

Measuring Economic Governance at the Subnational Level

IMPROVING LOCAL ECONOMIC GOVERNANCE IN MYANMAR, SRI LANKA, MONGOLIA, MALAYSIA, INDONESIA, CAMBODIA, BANGLADESH, AND VIETNAM



A dynamic and healthy private sector is widely regarded as the engine of long-term economic development. Countries compete to attract investment and those that succeed in creating business environments that support competitive entrepreneurs have reaped significant economic growth. Sound national policies are not sufficient to achieve balanced and equitable economic progress. Efforts to promote competition at the local level must complement national efforts, especially for micro, small, and medium enterprises (MSMEs), the major source of employment for most countries in Asia.

MSMEs are often constrained by a wide spectrum of institutional obstacles. To address these constraints, The Asia Foundation has developed specialized tools and approaches to increase the engagement of citizens, businesses, civil society and other stakeholders in effective economic governance, including public-private dialogues (PPDs), regulatory impact assessments (RIAs), political economy approaches to economic reform, and the Foundation's signature Economic Governance Index (EGI). These efforts are aimed at expanding public participation in governance and decision-making and broadening the benefits of economic and social development.

EGIs are indices of the business climate that rigorously assess the progress made towards improving economic governance through a set of quantitative indicators. They benchmark local economic governance and provide information and incentives for policymakers to improve the local business environment, emphasizing the policies, initiatives, and performance of the local authorities.

Local Economic Governance Index:

- Informs the private sector about the business environment in their area relative to other areas, creating a demand for an improved business environment;
- Provides leaders with a frame of reference for best local practices as they seek to improve policies within their own borders; and
- Creates a proactive and competitive process aimed at improving the local business environment by fostering good economic governance.

A COUNTRY-SPECIFIC APPROACH

EGIs use results from surveys of private sector enterprises, interviews with local authorities, and data collected from published sources and statistics to develop indicators against which municipalities, districts, or provinces are measured and ranked to highlight local variations in the business environment. The administrative units ranked vary among countries to reflect local realities of decision-making and/or structural elements such as decentralization.

The Foundation first pioneered the EGI in Vietnam and then replicated it across Myanmar, Sri Lanka, Mongolia, Malaysia, Indonesia, Cambodia, and Bangladesh. While each EGI was adapted to fit the unique country context, they share a common approach to economic governance, using similar criteria, including:

- **Entry Costs:** Time spent, number of licenses required, and the official costs of obtaining all licenses/permits;
- **Transparency and Access to Information:** Access to planning and legal documents, communication of new policies and laws to firms, and predictable implementation;
- **Participation:** Whether firms are consulted in the creation of local policy and whether their interests are represented in policy discussions by business associations or other interest groups;
- **Time Costs of Regulatory Compliance:** Time spent on bureaucratic compliance and waiting periods or frequency of inspections by local regulatory agencies;
- **Informal Charges:** Cost of informal charges, measure of the obstacles that these extra fees pose for their business operations, predictability of extra fees, and whether they result in expected “services”;
- **Crime Prevention:** Amount firms pay in explicit costs as a result of crime due to property that is lost or stolen, as well as the implicit costs of preventing crime by paying security and protection money;
- **Tax:** A gauge of both the administrative and fiscal burden imposed by tax regulation at the local level; and
- **Dispute Resolution:** Measure of the satisfaction firms have in the outcomes of formal and informal modes of dispute resolution at the local level.

The Foundation also included unique criteria based on the local context such as the state sector bias in Vietnam; physical infrastructure, local leadership, business development services and local-level regulations in Indonesia; and physical infrastructure in the Philippines.

IMPROVING LOCAL ECONOMIC GOVERNANCE IN MYANMAR

Myanmar’s government has begun initiatives to liberalize the economy. However, the country’s unclear local economic governance environment presents a major challenge to continued growth. Historical legacies combined with current decentralization efforts have resulted in fragmented institutional structures and a lack of coordination among the various actors responsible for regulating the business sector.

With support from DFID, the Foundation began implementing the Myanmar Business Environment Index (MBEI) project, which focuses on benchmarking

key constraints and opportunities in local economic governance, as well as increasing awareness among stakeholders on needed reforms. This effort includes a comprehensive business survey. Preliminary work was undertaken in 2017 to identify existing databases for sampling, develop the questionnaire, and engage with prospective national partners, such as the Ministry of Commerce. In 2018, the Foundation and its partners will conduct a nationwide roll-out, surveying 3,000 private businesses in 60 townships representing 23 districts and all 14 states and regions in Myanmar.

IMPROVING THE ENVIRONMENT FOR PRIVATE ENTERPRISE IN SRI LANKA

In 2007, the Foundation constructed an EGI for local authorities in Sri Lanka. The EGI helped measure the enabling environment for private enterprise at the subnational level for the first time in Sri Lanka, allowing for comparisons across municipalities. The EGI was launched at a symposium in July 2007 organized jointly between the Foundation and the Ministry for Local Government and Provincial Councils. EGI analysis showed that although structural conditions, such as quality of infrastructure, tend to dominate the business environment, improvement in economic governance can substantially alter the business environment from one area to another.

More recently, in 2017 the Foundation completed a pioneering survey of micro enterprises (MEs) across the country. The Business Environment Barometer (BEB) examines the external environment in which MEs operate, as well as strategies adopted by firms to improve their businesses. In general, BEB scores reflect a sense of optimism among micro and informal entrepreneurs, although some have expressed concerns about access to finance and availability of skilled labor. The survey also found that while perceptions regarding the business environment are positive, actual practices followed by individual firms need considerable improvement. The BEB will be launched in 2018, and the results will be shared with national and regional stakeholders through a series of workshops, including chambers of commerce and trade associations to help them advocate for reforms.

BUILDING INVESTOR CONFIDENCE IN MONGOLIA

Lack of investor confidence, especially in the country’s regulatory framework, has created a significant barrier to growth for Mongolia’s economy. Starting in 2014, the same year foreign direct investment fell by 58 percent, the Foundation provided support and guidance to the Economic Policy and Competitiveness Research Center (EPCRC), Mongolia’s preeminent think tank, to con-

duct its annual Mongolian Provincial Competitiveness Survey. The survey analyzes 180 criteria to rank Mongolia's 21 aimags (provinces) according to four categories: economic performance, governance efficiency, business efficiency, and infrastructure. The results of the survey have been used to improve economic governance at the provincial level and build credibility among investors.

The third annual survey, conducted in 2014, surveyed 1,050 local businesses. The implications of the survey were also discussed at the sixth annual Mongolia Economic Forum in Ulaanbaatar in April 2015.

ACCELERATING LOCAL BUSINESS IN MALAYSIA

In 2012, the Foundation partnered with the School of Business at Monash University Sunway Campus and RAM Holdings Berhad (RAM) to launch the first-ever Business Environment Index (BEI) in Malaysia based on a survey of 635 randomly-drawn SMEs in six states and 11 districts about their perceptions of local business environment. The districts were then ranked in order of business-friendliness across nine areas of economic governance relevant to local economic growth in Malaysia.

The BEI provided crucial empirical data on SMEs' perspectives of local business environments, helping to bridge the gaps between high-level government initiatives, such as the Economic Transformation Program and Government Transformation Program, and perception and performance of local authorities on the ground. By ranking the scores, BEI identified the best performers and gave practical examples of attainable success which can be emulated by other districts. In doing so, BEI also inspired local authorities to improve their service delivery and develop actionable policy agendas to support local businesses.

A PERCEPTION OF THE BUSINESS COMMUNITY IN INDONESIA

With support from USAID, the Foundation partnered with KPPOD to conduct annual studies from 2001-2005 on local investment attractiveness, surveying business people in regencies and municipalities (the two types of localities within provinces). The study methodology then underwent significant changes, and the indicators used focused on various aspects of local economic governance. Beginning in 2007, the Foundation partnered with KPPOD to conduct the annual Local Economic Governance Survey. Between 2007 and 2011, KPPOD and the Foundation surveyed 444 regencies and municipalities (90 percent of the total) in Indonesia. With the completion of the 2011 EGI, supported by the Australian Government, economic governance data for all 500+ local governments in Indonesia was collected for the first time.

The EGIs found that in Indonesia, regional autonomy has created mixed results in economic growth. While some local governments have become more transparent and have reduced burdensome regulations for businesses, others have lagged behind.

A TOOL FOR POLICY ADVOCACY IN CAMBODIA

In 2006, with support from the Australian Government, the Foundation and the International Finance Corporation's Mekong Private Sector Development Facility created the Provincial Business Environment Scorecard (PBES) in Cambodia. PBES allowed, for the first time, comparative analysis of the business environment across 10 of the 24 Cambodian provinces/municipalities.

In 2008, PBES became the official barometer for the Cambodian government, with the Ministry of Commerce using it as a reform and monitoring tool. It was subsequently extended in 2009 to cover all 24 Cambodian provinces, with funding from DANIDA, DFID and NZAID. The results from the 2009 PBES facilitated dialogue between the public and private sectors on specific policies and actions for growth in investment and enterprise.

LINKING LOCAL AND NATIONAL LEVEL ECONOMIC REFORMS IN BANGLADESH

In late 2008, the Foundation, with support from the International Finance Corporation, created a two-year local economic governance pilot project that featured an EGI to cultivate subnational stakeholder ownership and support for policy reforms. The EGI, along with other program activities, linked this local support to national policymaking led by the Bangladesh Better Business Forum, Bangladesh Regulatory Commission, and other government agencies.

The construction of an EGI in 19 districts addressed the need for injecting local views in the formulation of national-level policy reforms. The district-level EGI surveyed over 3,800 firms, many of them MSMEs, to assess the comparative strength and weakness of the business climate.

MEASURING ECONOMIC GOVERNANCE FOR PRIVATE SECTOR DEVELOPMENT IN VIETNAM

The Foundation partnered with the Vietnam Chamber of Commerce and Industry (VCCI) in 2002 to reveal why some provinces were better than others at establishing a business environment conducive to private sector dynamism, job creation, and economic growth. This groundbreaking research provided the basis for

the subsequent development of the Provincial Competitiveness Index (PCI) as part of the larger Vietnam Competitiveness Initiative (VNCI). First implemented by the Foundation in 2005 in partnership with VCCI and USAID, the PCI covered 42 provinces that account for 90 percent of economic activity in Vietnam. This assessment provided the first-ever ranking of provinces based on their regulatory environments. Subsequent annual PCIs continued to refine the methodology and expanded the survey to all 64 provinces.

The annual release of PCI between 2005 and 2008 attracted attention of national and provincial governments and brought about important commitments and initiatives by provincial governments, including new measures to promote business participation in the policy and planning process, greater efforts to streamline and rationalize business licensing and land access procedures.

TOOLS FOR IMPROVED BUSINESS ENVIRONMENTS

EGIs in each country have shown that local governance differs drastically across the region.

They also demonstrate that within districts, provinces, or municipalities, governance improvements can have a large impact on business expansion and employment. Additionally, PPDs are often used to enhance the credibility of the EGIs, bringing the public sector, private entrepreneurs, and other stakeholders together to discuss ways to remove the barriers identified by the study, which will have a tangible impact on economic development. In the countries where the EGI and PPD processes have been established, local authorities use the information and dialogues to take practical measures to improve the business environment. While in some cases, yearly indexes would be too frequent to track concrete improvements, producing EGIs on a regular basis will allow for comparisons over time and place, helping to determine the impact of improved business environments on private sector development. By encouraging all localities in a country to contribute to the national economy, EGIs facilitate a more geographically-balanced pattern of growth, thereby improving the well-being of citizens across all communities.

The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. Headquartered in San Francisco, The Asia Foundation works through a network of offices in 18 Asian countries and in Washington, DC. Working with public and private partners, the Foundation receives funding from a diverse group of bilateral and multilateral development agencies, foundations, corporations, and individuals.

THE ECONOMIC GOVERNANCE INDEX: DATA COLLECTION ACROSS EIGHT COUNTRIES

Myanmar: 2017-2018 (ongoing): Survey of an estimated 3,000 firms and hard data in 60 townships representing 23 districts and all 14 states and regions

Sri Lanka: 2017: Survey of 2,405 micro firms in all 9 provinces and 25 districts; 2007: Face-to-face survey of 4,969 firms and hard data in 48 localities consisting of 15 municipal councils and 33 urban councils

Mongolia: 2014: Survey of 1,050 firms and hard data in all 21 provinces

Malaysia: 2012: Face-to-face survey of 635 SMEs and hard data in 11 urban districts across six states of peninsular Malaysia

Indonesia: 2011: Face-to-face surveys of 12,391 firms and hard data in 19 provinces; 2008 and 2010: Face-to-face survey of

1,000 firms and hard data in 25 regencies/municipalities in Aceh and the Nias Islands; 2007: Face-to-face survey of 12,187 firms and hard data in 243 regencies/municipalities across 15 provinces

Cambodia: 2009: Face-to-face survey of 1,234 firms and hard data in all 24 provinces; 2006: Face-to-face survey of 500 private firms and hard data in 10 provinces

Bangladesh: 2008: Face-to-face survey of approximately 3,800 firms and hard data in 19 districts

Vietnam: 2008: Mail-out survey to 7,820 private firms and hard data in 64 provinces; 2007: Mail survey to over 6,700 private firms and hard data in 64 provinces; 2006: Mail survey to over 6,300 private firms and hard data in all 64 provinces; 2005: Mail survey and hard data in 42 provinces



HEADQUARTERS

465 California Street,
9th Floor
San Francisco, CA 94104 USA
Tel: (415) 982-4640
Fax: (415) 392-8863
sf.general@asiafoundation.org

WASHINGTON, DC

1779 Massachusetts Ave., NW
Suite 815
Washington, D.C. 20036 USA
Tel: (202) 588-9420
Fax: (202) 588-9409
dc.general@asiafoundation.org

www.asiafoundation.org