Constraints to increasing investment and growth

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The World Bank and the World Economic Forum (WEF) are producers of two well-known annual reports on governance. One ranks the countries on the basis of the Ease of Doing Business index and the other on the basis of the Global Competitive Index. These indices, both of which measure the business-friendliness of a country's economic environment, are quite distinct, albeit somewhat complementary. The former highlights the constraints faced by domestic small and medium firms, and the latter focuses on the factors that hobble international business. The indices also draw on different sources of data and use different methodologies. The doing-business index is a "fact-based" index – it seeks to provide an objective, expert assessment of the time and costs of complying with the existing regulations on the books; on the other hand, the global competitiveness index is essentially “perception-based” – with two-thirds of the data coming from opinion surveys. Both approaches do, however, have their own advantages and disadvantages.

The doing-business report gathers data in ten different areas to compare the regulatory environment. These data are then combined into an aggregate index, which is a simple average of the percentile rankings on each of its current ten indicators. (The report also gathers information on labour market regulation, but, in the face of past criticism, it does not use it for compiling the aggregate index).

The WEF, on the other hand, ranks countries based on their global competitiveness index. This index is based on more than 100 variables, two-thirds of which come from opinion surveys of business leaders and the rest from public sources-mostly international organizations. The variables that factor into the index include the country’s macroeconomic environment, the quality of its institutions, the state of its technology, and supporting infrastructure.

How does Bangladesh fare in these indices? Not particularly well. In the overall doing-business index, Bangladesh is placed at 173rd position, among 183 countries in 2015. Among South Asian countries, Bangladesh also fares poorly: it ranks the lowest in the region except for the war-ravaged Afghanistan. In individual indicators, it ranks at the bottom in South Asia in such categories as “Registering Property,” “Enforcing Contracts,” and “Getting Electricity,” and next to last in “Getting Credit.” These rankings suggest that the fledgling small and medium firms in Bangladesh do not face a particularly hospitable environment-even compared to other poor countries in the region-a factor that negatively impinges on investments.

The global competitive index also yields a similar picture. In 2015-2016, Bangladesh ranks 107 out of 140 countries while it ranked 106 out of 136 countries in 2014-2015. (However the sample size and composition of countries used for compilation of the index changed from last year to this year due to the inclusion and exclusion of countries.) These rankings certainly do not attest to a great improvement in its global competitiveness over time. Similarly, in terms of sub-indices, Bangladesh ranks 109 in “basic requirements” which relate to institutions —

reflecting the quality of bureaucracy and red tape, excessive regulation, corruption, lack of transparency, and political dependence of the judicial system — infrastructure, macroeconomic, environment, etc. It ranks 105 in “efficiency enhancers” bearing on the efficiency of the goods and factor markets, among others. Finally, it ranks 123 in terms of “innovation and sophistication factors” that reflect business sophistication and innovation. The above rankings reflect some of the fundamental deficiencies in governance that hamstrung the country’s competitiveness and impede the flow of foreign investments into the country.

However, how seriously should we take these rankings? Seriously enough; but with a healthy dose of scepticism. These indicators are far from robust. The rankings of countries are subject to great volatility with slight changes in the methodology (without any real change in the values of the individual indicators). For example, some minor revisions in the doing-business data in 2007 greatly upended the ranks of Italy and Guyana by 33 and 40 positions respectively, according to a World Bank evaluation report. Also, the doing-business data have their own limitations. They do not seem to find much validation from other similar surveys, even of the World Bank. Its Enterprise Surveys report similar data, relating to firms’ experiences with regulations and other investment climate conditions.

As a recent research study notes, there is a huge discrepancy in data between the doing-business and enterprise-survey reports. For example, the average days required to obtain a construction permit in the doing-business report exceeded those of the enterprise-survey report by almost three times. Also, the doing-business report provides a point estimate for all indicators, but in reality the experiences vary enormously between firms within the same country; even in countries with a low doing-business score, some firms obtain permits almost as fast as the firms in countries with high doing-business scores.

The global-competitiveness indices have their own shortcomings. A big part of its ranking is based on perception surveys, which are attempts at capturing some unobserved broad dimensions of governance. However, this process of approximating the unobserved dimensions is flawed. To begin with, there is the complex problem of translating perceptions into quantities. Moreover, perceptions do not necessarily reflect objective reality – perceptions of governance are not the same thing as the actual state of governance. In addition the quality of the surveys varies across countries. Finally, the competiveness rankings are quite sensitive to variations in weights attached to different components of the index.

Notwithstanding the shortcomings, these indices highlight some real governance challenges facing the Bangladesh economy today – constraints that are adversely affecting its performance. And addressing these challenges head-on would be key to materializing its developmental aspirations — including stimulating its sluggish investment rates and achieving double-digit growth.