MEASURING LOCAL ECONOMIC GOVERNANCE

Increasing regional competitiveness is one objective of decentralization and regional autonomy that was mandated through Indonesian law starting in 2001. A remaining challenge is how to ensure local economic growth generates jobs and reduces poverty. Economic governance is an important factor in creating a healthy business climate and enhancing regional competitiveness and growth.

Regional autonomy has granted tremendous authority to local governments, and empowered local officials to create good economic governance. Some local governments have used this opportunity to interact with the business community and other regional stakeholders, to understand their needs and develop policies that promote private sector development. Others, however, have a shorter-term orientation towards generating local revenue, and have put in place taxes that burden businesses, especially micro, small and medium-sized enterprises (MSMEs).

REGIONAL AUTONOMY WATCH AND THE LOCAL ECONOMIC GOVERNANCE SURVEY

The Regional Autonomy Watch (KPPOD) was established in 2000 by stakeholders from the business community, journalists and researchers to monitor the impact of regional autonomy on economic growth. With support from The Asia Foundation, Regional Autonomy Watch ranked regional competitiveness between 2001 and 2005, using perception surveys of business owners coupled with secondary data about key indicators of factors that support the regional business climate and promote healthy competition.

Since 2007, The Asia Foundation has worked with Regional Autonomy Watch to develop a new methodology to measure and compare regional economic performance. The method measures nine dimensions which reflect the quality of economic governance in each locality, and allows comparison between localities surveyed. Variables are process indicators and direct outputs of relevant policies, as opposed to long-term impacts, so that findings are issues that can be mitigated in a fairly short time. The use of endowment factors, such as natural resources, strategic location, good infrastructure and availability of labor, has been avoided. The final index is weighted based on the respondents’ perceptions regarding the importance of each economic governance dimension relative to the others.

Based on its experience in Indonesia, the Foundation further developed the Economic Governance Index (EGI) methodology in several other Asian countries: Bangladesh, Vietnam, Sri Lanka, and Cambodia.

SURVEY FINDINGS

The Foundation and Regional Autonomy Watch, with the support of a professional survey company, conducted the first Local Economic Governance survey in 2007, covering 243 districts and municipalities across 15 provinces in Indonesia. A second survey in 2008 covered 23 districts in Aceh, and a third survey in 2010 covered 25 districts in Aceh and the Nias islands of North Sumatra. The 3 surveys collected perceptions from no fewer than 14,649 respondents. Currently, a 2010-2011 Local Economic Governance survey is being conducted in 267 regions across 19 provinces, which will result in a complete data set of perceptions from all municipalities and districts in Indonesia, though the surveys will have been conducted over a three-year period. This makes the Local Economic Governance survey the largest business survey in Indonesia (and one of the biggest in the world).

The three surveys conducted to date indicate that business owners perceive infrastructure as the most important dimension of economic governance in need of support to bolster the regional business climate. Businesses had a high demand for improvements to the quality of road infrastructure, the water supply, electricity, reliable street lighting, and the responsiveness of repairs to damaged public infrastructure. In addition, business development programs to build the capacity and expand the networks of business operators, especially MSMEs, was the second priority of respondents. This shows that business owners still hope that local government will play a direct role in supporting the development of MSMEs. Respondents also ranked land certification as high among their concerns, particularly flagging the time for securing land certificates as well as protection from risk of expropriation and other land disputes. The survey found striking differences in the quality of eco-

### Dimensions of Local Economic Governance Surveys

1. Access to land
2. Business licensing
3. Interaction between local government and business operators
4. Private business development programs
5. Capacity and integrity of Regent/Mayor
6. Security and resolution of business disputes
7. Transaction costs
8. Local infrastructure
9. Quality of local regulations
nomic governance between districts and municipalities, which could not be attributed to geographic location, urban/rural characteristics, or how long the district had been founded (i.e., many administrative regions have been newly-formed since regional autonomy law went into effect). This finding indicates that regional governments have tremendous potential to improve their economic governance. The survey found that the top-performing regions included Kota Blitar (East Java) in 2007 (of 243 regions surveyed), Aceh Jaya in 2008 (of 23 regions surveyed) and Kota Sabang in 2010 (of 25 regions surveyed).

It is hoped that survey results will be used by regional governments to improve their economic governance. Indexes and rankings make it easier to observe the quality of each region’s economic governance relative to other regions, thereby promoting a climate of competition between regions. The results also help policy makers to prioritize the reforms that are most urgently needed to improve the economic climate, as perceived by business owners.

For the central and provincial governments, findings can be used to monitor and evaluate the performance of regional governments, and used to facilitate targeted technical support to help improve performance. Furthermore, survey results can be used for providing incentives – both fiscal and non-fiscal – to local governments who improve performance. At the same time, business owners can use the EGI survey results to make decisions about investment and business expansion.

The Asia Foundation’s local economic governance survey has been funded by the United States Agency for International Development (USAID), the UK government’s Department for International Development (DfID), the Australian Agency for International Development (AusAID), and the Multi Donor Fund for Aceh and North Sumatra (MDF).

USE OF SURVEY RESULTS

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<th>Ten Best Regions - EGI 2007</th>
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<th>Five Best Regions in Aceh-Nias EGI 2010</th>
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<td>1. Kota Blitar (East Java)</td>
<td>1. Aceh Jaya</td>
<td>1. Kota Sabang</td>
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