



# Business Confidence Survey 2017

Nordic Business in Bangladesh



# **BUSINESS CONFIDENCE SURVEY 2017**



Nordic Chamber of Commerce and Industry in Bangladesh

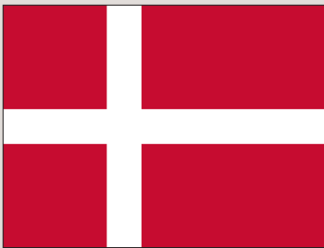
# Executive Summary

The Business Confidence Survey 2017 report is a testament of the strong Nordic presence and close cooperation that exists in Bangladesh. This edition is an outcome of a joint initiative between the Nordic Chamber of Commerce and Industry in Bangladesh (NCCI) and the Sweden Bangladesh Business Council (SBBC), and the continued support from the Swedish, Danish and Norwegian Embassies in Bangladesh. The present survey was conducted among the Nordic companies operating in Bangladesh. The results from the present survey closely mirror the findings from the previous study in 2015.

Bangladesh's economy has been on a rise over the past decade and this survey shows that the respondents remain positive about the country's prospects. Bangladesh has the potential to achieve middle-income status by 2021 and attracting foreign investments will contribute significantly in the realization of this goal. Despite the optimism, the present findings also identify areas where business confidence is limited. The successful transition will largely depend on how certain socioeconomic and political challenges are addressed. The survey aimed to explore the impact such factors have had on Nordic operations and investment decisions, and also to uncover how Nordic businesses perceive the present

business climate in Bangladesh. The survey indicates that improvements in infrastructure, proper regulatory framework, political stability and an improved ease of doing business will pave the way for an inclusive and sustainable growth in the private sector.

The report seeks to identify opportunities and navigate challenges and to serve as a tool for new Nordic investors interested in entering the Bangladeshi market. It will serve as an important foundation for dialogue between the three Nordic embassies in Bangladesh and the national Government with the purpose to further enrich business conditions and trade relations.



The Nordic companies in Bangladesh have made several commendable contributions in Bangladesh, including involvement in development cooperation to alleviate poverty and in promoting gender mainstreaming and exemplified the best practices of sustainability in their operations. Globally, Bangladesh is considered to have experienced some of the most impressive accomplishments towards achieving the Millennium Development Goals set forth by the UN. Now the Sustainable Development Goals (SDG) have opened up new markets for the private sector that need to be explored. Hence international businesses have stepped up their activities in the country, which serves as a great encouragement to organizations like ours that are working to promote increased business across borders.

The readers can find this survey beneficial when they engage with the Nordic Business Community in Bangladesh via NCCI or SBBC and to gain access to a vast network of some of the best know-hows on how to be successful as an international business in Bangladesh. The Nordic business community is developing well in Bangladesh in spite of the challenges and bottlenecks that come across in this survey. Almost all participants indicate that they plan to expand their operations in Bangladesh and over half of the Nordic businesses seem favourable on the prospects for the coming years.

The report hopes to form a basis for more dialogues, including private-public dialogues to monitor reform agendas and benchmark against the best practices and innovations of Nordic businesses. Even though the survey captures the views of a qualified majority of the Nordic businesses in Bangladesh, one must be careful to draw firm conclusions from the responses. Instead the results should form a foundation for discussing what areas are most promising as well as challenging for businesses and investors. The next survey will be conducted in 2019.

## About the Survey

The purpose of the Nordic Business Confidence Survey is to monitor the business confidence of Nordic companies in Bangladesh as well as to be able to better understand trends in the Bangladeshi business environment. The first survey was published in 2013 which served as a broad indicator for how Nordic companies judge the present and future business climate in Bangladesh.

The survey was conducted from 03rd December 2017 till 15th February 2018 and was sent to a total of 52 companies, of which 52 are NCCI members. The distribution among countries of

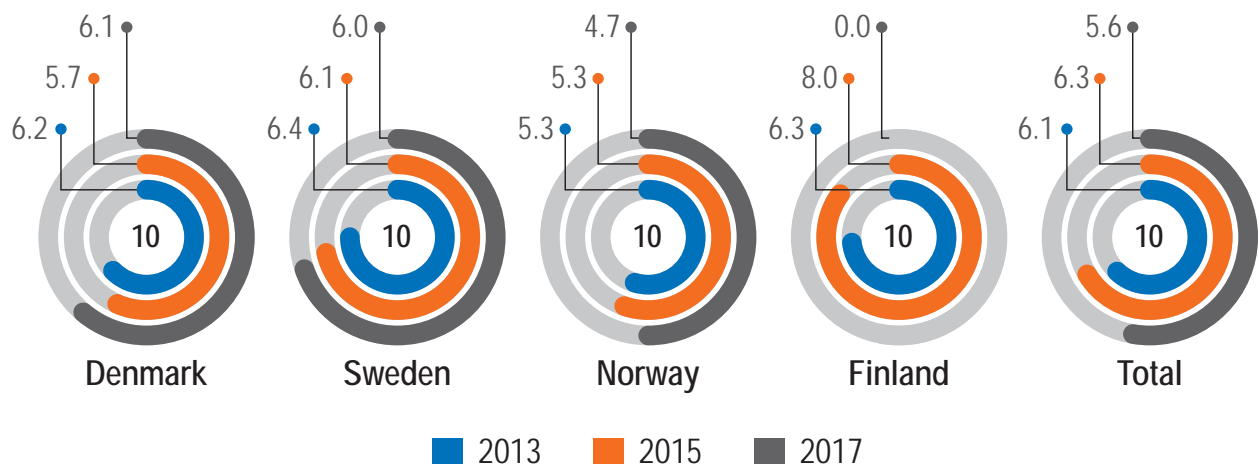
origin for the different companies were; Sweden: 8, Denmark: 7, Norway: 3, Bangladesh: 3 and Netherlands: 1. With 22 respondents / NCCI Members completing the survey, the 2017 Business Confidence Survey achieved a response rate of 42 percent.

The survey was designed along the lines of 2013 and 2015 Business Confidence survey to gather similar data on key issues affecting Nordic companies to understand the development and changes in perception. The respondents rated the survey with an average rating of 3.6 out of 5.

## Nordic Business in Bangladesh

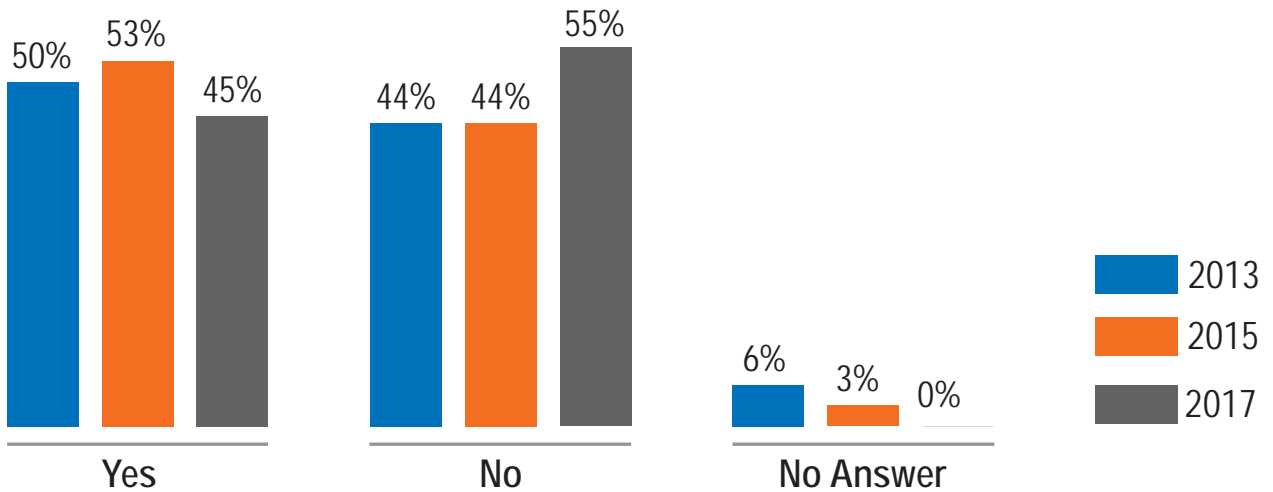
The Headquarters of all the Nordic companies are located in Dhaka. The next preferred destination for a business hub is Chittagong, where 30% of the respondents have established their base in comparison to 2013 when 17% of the companies confirmed their presence in the port city and 29% in 2015. 30% of the respondents confirmed that they plan to establish offices in Chittagong. However, 50% of the respondents also confirmed that they do not have any plans of expanding offices to other areas of the Country.

### Climate for Startup



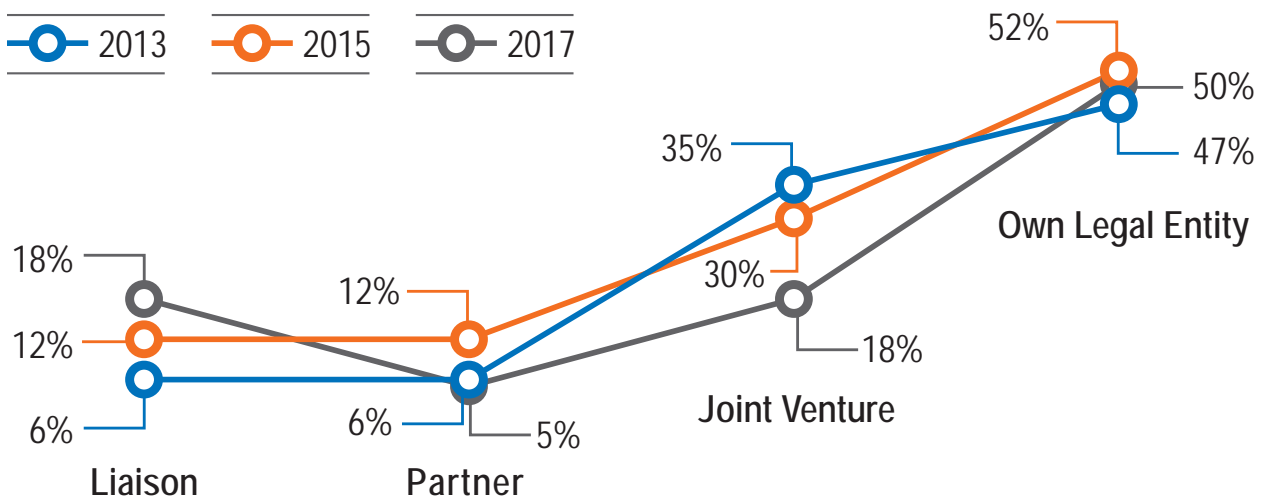
The climate for starting a business in Bangladesh has been rated just above 5 (5.6) by the respondents, almost similar to the ratings in 2015 (6.3). Similarly, almost half of the respondents (45%) reported facing undue bottlenecks during establishing their business in Bangladesh. Reported problems include difficulties in getting work permits, obtaining and updating license in a compliant matter, obstructive official routines or procedures that results in unnecessary delay and a general lack of transparency in bureaucracy.

## Bottlenecks during startup



50% of Nordic companies starting a business in Bangladesh have done so through own legal entities. Joint-Ventures (18%), Liaison Office (18%) as well as other forms of registration (9%) make up the remainder. Drawing comparison with 2015, companies continue to prefer starting operations through a cooperation (joint ventures, liaison or partnership) rather than wholly owned enterprises.

## Business Startup process

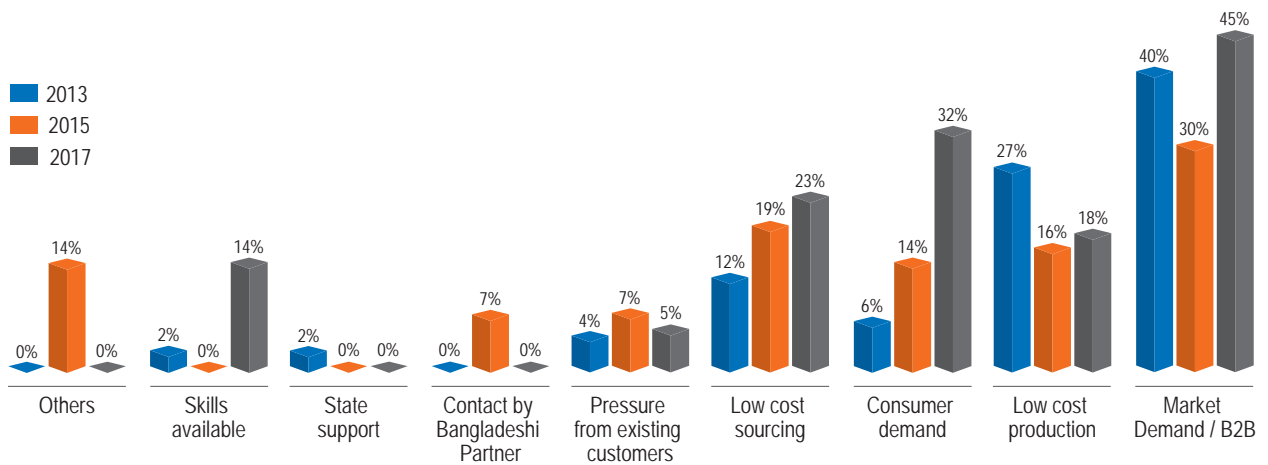


# Reason for doing business in Bangladesh

The most common reason for starting a business in Bangladesh is the market demand, as indicated by 45.5% of the respondents in 2017 compared to 30% in 2015. The second most common reason for entering Bangladesh is consumer demand, as cited by 32% of the respondents in 2017. This indicates a rising demand in consumers as

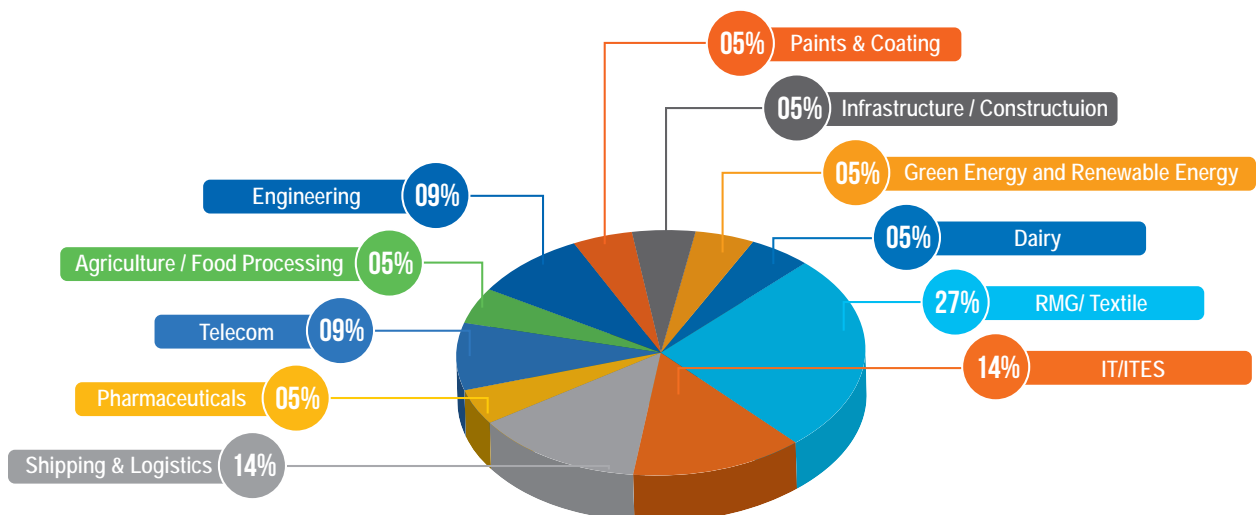
compared to 2013 when only 6% in 2013 and 14% in 2015 cited consumer demand as one of the reasons. Similarly, 18% of the respondents entered Bangladesh for cost efficient production and 23% of the respondents for efficient sourcing, demonstrating an upward trend in sourcing, in comparison to 2013 and 2015.

## Reasons for doing business in Bangladesh

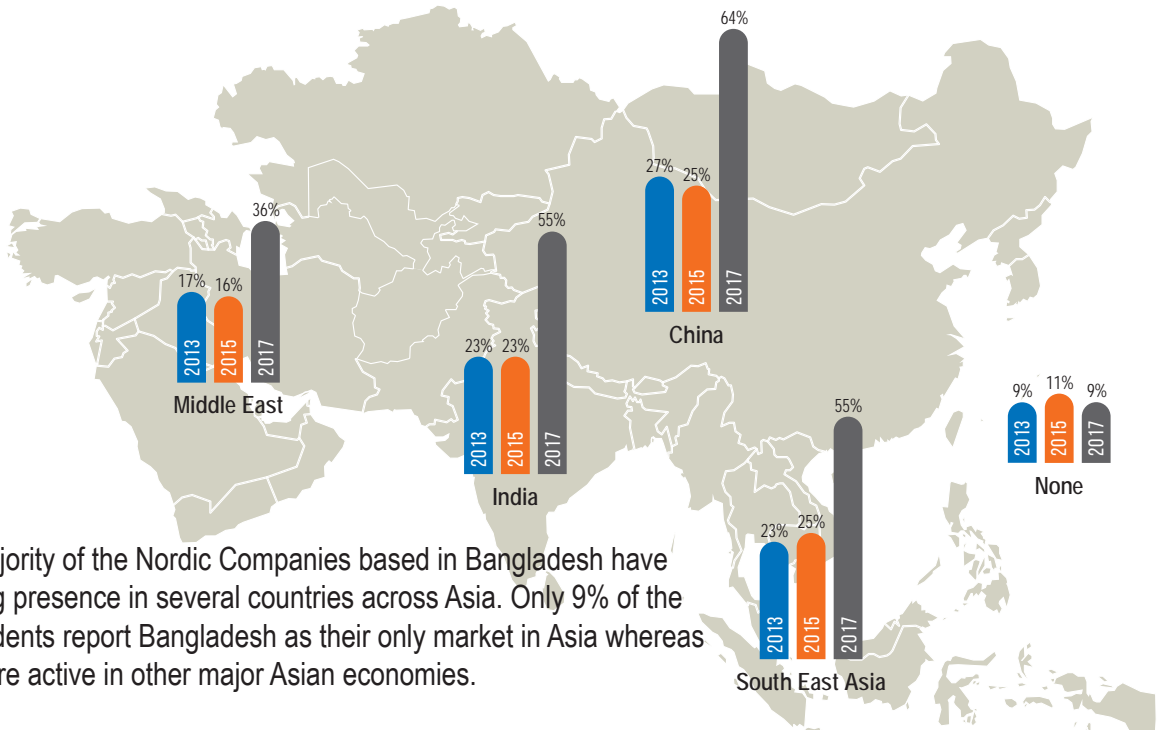


The survey suggests that Ready-made garments/Textile is the biggest sector for Nordic companies in Bangladesh representing 27% of respondents while Shipping and Logistics along with IT/ITES account for 14% each. The responses represent the full variety of companies that are active in Bangladesh.

## Nature of Business



## Presence in Asia

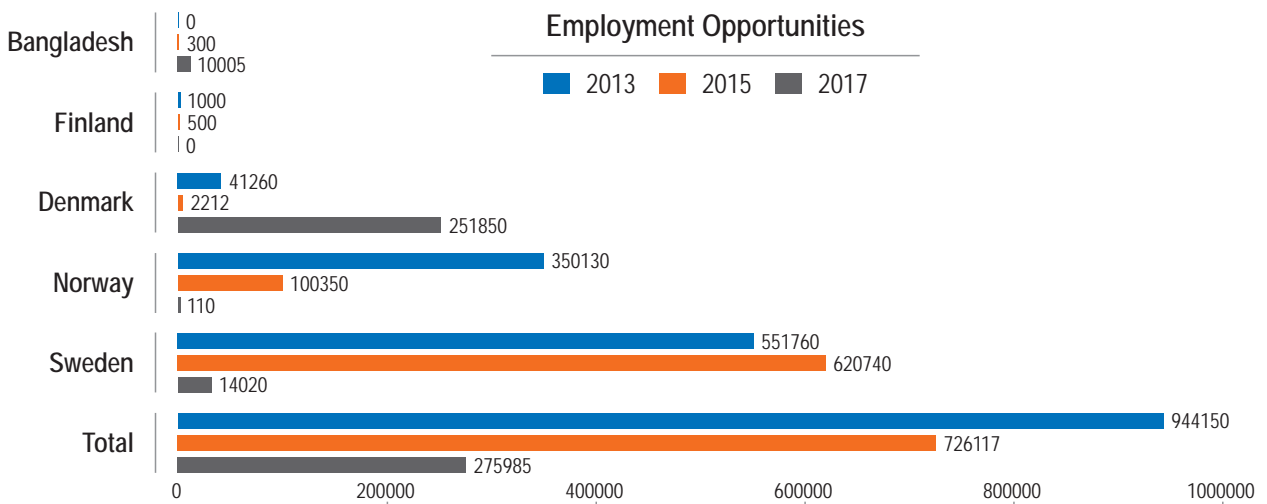


The majority of the Nordic Companies based in Bangladesh have a strong presence in several countries across Asia. Only 9% of the respondents report Bangladesh as their only market in Asia whereas many are active in other major Asian economies.

## Investment and Employment

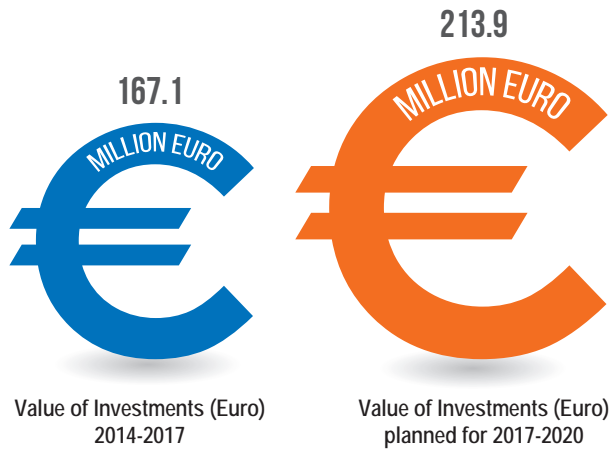
Nordic companies are slowing down their expansion plan for employment. All the respondents reported to having 33,722 employees in total (approximately) and creating 275,985 (approximately) employment opportunities through major supplier and distributors. Although the respondents plan to increase their expatriate workforce, it is important that Bangladesh focuses on skill and productivity enhancement of its workforce to not only attract labour intensive industries but also hi-tech industries.

### Employment Generation by Nordic Companies





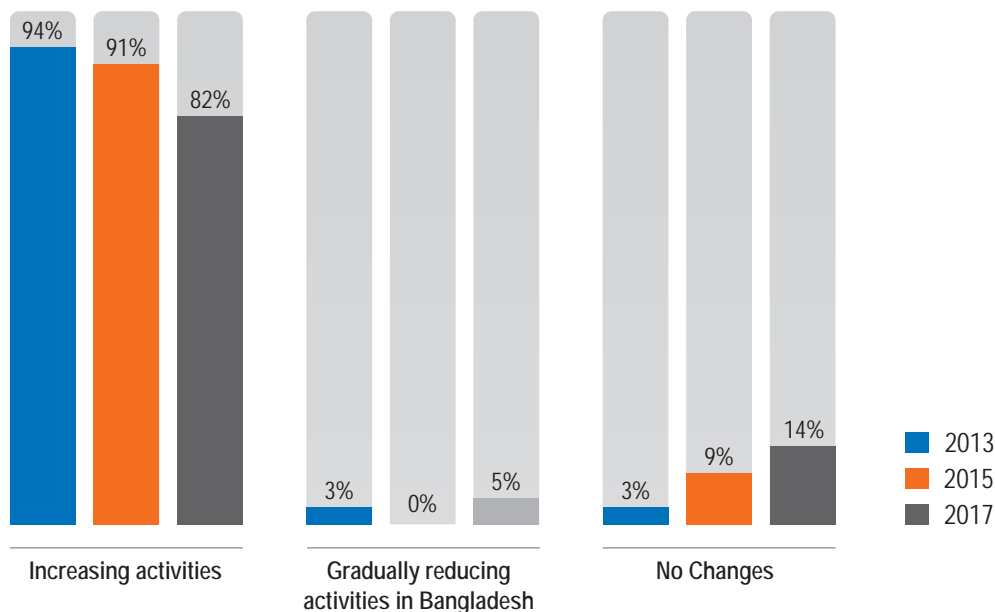
## Investments by Nordic Businesses



94% of the survey respondents are reportedly looking to expand their operations with an expected investment of €213 Million in the next 3 years and confirmed to having invested about €167 Million between 2014-2017 in Bangladesh. This offers an optimistic progress as Bangladesh is trying to attract more investments and improve the ease of doing business in the country.

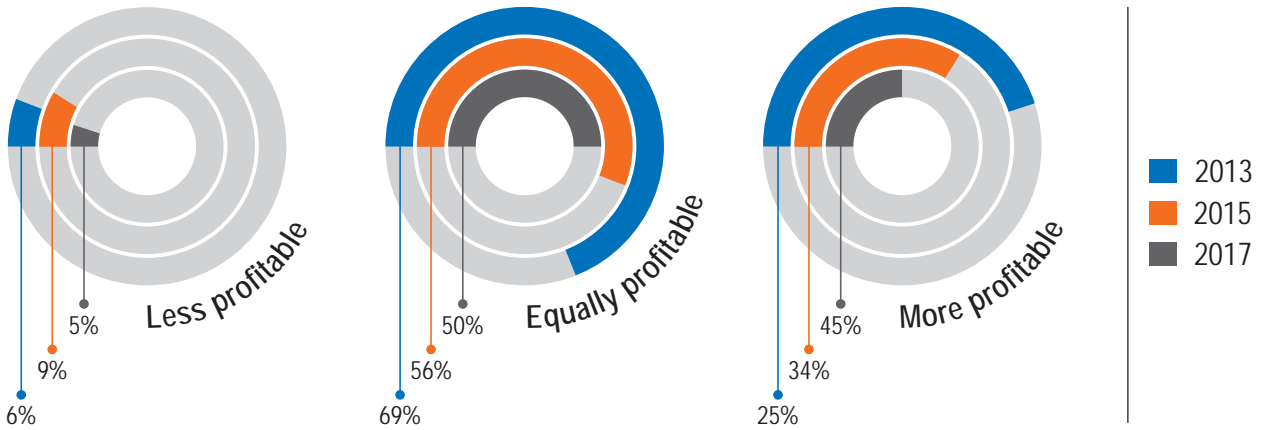
## Future Outlook

### Plans for the future

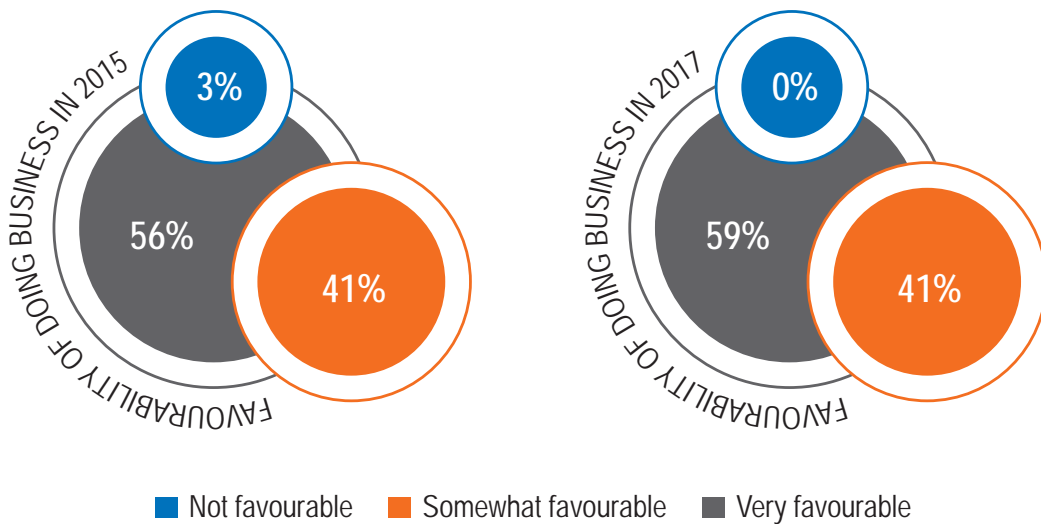


A positive outlook of doing business in the country was revealed in this survey from the perspective of Nordic companies based in Bangladesh. 82% of the respondents are looking to expand their operations over the coming 3 years, a slight decline from 91% in 2015 and 94% in 2013. Also, 5% of the respondents are considering gradually reducing their activities in Bangladesh, compared to 0% in 2015 and only 3% in 2013. However, still a strong majority of companies plan to increase their activities and this could be owing to the respondents experiencing higher profits compared to other markets. 45% of the respondents experienced higher profits in 2017, a rise from 34% in 2015 and only 5% of the respondents feel it is less profitable to undertake their business in Bangladesh.

## Profitability from doing business in Bangladesh

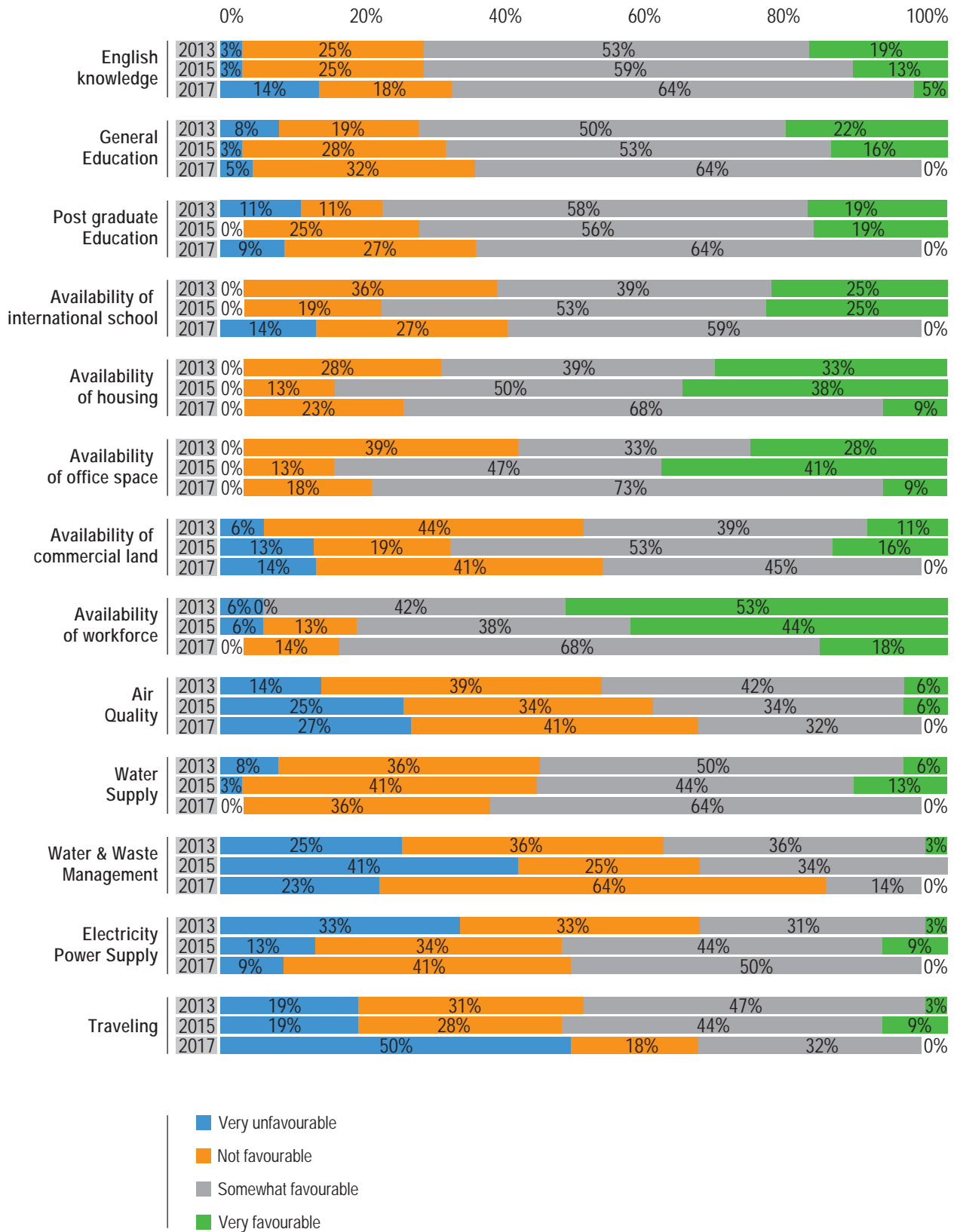


**Favourability of doing business:** Since 2015, there has been a 3% rise in favourability of doing business in Bangladesh with 59% of Nordic businesses reporting a very favourable outlook in 2017. No respondent in the survey found doing business in the country unfavourable, unlike in 2015. Although the business scenario appears to be transforming, many companies have identified scope of improvements in certain areas, which the national decision makers should look into in order for Bangladesh to remain an attractive business and investment destination.

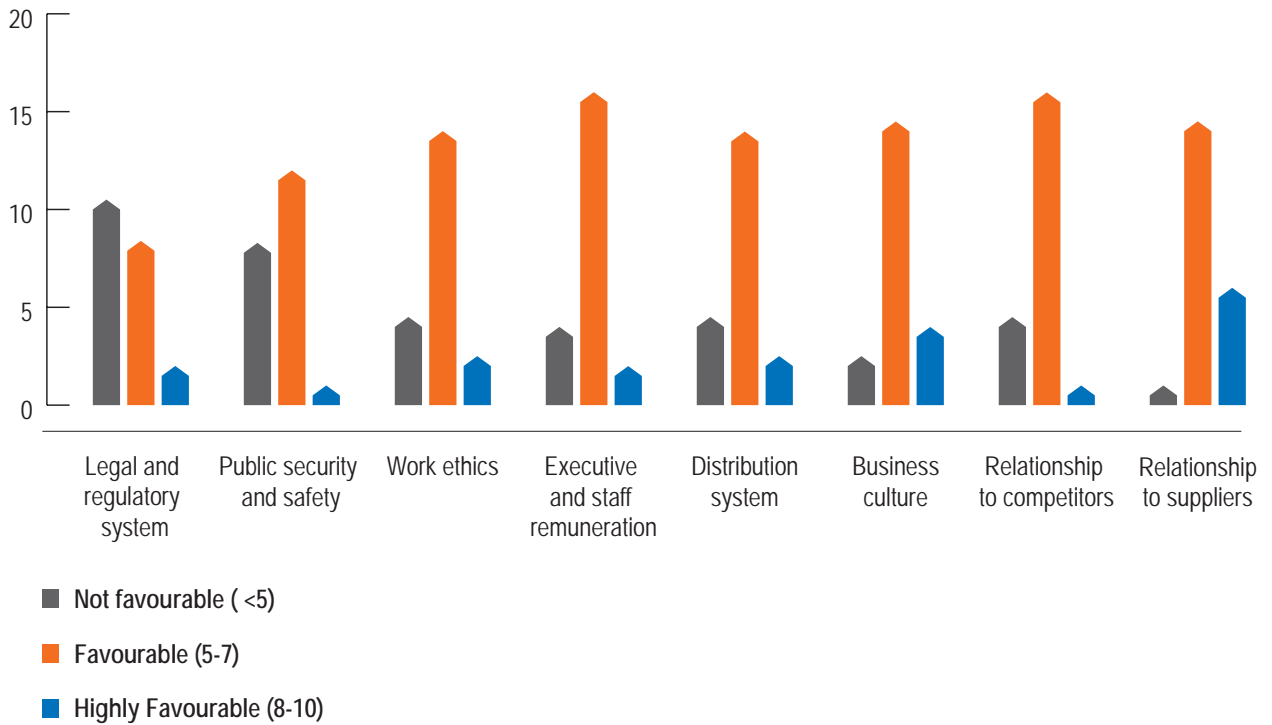


**Business condition and Factors:** In terms of Business Condition in Bangladesh, it was found that factors apart from air quality and water and waste management seem to have improved, if not deteriorated. Although the availability of international schools has slightly improved, respondents feel postgrad education continues to be unsatisfactory. Similarly, English knowledge and general education, in comparison to 2015, remains somewhat similar and therefore has rooms for improvement. 50% of the respondents in 2017 as opposed to only 19% in 2015 now rate traveling as highly unfavourable in the country. On the positive side, availability of workforce shows to be an advantage for most businesses as 86% of the respondents feel hopeful about the availability of human resources in the country.

## Business Conditions in Bangladesh



## Business Factors



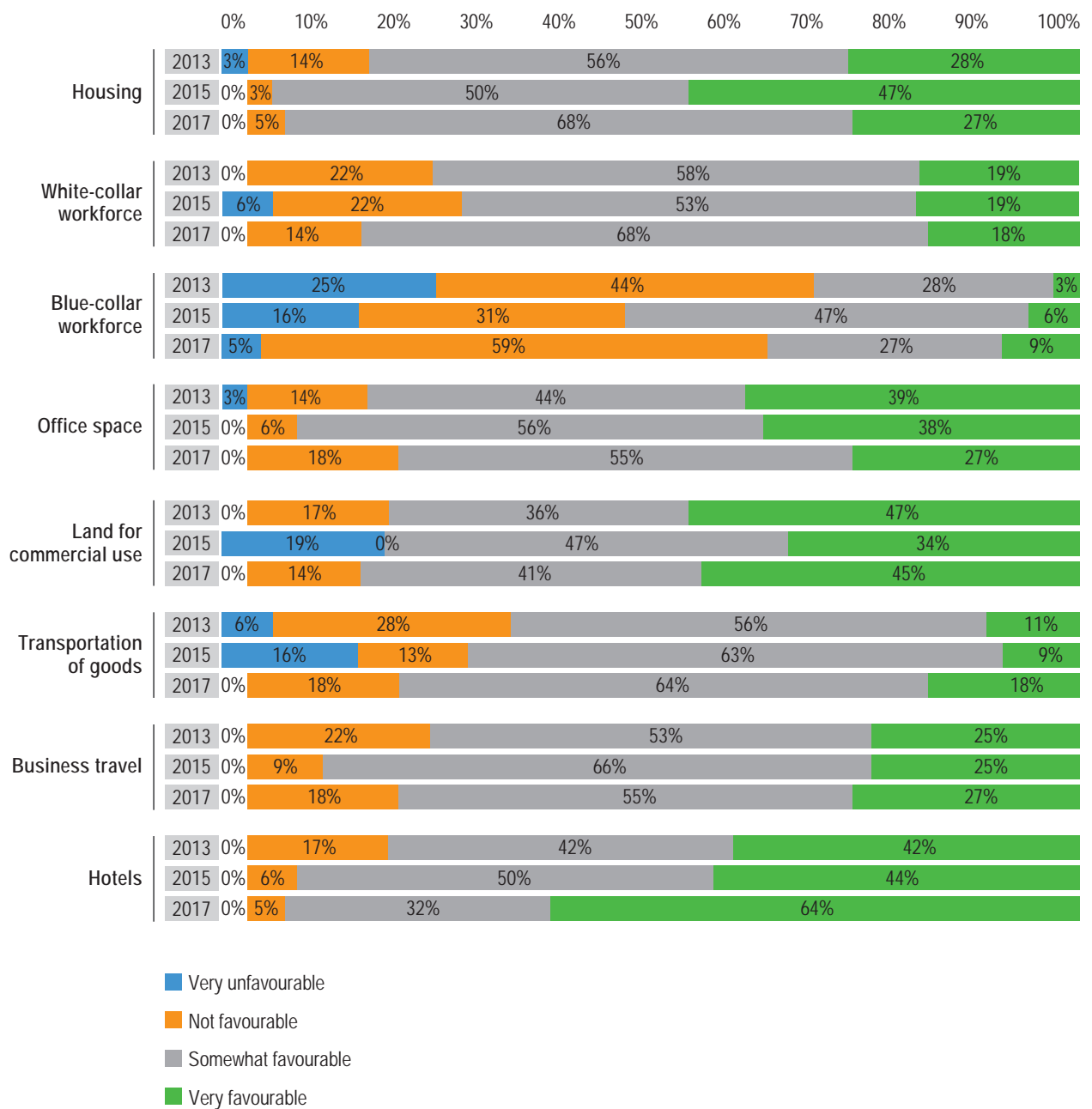
All business factors that came up in this survey such as business culture, distribution system, executive and staff remuneration, work ethics, relationship to competitors and suppliers have been identified as favourable factors for businesses. However, the responses indicate that the legal and regulatory system and public security and safety measures can improve to develop the business environment even further.

## Cost factor and Quality:

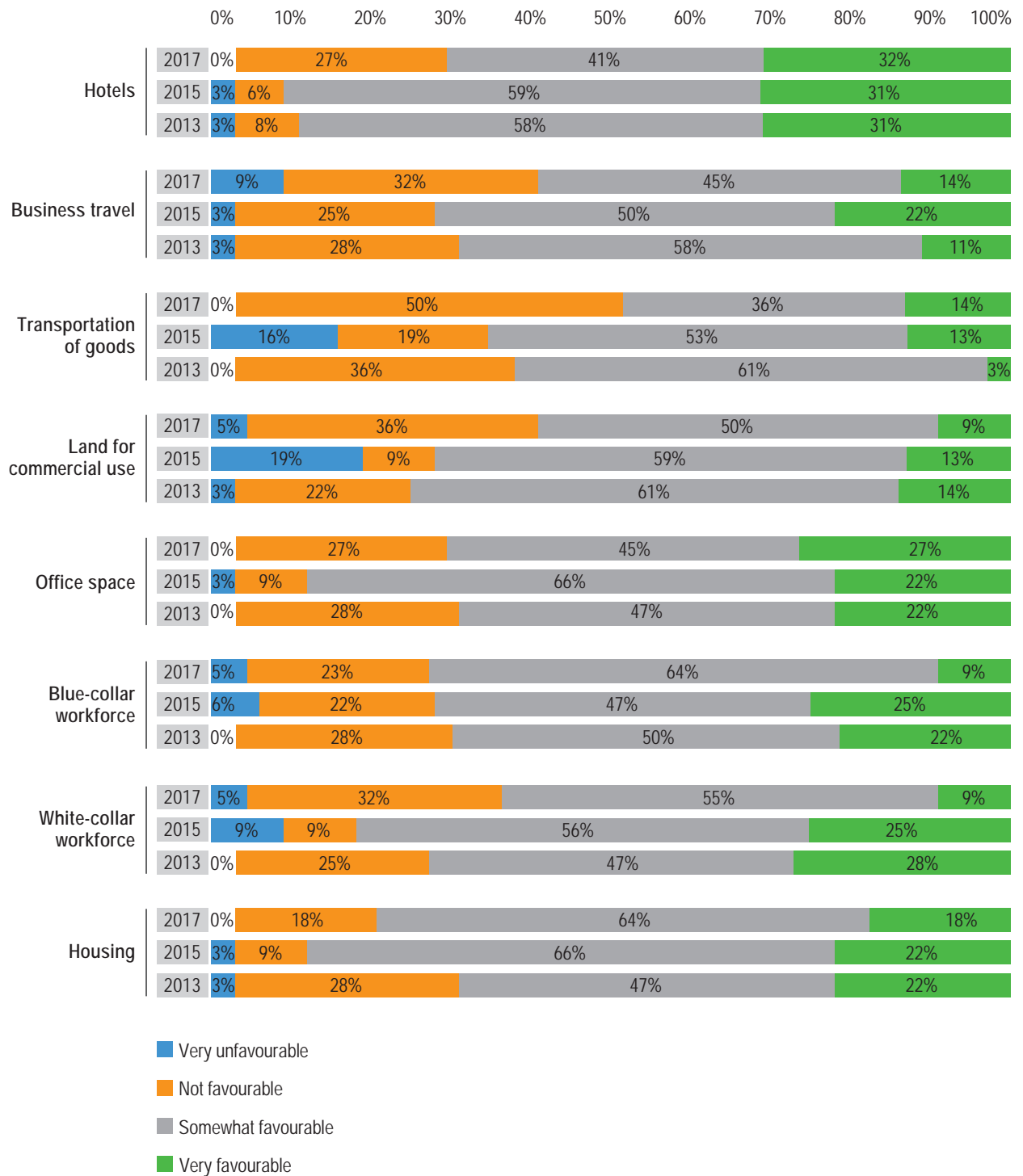
The figures for white collar workforce has shown to improve, when compared to 2015, as 86% of the responses indicate it as satisfactory or favourable. However, blue collar workforce seems slightly less

unfavourable than 2015, as 59% of the responses consider it unfavourable. Nevertheless, most of the respondents feel confident about the availability of housing, hotels and lands for commercial use.

### Cost Factors

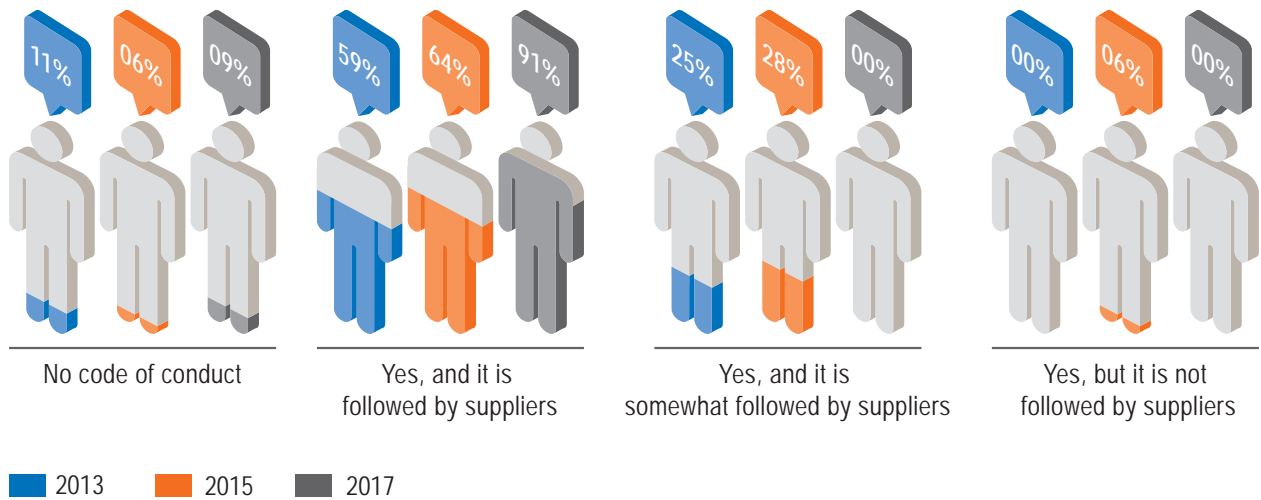


## Quality Factors



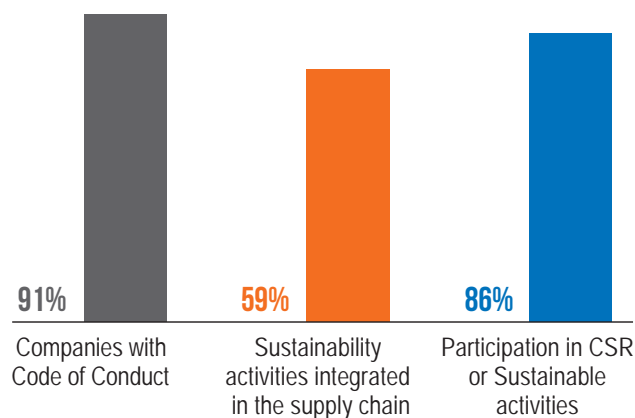
# Sustainability

## Corporate Sustainability



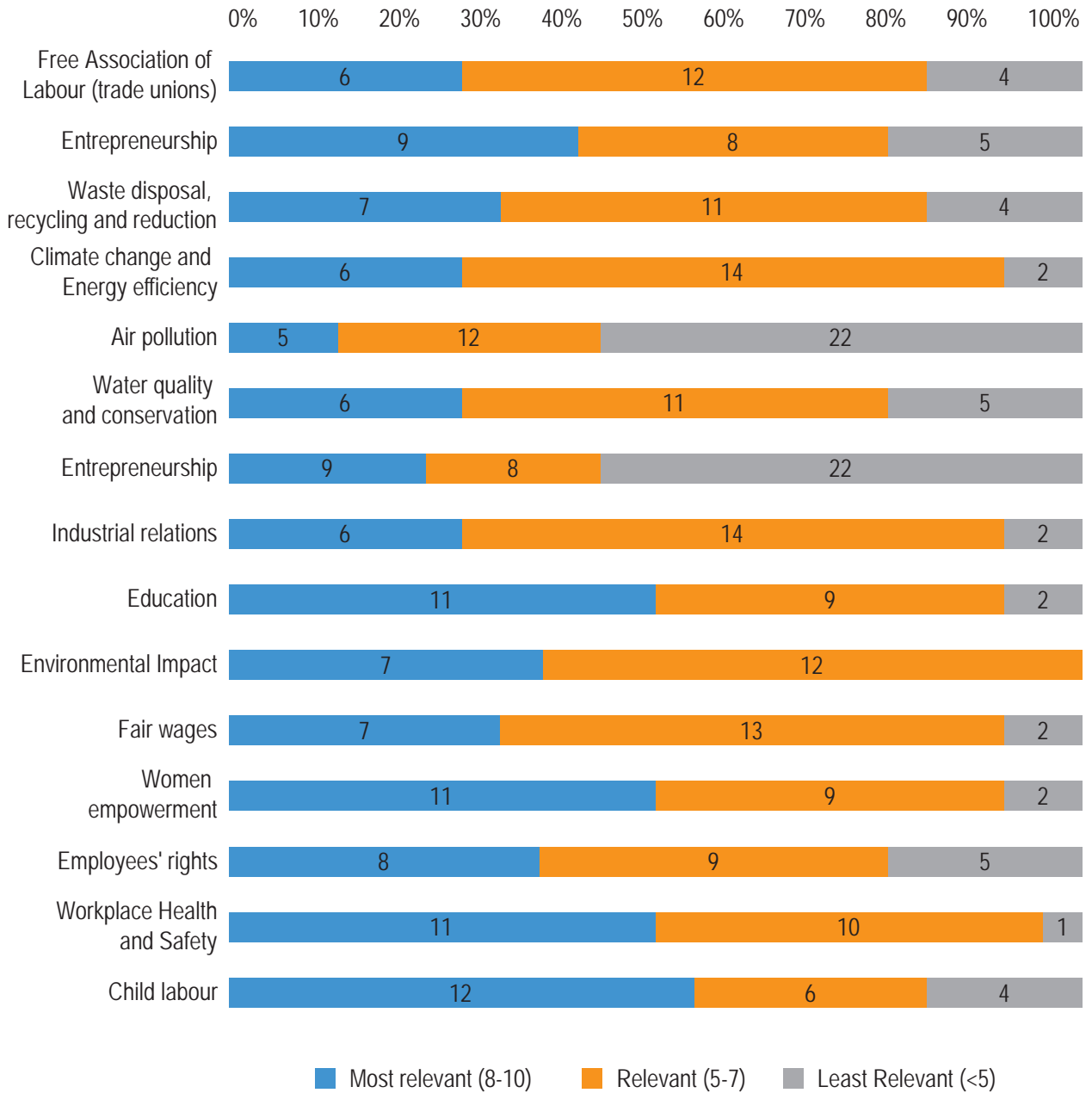
Globally, Nordic countries and companies are on the forefront in terms of sustainability. In order to maintain a sustainable supply chain, Nordic companies have incorporated a code of conduct that helps them translate their values into actions. They strongly believe in inclusive growth and majority of the respondents have put major emphasis on promoting sound business practices, decent working conditions, employee welfare, gender mainstreaming and supplier development amongst others. The survey reveals that 91% of the participants have a code of conduct in Bangladesh and also report that it is being followed by their suppliers diligently. Moreover, 86% of the Nordic businesses have sustainability or corporate social responsibility programs in Bangladesh. 59% of the companies have sustainability programs integrated in the supply chain, whereas the remaining 32% are conducting these programs independently.

## Sustainability Activities



**Priority areas:** The top 5 areas of focus for the respondents were child labour, workplace health and safety, fair wages, women empowerment and education. Environmental sustainability in terms of water quality and conservation, waste management and recycling, climate change adaptation and environmental impact were also identified as relevant priorities for several businesses.

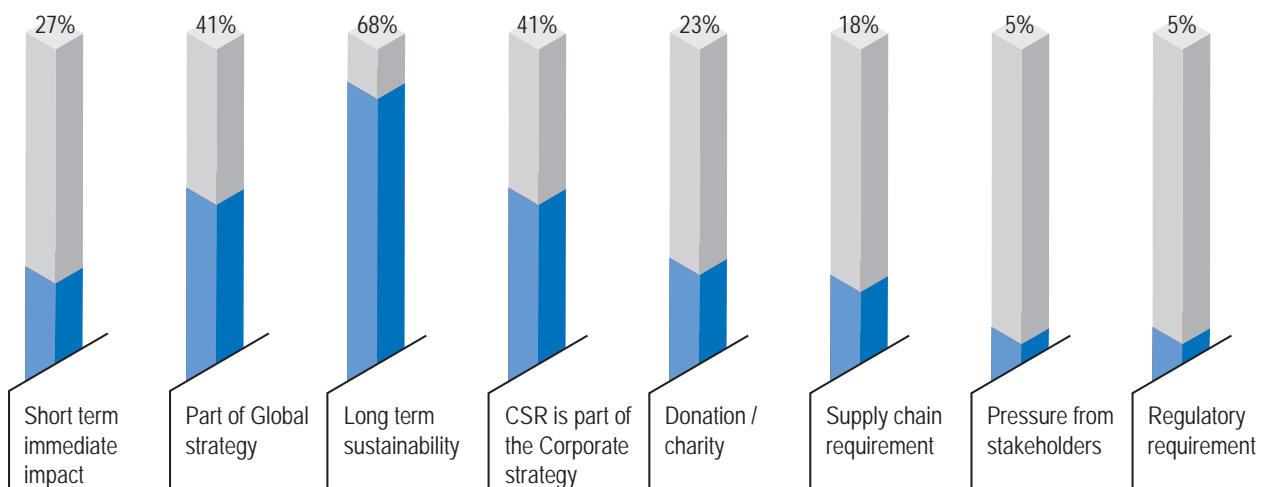
## Priority Areas and Key Issues for Nordic Businesses





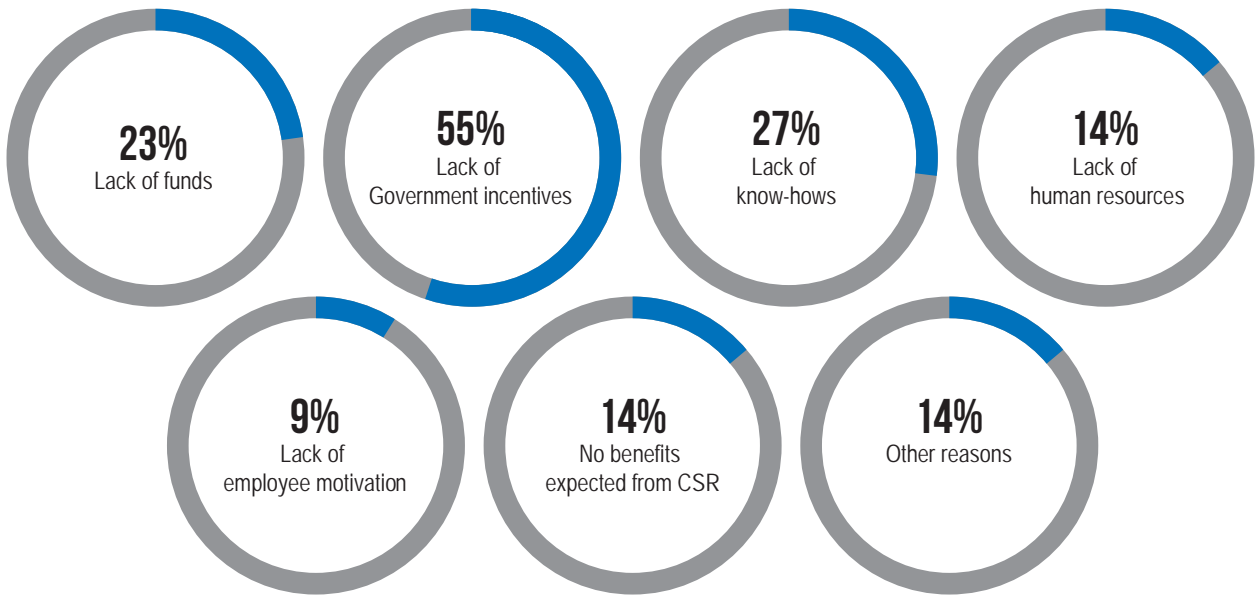
**Strategic sustainability decisions:** 68% of the respondents identified long term business sustainability as a key reason behind engaging in strategic decisions on sustainability investment, followed by incorporation of CSR as part of corporate strategy (41%) and as part of global strategy (41%). This indicates sustainability is becoming more important for companies, as they are making strong commitments by aligning their corporate strategies with sustainability efforts.

## Strategic Decisions on Sustainability Investments



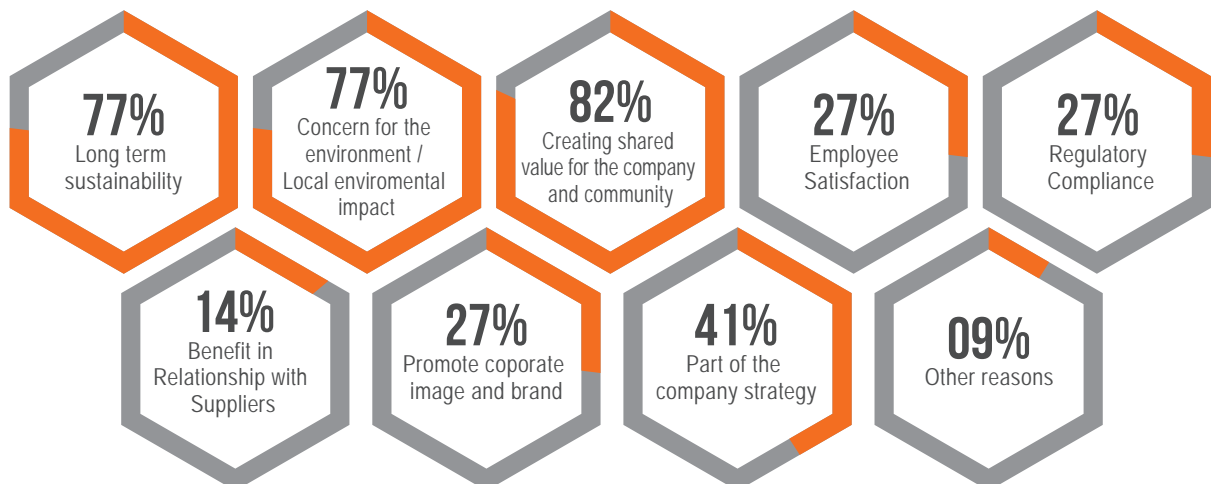
**Obstacles:** The main obstacles to implement sustainability activities were identified as lack of government incentives (55%), lack of know-hows (27%), inadequate funds (23%) and lack of qualified personnel (14%).

## Obstacle to Integrate Sustainability



**Motivation:** Creating shared value for company and community (82%), long term sustainability (77%), concern for environment and environmental impact (77%) were the key motivations for incorporating sustainability programs into business practices.

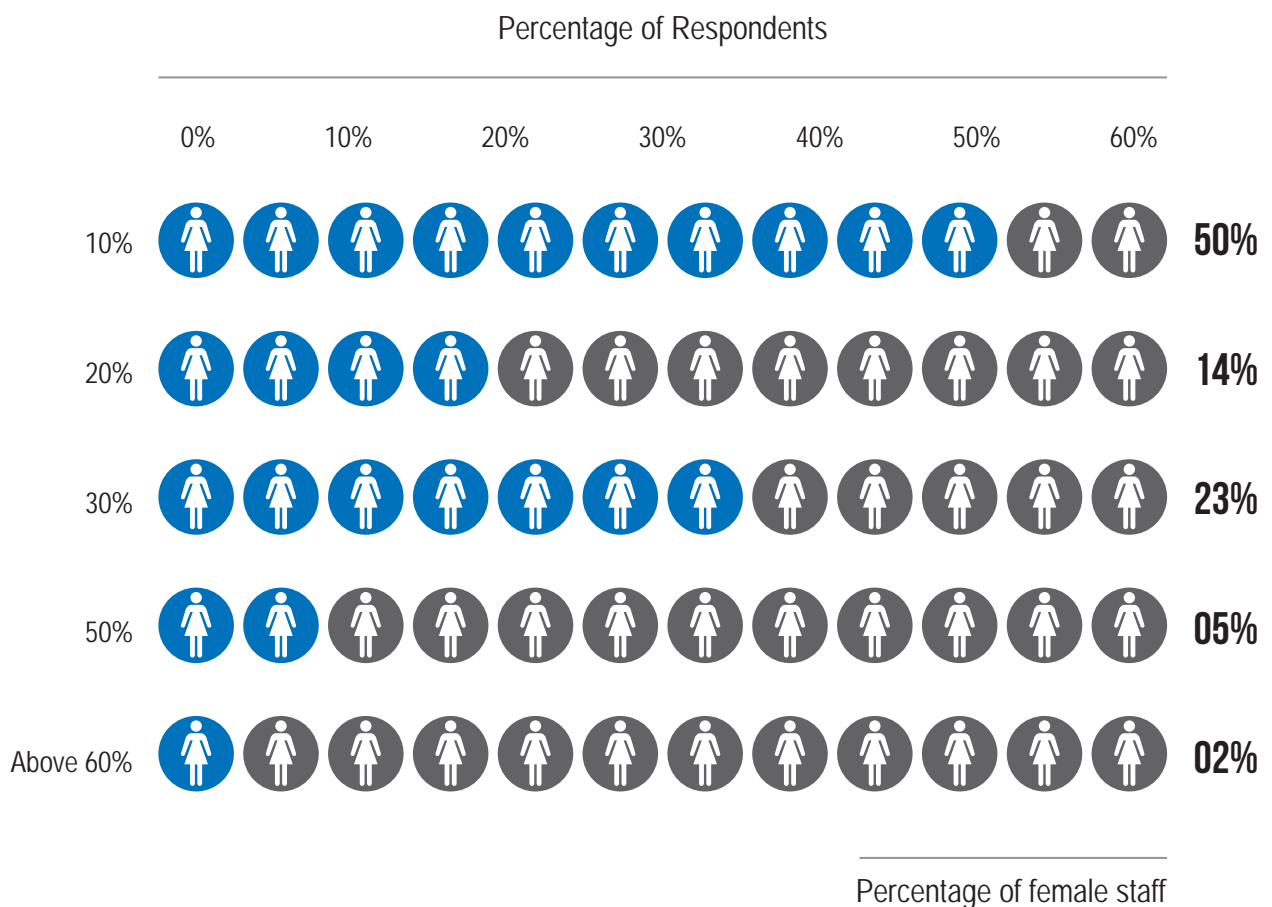
## Motivation behind Sustainability Activities



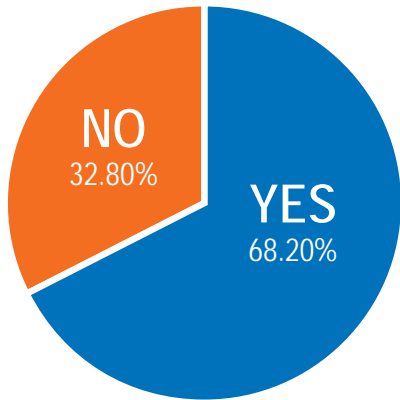
## GENDER DIVERSITY AND POLICIES

50% of the Nordic businesses responded that they have only 10% female representation in their organization followed by 23% who claim that they have 30% representation and finally, 14% who reported that they have 20% women staff representation. Only 5% of the respondents reported having 50% of female staff.

### Gender diversity

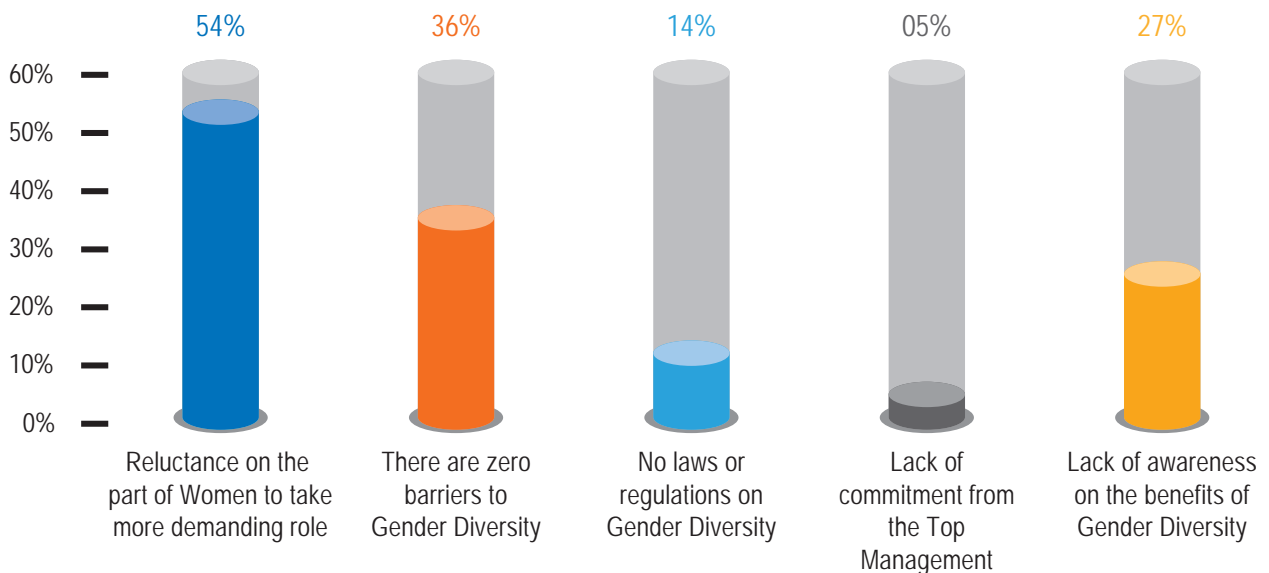


## Gender Diversity Policy



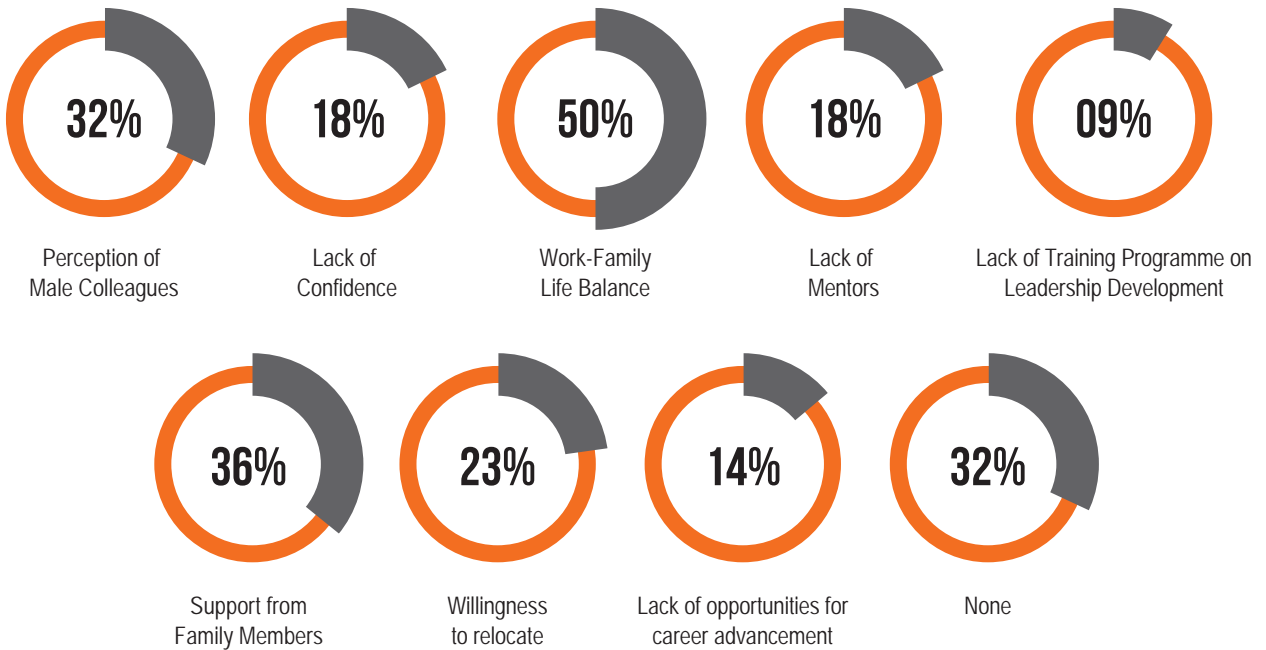
About 68% of the participants have gender diversity policies in their organization and 55% regard implementation of gender policies as a top priority while 36% consider this as a medium priority.

## Barriers to Gender Diversity



The main barriers to gender diversity were identified as possible unwillingness of female employees to take more challenging roles (54%) followed by lack of awareness about the benefits of gender diversity (27%). However, 36% of the respondents also mentioned that they consider no real barrier to implementing gender policies in their companies.

## Obstacles to Women Leadership



Then again, factually, women representation in leadership roles, especially in corporate sectors, are still minimal. In terms of obstacles to female leadership, 50% identified work-family life balance as a major deterrent, whereas 36% consider a lack of support from family members as a similar key obstacle. Other hurdles include perception of male colleagues and lack of opportunities for career development.

The members were asked how they are addressing problems encompassing implementation of gender policies of their organizations in Bangladesh. It was found that encouraging women to take lead in policy making helped create more women friendly office environments. Women-friendly working environment includes having some gender sensitive policies and arrangements like transports and for female workers, maternity leaves, childcare centres, and absence of exploitative and discriminatory practices in the workplace. The UN's HeforShe campaign has also motivated some members to be increasingly committed to creating a higher female-male

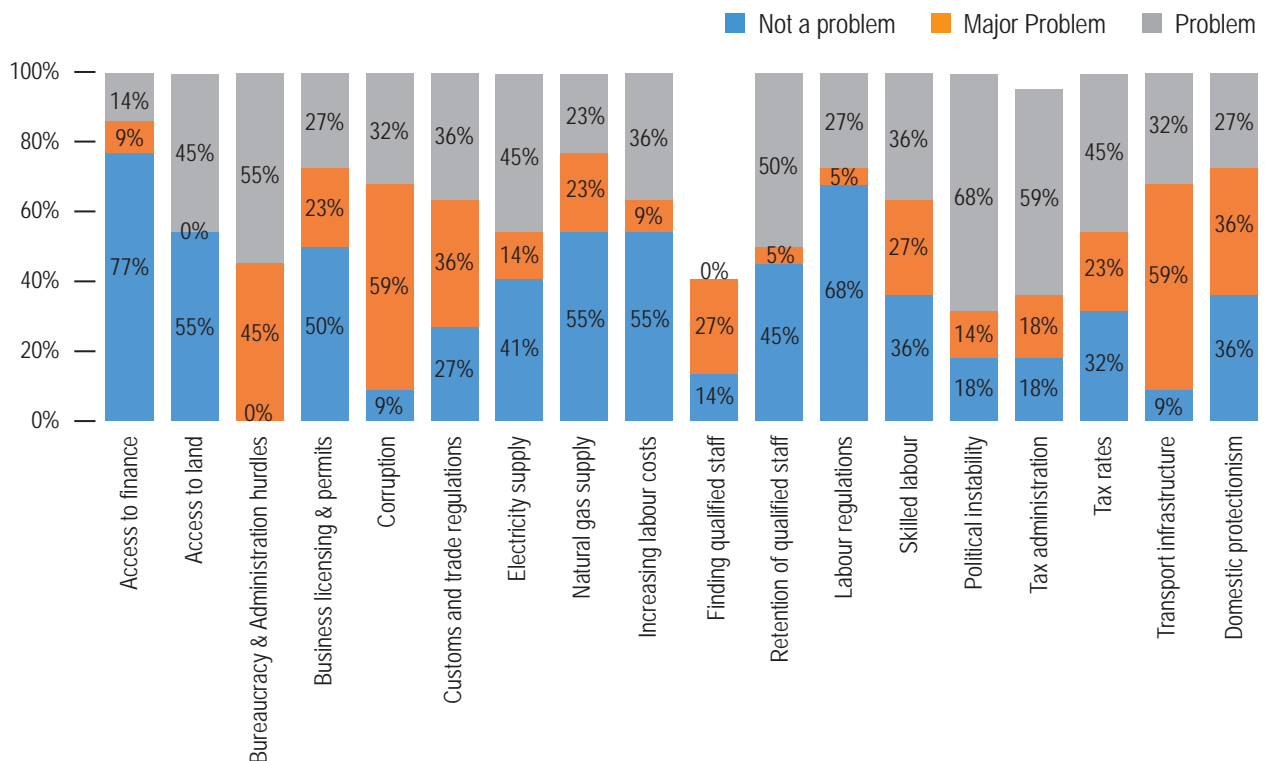
employee ratio. Some are working to raise awareness to promote equal experience, hiring based on competencies regardless of gender, conducting anonymous satisfaction surveys as well as 1-on-1 feedback sessions with HR and hosting mandatory leadership trainings for all employees on gender diversity. However, due to a lack of initiative from top management and lack of awareness on the benefits of gender diversity, some businesses are still not addressing gender policy implementation. On the other hand, some members have expressed that they perceive no real hurdles in the implementation of gender policies in their organizations.

During recruitment, majority of the Nordic companies "strongly encourage women to apply". While trying to attract capable female employees to be part of their companies. Moreover, many respondents are changing their course of action towards supporting strategic partnerships in promoting and advocating gender mainstreaming and understand the need for women to be in leadership roles.

## BUSINESS CHALLENGES AND BOTTLENECKS

Although Nordic companies are quite positive about doing business in Bangladesh, there remain challenges that may pose significant risks for the existing companies as well as future investors. The biggest problems identified in this survey were corruption (59%), Transport infrastructure (59%) and bureaucracy and administrative hurdles (45%). Other problems include political instability, tax administration, tax rates and business licensing and permits. However, majority of the respondents do not consider access to finance, access to land, natural gas supply, labour regulations and increasing labour costs as business challenge.

### Business Challenges



Several respondents have reported that a lack of coordinated regulations, abnormalities and delays in procedure and approval set forth by the Regulatory Bodies such as licensing, registration, acquiring legal permissions to operate businesses, company incorporation and documentation processes continue to be time consuming and complex. As a solution to the lengthy processes in the licensing and approvals, Nordic businesses express the need for an improved Board of Investment's "one stop service" which can expedite crucial processes for foreign businesses.

The Nordic businesses also face difficulties during and throughout initial setup period, getting bank accounts, company registration, securing work permits and finding commercial office spaces. Few regard the lack of skilled human resource as a major constraint for sustained growth. Many companies also identify an urgent requirement to have more transparency in the system and address corruption at all stages.

## LESSONS LEARNED WHILE DOING BUSINESS IN BANGLADESH

Bangladesh is a country with immense opportunities and potential. In several sectors, Nordic Businesses in Bangladesh are market leaders, mainly owing to their operations. Business processes in Bangladesh are lengthy, as in many other developing countries. Consequently, things may take a while to materialise. In this case, consistent commitment, patience and continuous follow up have to be given a lot of importance. Respondents have emphasized the importance of Nordic values and principles in trying to eliminate unethical business practices at all stages.

Bangladesh is known for having a large youth population that can be very competent as well as provide a fast learning workforce. It is important that businesses develop the right proficiencies, either through internal knowledge development, or through recruiting skilled personnel from the available workforce. Job creation is one of the top priorities of the country and is a prerequisite for reaching the middle income country status by 2021, stressing a serious need in developing human capital.

The Nordic companies also recognize how crucial it is to enhance their ability to handle unforeseen circumstances. It is also important for Nordic investors to interpret the market, local partners, politics, culture and tradition. Despite the fact that Bangladesh is considered as one of the most suitable countries for sourcing, continuous follow up on planned things are very important to achieve required goals. Bangladesh would improve considerably as a destination for new Nordic investment, if the government is able to establish an effective E-Governance and also ensure an efficient one stop service for investors.

Besides the regulatory incompetence discussed, businesses working closely with regulatory authorities is going to remain a continuous process and a top priority for sustained operations of businesses. It is therefore, very important to be compliant with government regulations. Another key lesson learned is the importance of establishing brand name(s), company values and ethics in compliance with social, environmental, health and safety regulations set forth by the Government.

While doing business, Nordic companies have found a lack of infrastructure development as a major drawback and availability of inexpensive labour as a key advantage. One of the most important lessons is that it is always beneficial for the Nordic Businesses to establish good business relationships with partners and stakeholders, and maintaining customer satisfaction by upholding “no compromise on quality” policies.

## ADVICE TO NORDIC COMPANIES ENTERING THE BANGLADESHI MARKET

Bangladesh has had an annual GDP growth of over 6% for a decade, which has surpassed 7% in the Fiscal Year 2016 and has only grown higher since then. This demonstrates the country's potential and resilience against odds that it has faced. Existing Nordic companies advise newcomers to plan ahead of time, be patient, flexible and committed. Some existing Nordic businesses advise that whatever a business's growth prospects may be, investment should be priority based and not comprehensive. Every process, business decision and operation may come across as difficulties during execution phase, but the key should be to train staff to be able to independently deal with challenges.

The survey emphasized the importance to engage in detailed market research before entering Bangladesh, or any other new market. Therefore, taking the right advice and assistance from experienced professionals, consultants, lawyers and audit firms from day one is key. The Bangladesh Investment Development Authority (BIDA) is the principal private investment promotion and facilitation agency of Bangladesh that can offer local support and guidance along with other important services to investors. If a Nordic company is looking to do business in Bangladesh, it would also be beneficial take advice from NCCI and SBBC that are both major platforms for new investors.

Another important advice is to never compromise on ethics, be it internally or externally. Nordic companies believe in standing up against corruption at all levels, and emphasize on the benefits it has on the business environment in the long run. Regulatory challenges such as delay in certain processes should be expected but laws and regulations should not be compromised at any level. The private sector should tackle this issue of corruption and other regulatory drawbacks with pro-active management in the form of regular due diligence exercises and up-to-date risk strategies.

Despite rapid economic growth, there exist regulatory and tax administrative drawbacks which must be assessed before investment decisions are made. It is also key that the companies of Nordic origin be thoroughly familiar with local rules and regulations. Agriculture, power, ICT, electronics, pharmaceutical and leather are some of the most rapidly expanding sectors in Bangladesh but there should be adequate provision in investment plans for the insufficient power supply and infrastructural facilities in the country. Nordic Companies can also consider B2B business as it has huge potential to develop. It is highly advised to interact and learn from the experience of long established Nordic companies in Bangladesh.

According to the participants, it can be wise to get into joint ventures with people who have as much at stake as you do. Moreover, reasonable time should be invested in finding a suitable partner and when investing on people because finding and cooperating with local companies may also prove beneficial as they often have strong local staffs to provide necessary assistance. It is also important to be aware of the diversities in organizational culture and structure. While budgeting, time should be considered as a resource and consequently cost analysis and risk of delays must be incorporated.

Companies should consider the huge market potential, competitive production costs, and technological advantages that Bangladesh has with its young population, both in terms of domestic market and as a production hub for exports. If public sector stake is high in your portfolio, it is highly advisable to select reliable local partners with recommendation from the embassy/chamber. The 3 Nordic Embassies in Bangladesh, together with their national authorities in the country are supporting businesses to secure connections and can also assist in opening doors when required.



## Results

The report shows that despite the constraints and risks that have remained since the last survey in 2015, Nordic companies do still appreciate investing and doing business in Bangladesh. Bangladesh being a land with immense potential with diligent workforce often overshadow the bottlenecks by providing businesses with above average profitability. Moreover, cost efficient production, great market and consumer demand have been identified as some of the most common reasons for Nordic businesses to enter Bangladesh. Although majority of the survey respondents have admitted to the present Business Climate being slightly weaker compared to 2015, still 82% of the respondents are looking to expand their operations over the coming 3 years that indicates they are looking to make higher profits in Bangladesh.

Top priorities for the Nordic businesses in their work for sustained and inclusive growth have been identified as child labour, workplace health and safety, fair wages, women empowerment, education and environmental protection. This gives companies opportunities to be more engaged in long term sustainability programs, provided that effective government incentives are in place. Gender was found to be a top priority to 55% of the respondents and a medium priority to 36% of the respondents. However, to achieve the gender diversity goals, it is essential for businesses to have women-friendly environments that offers career-development opportunities for women. There also needs to be a stronger collaboration between manufacturers, buyers and experts to identify present and future needs in terms of skills in the job market.

As Bangladesh is working towards earning the status of a middle income country, businesses should recognise the new opportunities and challenges the new status brings and prepare themselves accordingly. The private sector is a crucial sector for the development of the country and more businesses need to engage in multi-stakeholder dialogues to determine how the challenges that have been pointed out in the survey should be addressed. All the stakeholders needs to contribute collectively to the efforts to design and implementation of economic and financial policies that promote investment and sustained growth in the private sector and for the country to achieve its national goals set forth by the Government, including Digital Bangladesh 2021, \$50 Billion RMG Export Target 2021 and LDC graduation in 2024.

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