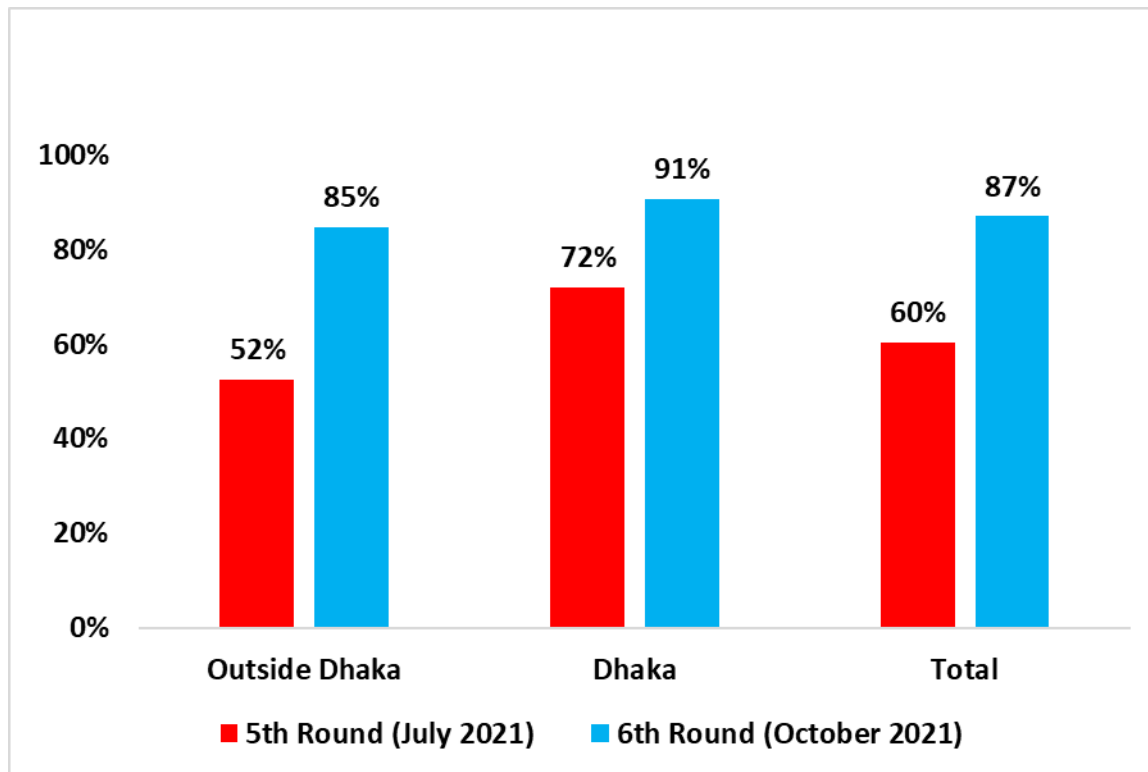


% of respondents (**employers**) who received at least one dose of vaccine, by firm size

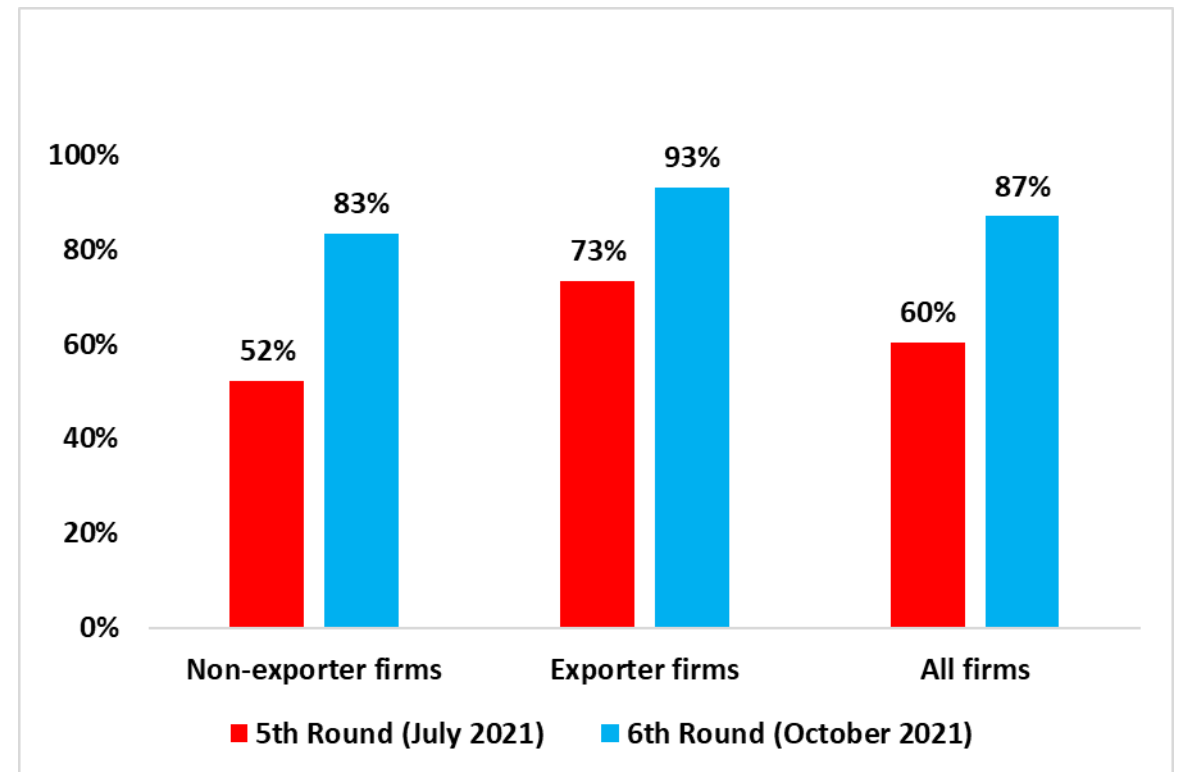


% of respondents (**employers**) with at least one dose of vaccine, by location and export status

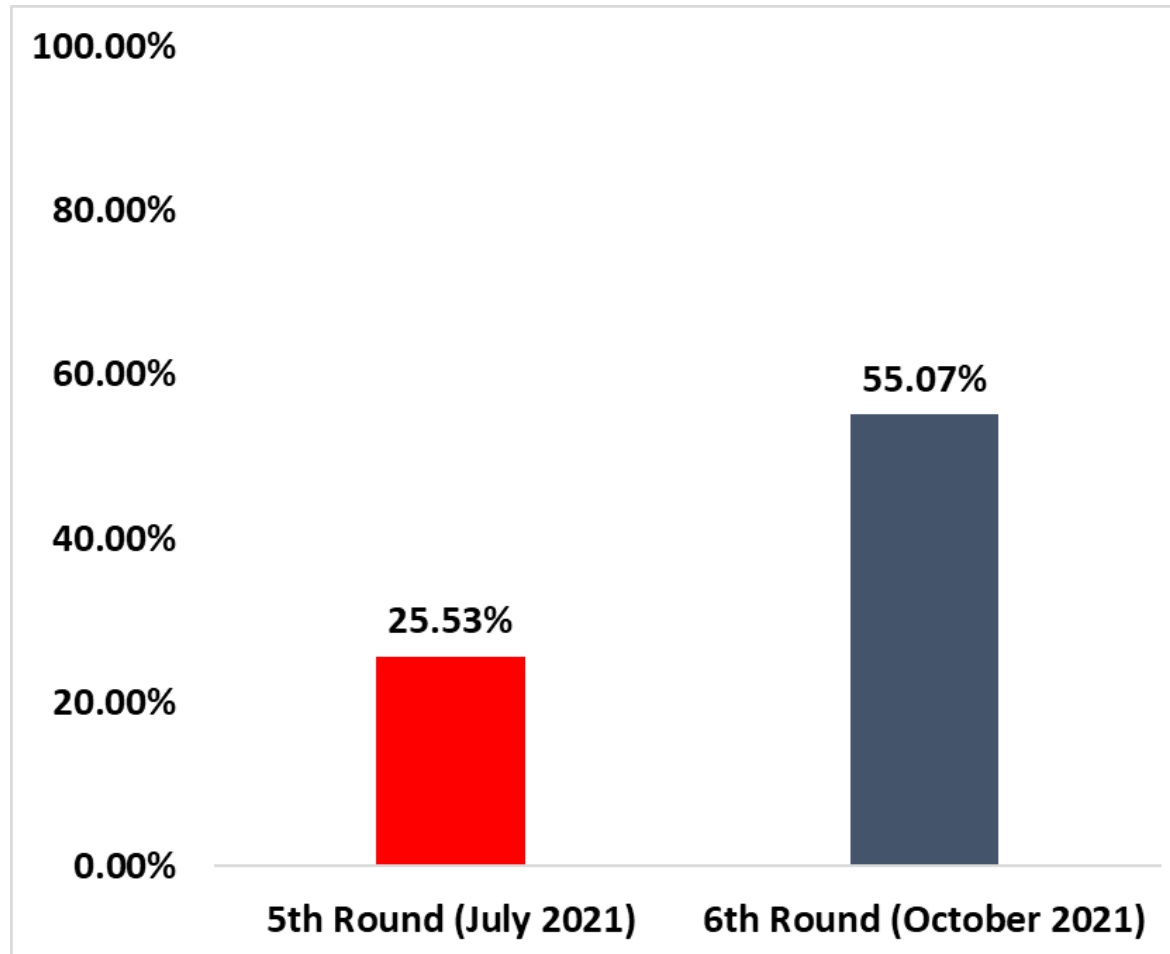
Location



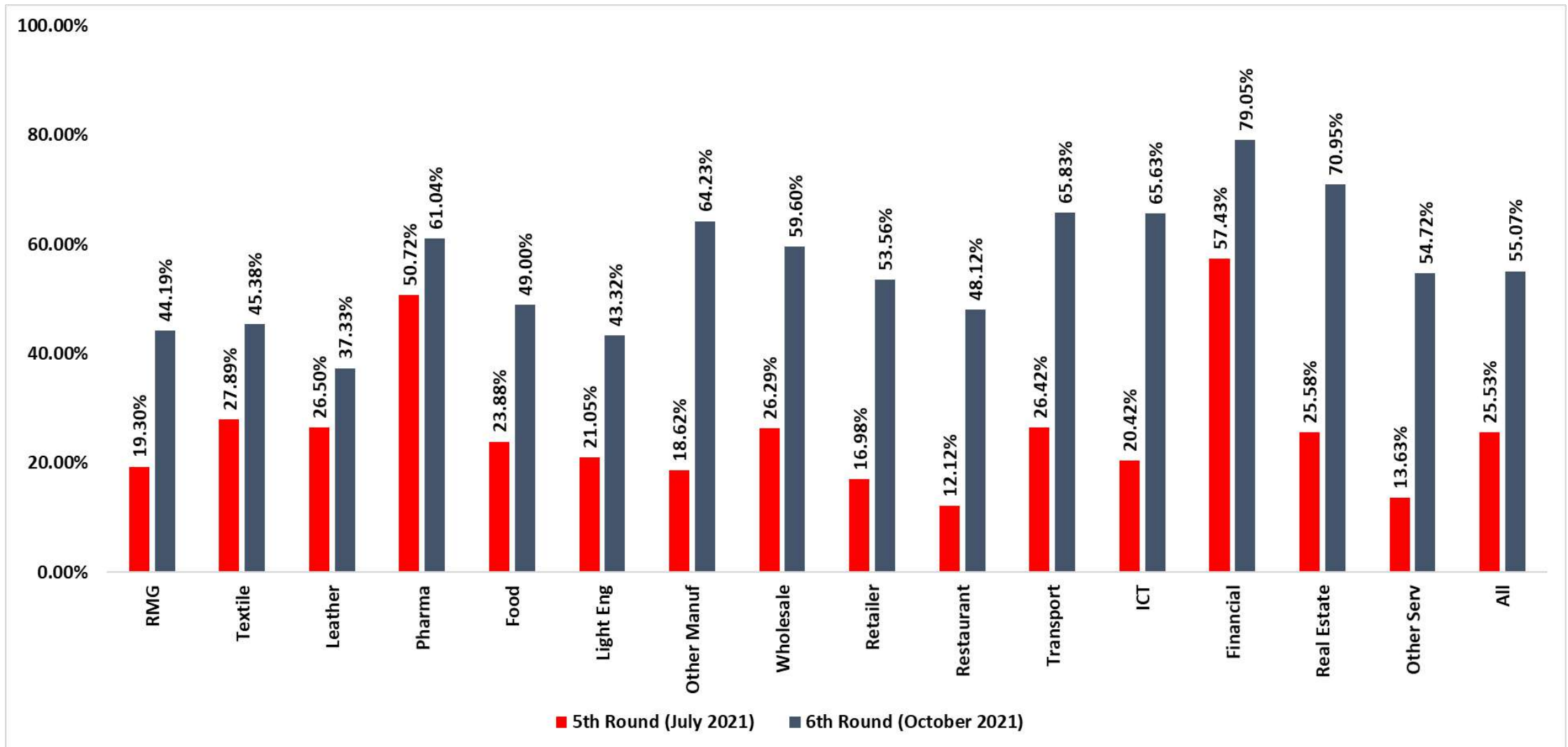
Export status



% of the firms' **employees** received at least one dose of vaccine

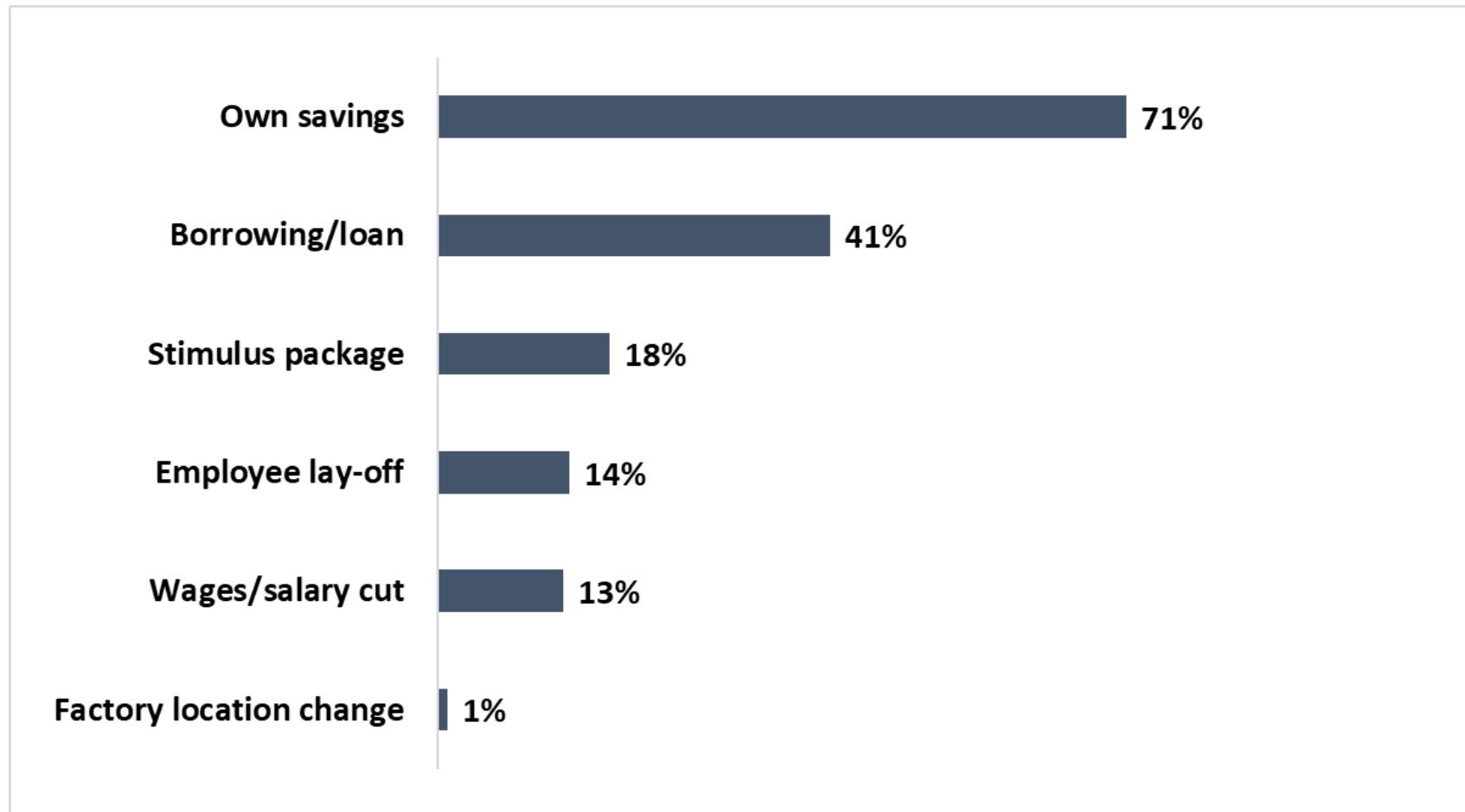


% of the firms' **employees** received at least one dose of vaccine, by sector



Copping Strategies

Firms' coping strategies during July-September 2021



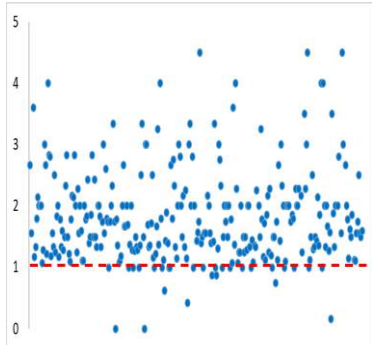
Gap between Firms' Expectations and Reality

The Ratio between BCI and PBSI: Gap between Firms' Expectations and Reality

- We calculated the ratio between BCI and PBSI.
 - **Ratio = 1** indicates that a firm believes that its condition will remain the same in the next quarter compared to what it has in the current quarter
 - **Ratio < 1** indicates that a firm believes that its condition will deteriorate in the next quarter compared to what it has in the current quarter
 - **Ratio > 1** indicates that a firm believes that its condition will improve in the next quarter compared to what it has in the current quarter

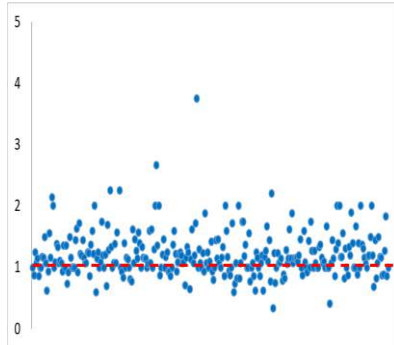
The Ratio between BCI and PBSI: Gap between Firms' Expectations and Reality

First Round: Apr-Jun'20



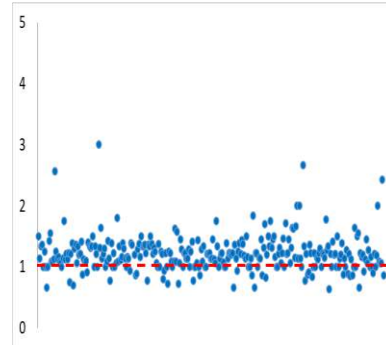
Mean = 2.07
Median = 1.73
Standard deviation = 1.79
Variance = 3.21

Second Round: Jul-Sep'20



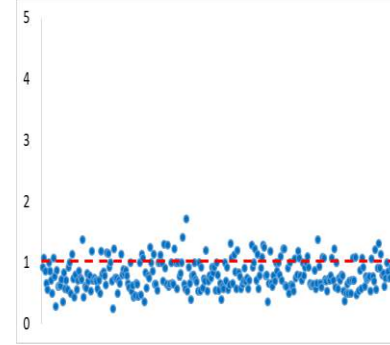
Mean = 1.25
Median = 1.14
Standard deviation = 0.59
Variance = 0.34

Third Round: Oct-Dec'20



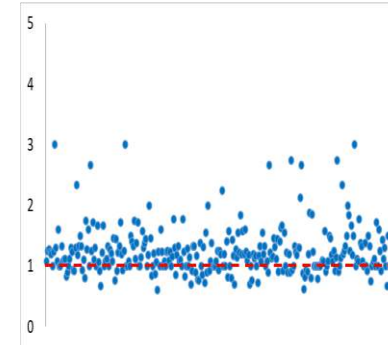
Mean = 1.22
Median = 1.17
Standard deviation = 0.37
Variance = 0.14

Fourth Round: Jan-Mar'21



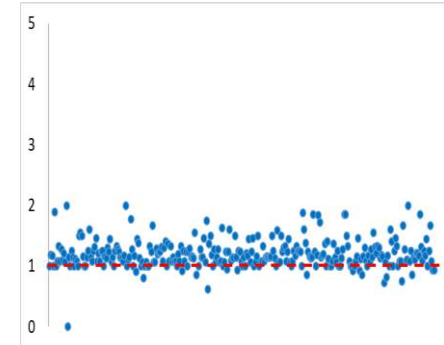
Mean = 0.81
Median = 0.79
Standard deviation = 0.24
Variance = 0.06

Fifth Round: Apr-Jun'21



Mean = 1.25
Median = 1.14
Standard deviation = 0.63
Variance = 0.40

Sixth Round: Jul-Sep'21



Mean = 1.19
Median = 1.14
Standard deviation = 0.22
Variance = 0.05

Summary and policy implications (1/3)

- During the sixth round, there have been some visible recoveries of business activities. The improvement is visible in most of the sub-indicators of PBSI (year). For the very first time, the overall PBSI (year) has crossed the 50 mark, indicating business activities are improving.
- Likewise, PBSI (quarter) has shown an improvement of business activities in July-September 2021 quarter compared to April-June 2021 quarter. However, the overall PBSI (quarter) score is still low.
- Faster recovery has been observed in Restaurant, RMG, Textile, and Light Engineering sectors amongst others while an year-on-year comparison is made.
- The overall business confidence in October-December 2021 has improved compared to the July-September 2021 quarter. The improvement is visible for all sub-components of BCI.
- Sectors like Transport, Light Engineering, Tourism, Textile, RMG, and ICT amongst others have expressed greater confidence in the upcoming quarter, reflecting their optimism for the better business prospects in near future.

Summary and policy implications (2/3)

- Most of the time over the last one and half years, the business status and confidence were worse for micro, small and medium firms compared to large firms, non-exporter firms as opposed to exporter firms, firms from services sector than manufacturing firms, and firms located outside Dhaka.
- 21% of respondents in the sixth round of the survey (Jul-Sep 2021) observed that Bangladesh was on a path of strong recovery, while it was only 9% in the earlier round. Similarly, their views on moderate recovery increased to 52% in this round from 27% in the previous round.
- Due to the second wave of the COVID-19, firm's internal recovery rate went down to 34.9% in July 2021 (compared to March 2020) from 57.4% observed in April 2021 (compared to March 2020). However, the recovery rate increased to 56.8% in September 2021 (compared to March 2020) as the economy reopens at a full-phase in the middle of July-September 2021 quarter.

Summary and policy implications (3/3)

- The overall EBI stagnated over the last two quarters. However, the EBIs of transport and government support improved during this period.
- 46.2% firms availed of any loan in the last 12 months. Amongst them, 77.5% availed from formal sector (like banks) and 22.5% availed from informal sectors (like friends and relatives, co-operate society etc.)
- Completed paperwork, collateral problem, lengthy procedure, bank-client relationship etc. are the major problems for the firms to avail of any loan from the banks.
- During July-September 2021, the major coping strategies of the firms involved using own savings (71%). The other major strategies were borrowing (41%), stimulus package (18%), and employee lay-off (14%).
- The coverage of vaccination for both employer and employee increased in July-September 2021 quarter compared to April-June 2021 quarter. The survey shows that 87% of respondent (employers) got at least one dose of vaccine while the rate was 60% in the earlier round. In the case of employees vaccination, this figure was 55.07% in July-September 2021 quarter compared to 25.53% in the previous quarter.

Emerging challenges affecting economic recovery

- Fuel price hike
- Inflationary pressure
- Falling remittances
- The new COVID-19 wave
- Need for a wider coverage of vaccination

Thank You!

Annex

Survey Methodology & Construction of the PBSI and BCI Indices

Survey Methodology: *Coverage and Technique*

- The survey covers firms from Manufacturing and Service sectors.
- Firms are categorized into micro, small, medium, and large based on their sizes (as per the National Industrial Policy 2016)
- Covers six sub-sectors from Manufacturing and seven sub-sectors from the Service sector.
- Interview of top managers/executives of the firms over the phone between October 10-27, 2021.
- **In total, 500 firms are surveyed across the country: 255 manufacturing firms and 245 service sector firms.**

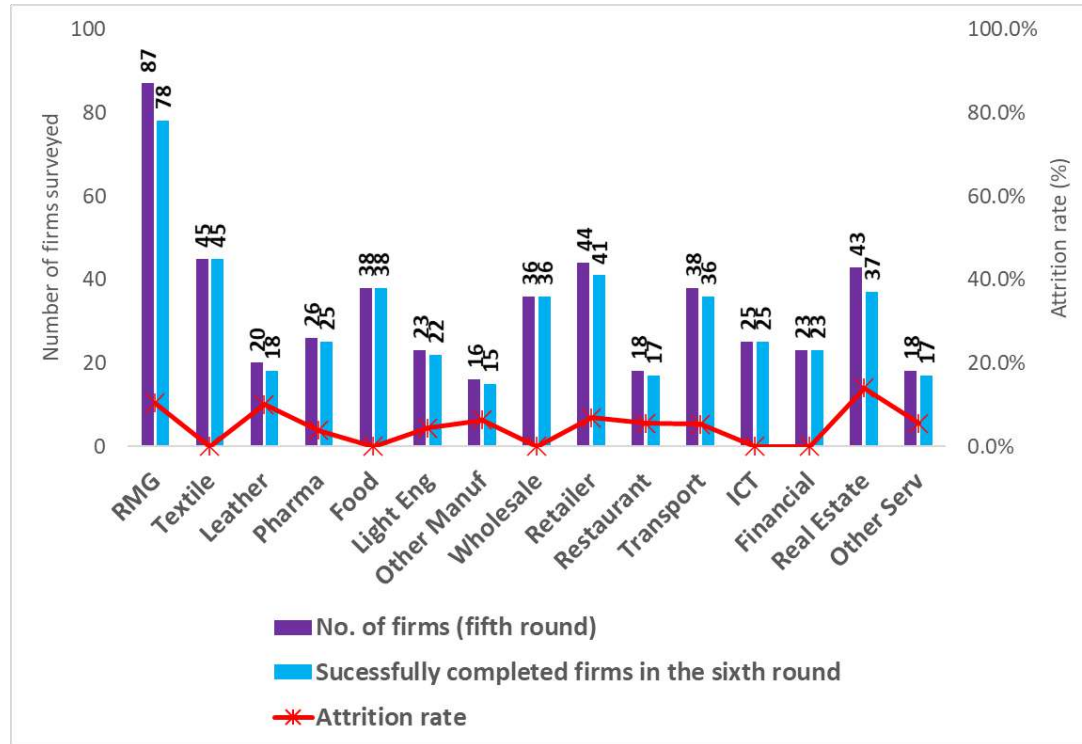
Survey Methodology: *Sampling framework*

- The survey covers systematic representation from all major subsectors from the manufacturing and the services sectors.
- The sample selection is done in **two steps**:
- **In the first step**, we block a minimum number of firms (15 firms) to be interviewed from each of the sub-sectors under both manufacturing and service sectors.
- **In the 2nd step**, the rest of the firms (out of 250 firms for each sector) are selected based on each sub-sectors' contribution to the total Gross Value Addition (GVA) in the economy.

Survey Methodology: *Sampling framework (Cont.)*

- All the subsectors are distributed across the divisions based on 'divisional weights' using BBS Economic Census of 2013.
- Then the number of firms to be surveyed was identified for each of the subsectors from these divisions.
- Not all the industries are available in all the divisions. In that case, we have incorporated another firm from other sub-categories to maintain total divisional balance.
- Each of the firms from the respective divisions is chosen randomly. Lists of firms from the respective business association's websites are used.

Minor Attrition in the Response



- 28 firms from the fifth round (out of 501 firms) dropped in the sixth round taking the overall attrition rate to 5.4%.
- Out of the 28, 2 firms went out of business due to COVID crisis (both from RMG); 9 declined, and 17 firms could not be reached.
- The highest attrition is found in Real estate (14%), followed by RMG (10.3%), Leather (10%), Retailer (6.8%), and Other Manuf (6.3%) amongst others.
- These firms were replaced from the same industry following systematic random sampling.

Methodology of Construction of Indices (1/3)

First, we calculate the scores of the sub-indicator k (such as profitability) for sub-sector j (such as RMG) as following:

$$S_{jk} = \frac{\sum_{i=1}^n x_{i,jk}}{n}$$

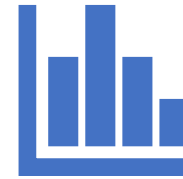
Here,

- j is the sub-sector (such as RMG under manufacturing), k is the sub-indicator (such as profitability),
- $x_{i,jk}$ is the score of the i -th firm in j sector on k indicator (such as score of a firm in the RMG on profitability), and n is the total number of firms surveyed in that sector (RMG). $x_{i,jk}$ can take values 0, 25, 50, 75 or 100 depending on the response.

Based on these scores, we calculate the index (PBSI/BCI) for the subsector j (such as RMG) as following:

$$I_j = \frac{\sum_{k=1}^m S_{jk}}{m}$$

Where, I_j is the index value of subsector j ; m is the number of sub-indicators (here, 6)



Methodology of Construction of Indices (2/3)

Based on our scores, we calculate the weighted PBSI/BCI for each of the sub-indicators (such as profitability) for the broad sector L (such as manufacturing/services) as following:

$$I_{Lk} = \sum_{k=1}^m \omega_j S_{jk}$$

Where,

ω_j = Weight of the j-th subsector (such as RMG) in the broad sector L (manufacturing/service)

We calculate the overall PBSI/BCI score for the manufacturing/service sector as following:

$$I_L = \sum_{j=1}^p \omega_j I_j$$

Where, p is the number of sub-sectors in the manufacturing or services sector.



Methodology of Construction of Indices (3/3)

Calculation of the overall BCI/PBSI scores:

The overall PBSI/BCI scores is calculated combining both the services sector and the manufacturing sector.

We calculate the combined PBSI/BCI for the sub-indicator k as following:

$$I_k = \sum_{l=1}^2 \sum_{k=1}^m \omega_l \omega_j S_{jk}$$

Where, ω_l is the weight of the broad sectors (manufacturing and services); $l = 1$ for manufacturing, $l=2$ for services.

Finally, we calculate the overall PBSI/BCI as following:

$$I = \sum_{l=1}^2 \sum_{j=1}^l \omega_l \omega_j I_j$$

