

**USAID ECONOMIC GROWTH OFFICERS WORKSHOP
OCTOBER 15-19, 2007
WASHINGTON, D.C.**

Session Title: Doing Business – Sub-national Competition: Vietnam, Mexico, Brazil

Date and Time: Wednesday, October 17, 2007, 2:30 – 3:30 PM

Type of Session: Breakout

Speaker(s): Helle Weeke of DAI and Zenaida Hernandez of the Foreign Investment Advisory Service (FIAS)

Moderator: Nick Klissas

Overview of Session:

Helle Weeke and Zenaida Hernandez spoke about two indices for spurring sub-national business environment competition.

- Helle Weeke talked about the Provincial Competitiveness Index in Vietnam, implemented by DAI and the Asia Foundation. With events like Vietnam’s accession to the WTO and its hosting of the APEC Summit, PCI was named one of the top 10 economic events last year. Why? Because by measuring economic governance through a series of business perception surveys and hard data, Vietnam is highlighting which provinces have better business environments—and this had led to healthy inter-provincial competition and reform.
- Zenaida Hernandez spoke about the World Bank’s effort to expand the Doing Business indicators to the sub-national level. These can both promote competition between regions in a country, and between regions or cities in different countries. She highlighted the case of Mexico, where in 2005, there were two states that had comparable Doing Business scores to OECD countries. Only one year later, the number of states increased to 5 and reforms were also made in many other provinces.
- A key challenge: how can we customize these surveys to make them appropriate to the country context – without compromising their ability to be aggregated?



Helle Weeke addresses workshop attendees. Photo by Paul Goodman.

Speaker’s Remarks: Helle Weeke

The Provincial Competitiveness Index (PCI) measures economic governance at the provincial level. It measures performance as perceived by businesses in Vietnam. It was developed by the USAID/VNCI project in partnership with the Chamber of Commerce. VNCI is being implemented by DAI and the Asia Foundation. The first PCI was released in 2005, followed up

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in 2006; and in November, we expect to release the PCI results for 2007. What we are now able to demonstrate: there are consistent trends over time.

She focused on what is the PCI, and what has been its impact? Why does the PCI work as well as it does? Ideas for how a similar tool could be used elsewhere?

Key lessons:

1. Good local economic governance matters – it improves living standards, improves private sector performance, attracts new investment.
2. Governance reform must be tackled both locally and nationally – there are some things that provincial actors cannot do anything about. (e.g. efficiency and integrity of court system – can only be addressed at the national level)
3. PCI is a tool – to tap into rivalry but it does not create reform in itself.

The PCI measures local economic governance (not development).

There is a continuing interest by the private sector to participate in the process - we have had good participation by business.

There are 10 PCI sub-indices:

1. Entry costs
2. Land access and security of tenure
3. Transparency and access to information
4. Time-costs and regulatory compliance
5. Informal charges
6. SOE bias (competition environment)
7. Pro-activity of provincial leadership
8. Private sector development services
9. Labor training
10. Legal institutions

Sub-indices are weighted to determine their impact.

In 2006, there were two provinces in the “excellent” tier; in 2007, there are four. Most provinces are in the mid-high to mid-low tiers. There is a relatively small low-performing group.

We control for natural endowments or initial conditions, separating out things like infrastructure, location, GDP size, human resources, etc. Otherwise, it would be hard to compare Ho Chi Minh City with a city in the far north. This is why it compares governance, not development.

The PCI is based on best governance practices as they are found in Vietnam. We look at how things are done for a particular sub-index, in the country that scored the highest. The PCI was

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well-received for this reason (one of the reasons). Findings over time (2005-2007): we can now say that Economic Governance in Vietnam has improved – we show this by looking at the score for the median province.

Across the board, most provinces scored higher in 2007 than 2006. There is very little change among provinces that rank at the top and at the bottom over 3 years.

We are also finding that there is an increasing good governance gap in Vietnam. There are some provinces that tend to lag further and further behind. This could be a wake-up call to the national government.

With respect to the sub-indices, the greatest improvements were in transparency and in the time-cost of regulatory compliance (number of inspections). In 2007, most firms reported that it is now easier to get access to legal and planning documents. Most firms report that the average number of inspections is now down to one (and that tends to be the tax inspection).

There is a time lag for government to implement reform, and that change to be perceived by the business community. In Vietnam, this time lag is roughly 2 years.

There is a positive link between economic governance and living standards.

The PCI got tremendous attention from the media, the public, and government – especially at the provincial level. It was named one of the top 10 economic events. Others included the APEC summit, and Vietnam's accession to the WTO.

Leveraging the PCI to improve economic governance – what are the implications for national policy?

Conditions for the PCI's success –

- 1 – Timing
- 2 – Very reliable data set
- 3 – Questionnaire and index customized to Vietnam
- 4 – Strong local partner
- 5 – Solid methodology; consistent findings
- 6 – Pre-existing inter-province rivalries
- 7 – Strong support from USAID

If you properly customize this, you could probably do it successfully elsewhere.

[Zenaida Fernandez' comments on next page]

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Speaker's Comments: Zenaida Hernandez

Ms. Fernandez' presentation focused on business environment reform at the subnational level and the rollout of the World Bank's Doing Business surveys. These reports cover a variety of cities in each country. The rationale behind the survey is to encourage competition at the subnational level.

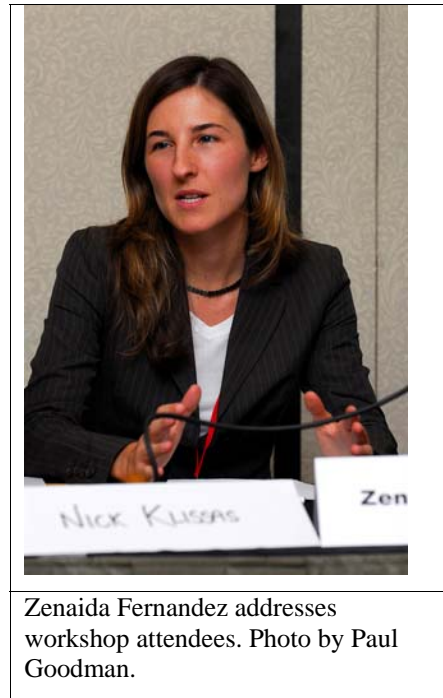
What are the benefits? The DB subnational survey combines media appeal with local governments / businesses. It captures regional differences in regulations and enforcement. It fosters competition among cities and provinces. It pinpoints bottlenecks and good practices within the country. Because of similarities in the legal framework, these can be easily replicated within the country. These days, it is not only countries that compete, it is cities. Finally, this DB can also act as an M&E tool.

Inputs:

- Selection of DB indicators – criteria based on areas of local jurisdiction or practice
- Selection of cities – criteria include population, economic activity, and political diversity
- Selection of respondents – local, private professionals (lawyers, accountants) – quality of data will depend on them.
- Coordinating firm with country wide correspondent network; questionnaires adapted to local language; training of respondents on methodology.
- Participation of subnational governments. High-level commitment – focal point. Input of local governments as survey respondents. Confidential consultations and “right of reply” period, (allow them to provide feedback on the indicators).
- Duration can be between 6 months and 1 year.

Applying the survey to Mexico, there were two states that were comparable to the OECD. There will be up to 5 the next year. Nine of the 12 states covered made improvements between 2005 and 2006.

They are working on a DB subnational website. They are partnering with local think tanks, e.g. in Mexico, so that they can repeat every year. They are now creating a new unit to provide rapid response to requests for assistance.



Zenaida Fernandez addresses workshop attendees. Photo by Paul Goodman.