

ECONOMIC GOVERNANCE INDEX

Sharing good practices and lessons

Bangladesh's first District Economic Governance Index (2010 EGI) is a partnership between The Asia Foundation and the Bangladesh Investment Climate Fund (BICF)

“IF the government offices do not have copies of laws, regulations or circulars then how will they help us? And where would we seek help in solving our problems?” This expression of exasperation from a poultry farm owner in Rajshahi illustrates the frustration that many local business owners feel about not receiving the services and support that they expect from their local authorities.

Governments at all levels can help or hinder private sector development and economic growth through their policies and actions. They can help by improving the business climate -- pursuing business-friendly policies, removing unnecessary regulations, creating business-supportive infrastructure, and providing quality public services in adequate quantities and in a timely manner. They can also hinder private sector development by not being responsive to the practical needs of the business community in terms of policies and provision of quality public goods and services.

In Bangladesh, a dynamic and healthy private sector is essential for long-term economic development. As in many developing countries, the private sector, particularly micro, small and medium enterprises (MSMEs), represents a dominant source of employment and, therefore, of poverty reduction for the population. Unfortunately, the private sector is often severely limited in its ability to grow and create jobs because of institutional barriers and constraints. Although national level policies and decisions are crucial to the country's overall economic environment, the decisions and actions taken at the sub-national level also play an important role in shaping the business environments for MSMEs. In Bangladesh, government agencies at the upazila (sub-district) and district level are the principal public interface for small business operating at local levels. Their capacity and willingness to respond to the demands of the local private sector can vary tremendously from one district to another. Accordingly, it is important to better understand how businesses interact with government at the local level and how the quality of local governance varies among districts.

This first edition of Bangladesh EGI covers 19 districts, ranking them on the quality of their enabling environment for private enterprises.

The economic governance sub-indices that underlie the overall EGI indicate particular strengths and weaknesses within each district. The EGI thus serves as a useful guide for local officials, the private sector, and other stakeholders to compare the performance of their area with that of other localities, and identify the strengths and weaknesses of their respective business environments. The public sector can then use the EGI as a practical tool to map out an actionable policy agenda, in consultation with the private sector.

ivate sector.

In-depth analyses of the overall EGI results and the various sub-indices in different districts will be carried out by District Public-Private Dialogue (DPPD) fora that are being established and strengthened through the Local Economic Governance Programme -- Enhancing the Sustainability and Stakeholder Ownership of Investment Climate Reforms in Bangladesh -- implemented by The Asia Foundation with BICF funding and partnership.

The 10 EGI Sub-Indices	
1. Entry costs:	A measure of the time it takes to register and receive licences to start a business and the official costs of obtaining all licences/permits.
2. Access to land and security of tenure:	A measure of the formal rights to business premises and the security of tenure once land is properly acquired.
3. Transparency:	A measure of whether firms have access to the proper planning and legal documents necessary to run their business, whether those documents are equitably available, and whether new policies and laws are communicated to firms and predictably implemented.
4. Time cost of regulatory compliance:	A measure of the amount of time firms spend on bureaucratic compliance and waiting periods, as well as how often firms must undergo inspections by local regulatory agencies and the duration of inspections.
5. Informal charges:	A measure of how much firms pay in informal charges for firm-level operations as well as for obtaining public procurement contracts, and whether payment of those extra fees are predictable and result in the expected results or “services.”
6. Participation:	A measure of whether firms are informed about existing laws or consulted in the process of relevant public policy making affecting business, and whether their interests are represented in policy discussions by business associations.
7. Law and order:	A measure of explicit costs incurred by firms due to property lost or stolen as a result of crime, as well as the implicit costs of preventing crime by paying security and protection money.
8. Tax administration:	A measure of the administrative burden imposed by tax regulation in the district, extent of compliance and informal arrangements.
9. Dispute resolution:	A measure of the confidence firms have in the fairness and equity of the legal system, their extent of use of local formal dispute resolution institutions, and the satisfaction they have in the outcomes of formal and informal modes of dispute resolution in the area.
10. Local infrastructure:	A measure of the quantity and quality of local infrastructure (managed locally and centrally).

EGI: Design and Methodology

Composite Index of Ten Sub-Indices

The Bangladesh Economic Governance Index (EGI 2010) is a composite index measuring the economic governance of 19 districts and ranking them against each other based on a 100-point scale. Like other Economic Governance Indices conducted in Vietnam, Indonesia, Cambodia and Sri Lanka, the Bangladesh EGI is composed of 10 sub-indices-- developed from the academic literature on economic transition and growth -- that capture the key elements of the local business environment that can be influenced by district regulations and public service delivery.

The EGI scores for each sub-index are generated from a combination of “soft data” from survey questions posed to

determined for each sub-index. This weighting is based on the correlation of each sub-index with a question on firms' plans to expand. The sub-indices that are most strongly and significantly with positive responses are given greater weight. The overall score is then re-calculated to obtain a final weighted index.

Choosing the 19 EGI Districts

The 2010 BEGI covered the headquarters of 19 districts throughout the country, including four districts where BICF and The Asia Foundation currently implement activities and facilitate Public-Private Dialogues -- Barisal, Bogra, Rajshahi and Sylhet.

The other districts were selected to ensure that the survey would cover the 19 district headquarters, which are the largest urban centres in the country. The

Consistent Good Performers	
Faridpur	was placed in Quartile 1 seven times. It did not appear in Quartile 2. Faridpur placed in the Quartile 3 three times and was never in Quartile 4.
Dinajpur	placed in Quartile 1 six times. It was placed in Quartile 2 twice and once in each of Quartiles 3 and 4.
Kushtia	appeared 4 times in Quartile 1 and 5 times in Quartile 2. It was in Quartile 3 only once and never in Quartile 4.

Consistent Poor Performers	
Rajshahi	failed to appear in Quartile 1. It appeared three times in Quartiles 2 and 3, and four times in Quartile 4.
Barisal	appeared once in Quartile 1, twice in Quartile 2, three times in Quartile 3 and four times in Quartile 4.
Chittagong	appeared twice in each of the Quartiles 1 and 2. It appeared three times in each of Quartiles 3 and 4.
Tangail	appeared once in Quartile 1, twice in Quartile 2, three times in Quartiles 3 and four times in Quartile 4.

ranking is a direct result of Dhaka's urbanisation and population density. As the largest city in Bangladesh, and the centre of economic and political activity in the country, it has the greatest infrastructure needs and faces enormous challenges in meeting them. This problem extends to other large cities in Bangladesh as well, as evidenced by the similarly low rankings obtained by Chittagong and Khulna on the Infrastructure sub-index.

However, Dhaka's poor informal charges sub-index score cannot be explained by urbanisation alone, indicating that governance issues are at the heart of Dhaka's low ranking. Indeed, approximately 76 percent of firms in Dhaka, the most of any district, reported having to pay bribes in their line of work.

The EGI as a Tool for Reflection

The EGI index ranking is meant to inspire the desire for improvement and act as a practical tool for officials to use in developing an actionable policy agenda in consultation with the private sector.

EGI as a Tool for Policy Reforms

By focusing on economic governance, the EGI emphasises policies, initiatives, and performance of the district authorities, thus setting the stage for needed adjustments and reforms. An important function of EGI is to serve as a policy analysis tool for national and sub-national governments to help diagnose and address economic governance. As mentioned previously, the EGI is a useful tool for local officials and business people to compare the performance of their district to the performance of other districts.

Another useful EGI application is the identification and dissemination of practical examples of best practices at the district level. By identifying the best performing districts in key economic governance areas, the EGI offers an opportunity to identify initiatives and potentially applicable best practices that may be implemented in their own districts.

Building Public-Private Coalitions for Improved Competitiveness

Studies conducted by The Asia Foundation on the sub-national business environment reveal that most affected enterprises tend to take economic governance constraints as a given, seek little assistance from local government officials or other actors, and do not initiate opportunities to engage with these officials. A principal aim of the EGI is to help build broader stakeholder support for policy reform using the EGI's empirical information on the business environment at the sub-national level. District-level dialogues can provide the platform for the private and public sectors to raise issues, identify solutions, prioritise areas of reform, disseminate information, and determine and implement a series of practical interventions for an improved business environment.

The EGI can play a catalytic role in fostering a more open and constructive relationship between the public and the private sector, at the district level through the following suggested steps:

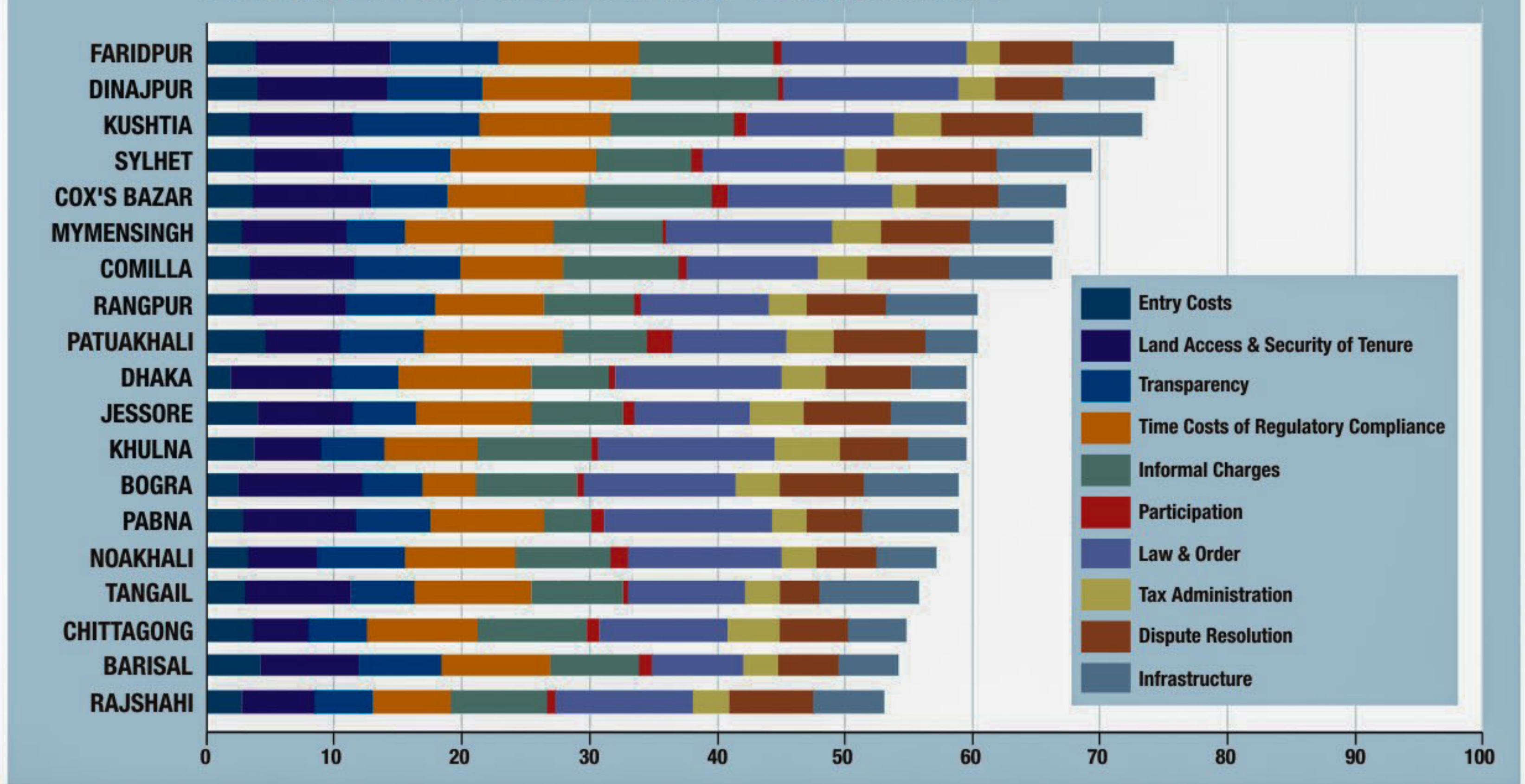
- 1.Developing a culture of dialogue and participation among the private sector, public authorities and civil society;
- 2.Using the EGI to set local priorities based on the strengths and weaknesses of each district;
- 3.Conducting in-depth diagnostics of priority areas and identifying problems;
- 4.Setting key recommendations and action plans to implement these recommendations;
- 5.Identifying and learning from other districts' best practices; and
- 6.Broadening dialogue and ensuring information dissemination.

The EGI can also be used at the national level to foster beneficial change by:

- 1.Streamlining the regulatory process and disseminating clear information on the regulatory environment and ongoing reform processes;
2. Ensuring that national level policies and reforms are adapted to the local level and then understood and implemented;
- 3.Strengthening linkages between national and the sub-national levels for increased transparency and efficiency; and
- 4.Improving interaction among the different levels of government for a better coordination of policy reforms that benefit a large portion of the country's business community.

This is an abridged version of the Bangladesh Economic Governance Index report launched yesterday.

FIGURE 1 EGI 2010 OVERALL RANKINGS



local business owners and “hard data” collected from government sources and other published materials.

These data are grouped into 10 broad sub-indices (categories), which are then assessed on a comparable 1-10 point scale. Added together, these 10 sub-indices create an un-weighted 100-point overall score for economic governance. To acknowledge the fact that some sub-indices are more important than others and to make it more relevant and useful to policymakers, weights are statistically

survey was conducted mainly in the city corporation or municipal area in each of the district headquarters and within a three-kilometre radius around the city.

The 2010 EGI Rankings: Explanation and Analysis

Overall Rankings

Figure 1 presents the overall results of the 2010 BEGI. This is the sum of the district scores on all 10 weighed sub-indices. Since 10 points are possible for each sub-index and the sub-index

weightings add up to 100, the final rankings are on a 100-point scale. To achieve a perfect score, a district would need to have the highest score on each sub-index. Faridpur, Dinajpur and Kushtia are top-ranked and can be considered as the best performing districts in Bangladesh in terms of business environment.

The rankings are relative and based on the best practices in Bangladesh, not against an arbitrary, external or idealised standard. In addition, since districts can receive similar scores (often within 1 point), it is more useful to interpret the results in terms of “tiers” rather than just the standard rankings. These tiers are created from the natural “breaks” in the overall index based on point scores.

Consistency in Rankings

As noted, within the overall rankings there are distinct tiers. The results suggest that the districts on these tiers are performing consistently across the majority of sub-indices. They are ranked with the highest scorer at the top and the lowest at the bottom and broken into 4 quartiles. The consistent top performers were Faridpur, Dinajpur and Kushtia. These three districts constituted approximately 16 percent of the districts surveyed, but accounted for 42 percent of the places in the top quartiles and only 0.25 percent of the places in the bottom quartiles.

The Special Case of Dhaka

Among the high and low performers, the capital city of Dhaka represents a special case. Dhaka ranks a relatively low 16 on the unweighted index. However, on the final weighted index, Dhaka ranks 10th. The primary reason for this result is that Dhaka scored relatively well on the most highly weighted sub-indices in the overall weighted index. For example, Dhaka scored in the top quartile of districts on the law and order sub-index, which accounted for 15 percent of the weighted overall sub-index. It also scored in the second quartile on transparency, which accounted for 12.5 percent of the weighted index, and dispute resolution and land access, each of which accounted for 10.5 percent of the index. On the other hand, many of its lowest scores were on low-weighted sub-indices such as entry costs (5.5 percent of weighted index) and participation (2.5 percent of weighted index).

Dhaka did score poorly on two important and heavily weighted sub-indices -- infrastructure (10.5 percent of weighted index) and informal charges (15 percent of weighted index). To some extent the infrastructure sub-index