

Provincial Business Environment Scorecard: A Tool to Measure Economic Governance

The Royal Government of Cambodia considers the private sector an engine for growth and has as one of its major objectives the creation of a conducive environment for business. The government monitors its performance through annual evaluation/monitoring conferences at each line ministry and agency where it also sets targets for the next year. This has been a good internal monitoring tool for the central government to see what works well and what needs improvement. Thanks to these continuous improvement efforts, progress has been made in many areas to improve the business environment.

To complement this internal evaluation system, the government would also be well advised to evaluate its performance from an external perspective, using a tool that is multi-dimensional and garners feedback from the private sector in a comparative manner. IFC and The Asia Foundation developed and carried out the Provincial Business Environment Scorecard (PBES) in 2006 and 2009 precisely for this purpose. While, government agencies review performance and improvement in specific areas related to their areas of responsibility, the PBES assesses the provincial business environment by measuring 10 dimensions of economic governance in all 24 provinces by surveying firms and reviewing regulations. By focusing on provincial level performance, the PBES helps identify areas where local governments have excelled and those that require attention. The PBES is a tool not only for provincial governments but it also contributes to national level policy making by assessing effectiveness of local implementation of laws and regulations issued at the central level.

By measuring economic governance and ranking provinces against each other, the PBES provides inputs that can lead to business environment improvements at the provincial level. A case in point is Siem Reap province where unsatisfactory 2006 PBES results prompted the provincial government to streamline business start-up procedures resulting in a significant improvement when measured in the 2009 PBES. This shows that a tool such as PBES is useful to the government to encourage improvements in the business environment at the provincial level, and should be adopted by the government as a regular measure performance.



The *Business Issues Bulletin* provides a short summary and analysis of a particular topic affecting the business environment in Cambodia. Opinions and feedback are sourced from relevant stakeholders, community members, and industry professionals.

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1. What is PBES

The PBES is a provincial level survey of businesses which uses a standardized methodology to rank provinces against each other based on the quality of economic governance according to ten criteria (sub-indices). These include Entry Costs, Property Rights, Transparency, Time Costs of Regulatory Compliance, Informal Charges, Participation, Crime Prevention, Tax Administration, Proactivity of Provincial Leaders, and Dispute Resolution.

In 2006 the first PBES covered only the top ten economically important provinces in the country. In 2009, the PBES was expanded to cover all 24 provinces. The PBES provides a thorough comparative analysis of the performance of provincial governments using a scoring system, which allows for ranking of the provinces on each of the 10 sub-indices as well as for the total of all the sub-indices. In this way PBES is able to pinpoint areas of reform potential for each provincial government. This is a powerful tool to both identify areas for improvement as well as to measure the impact of reforms by comparing results from one PBES to the next.

2. Example of early impact of the PBES

The 2006 PBES results persuaded several provincial governments to initiate business environment reforms. In Siem Reap, for example, the 2006 PBES ranked the province nearly at the bottom on several sub-indices as well as for the overall quality of its business environment. This low rank prompted the Siem Reap provincial government to reform its business environment by streamlining business start-up procedures, an area where it both ranked very low and where local authorities believed there was potential for improvement. The provincial government initiated a project to reform

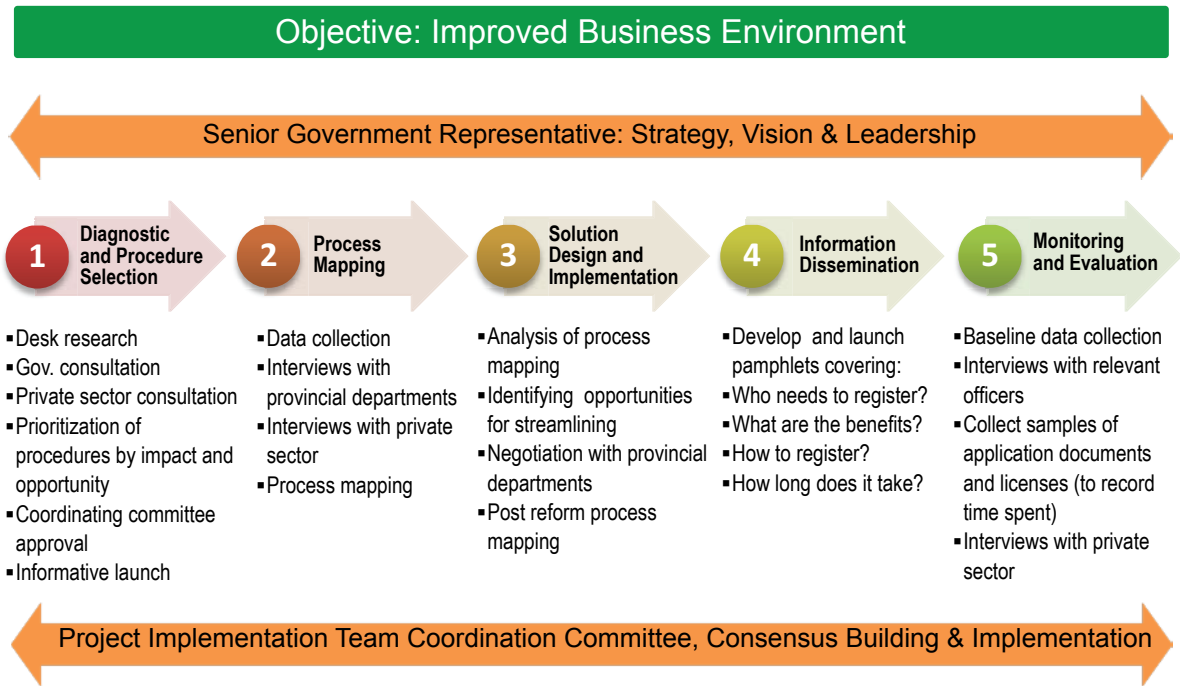
business entry, which mapped administrative procedures of relevant agencies, including the procedures to obtain a registration certificate for a sole proprietor as well as annual operating licenses and local permits. By mapping administrative procedures the local authorities were able to identify redundancies and to propose pragmatic solutions to simplify the procedures.

The focus of the reform centered around: identifying the real bottlenecks preventing businesses from starting operations and duplicating requirements (diagnostic and process mapping); building consensus on issues; solution design; information dissemination; and monitoring the implementation of new and improved procedures (see 5 steps outlined in figure 1).

The reform process in Siem Reap brought about positive results which could be measured by comparing the findings of the 2006 and 2009 PBES reports. On the 2009 PBES Siem Reap moved up to 6th place from near the bottom when compared with the 10 provinces ranked in 2006. Business start-up procedures eased significantly making it faster and cheaper for businesses to comply with procedures. The 2009 PBES showed that the time spent to register a business at the Siem Reap provincial department of commerce reduced by half to 15 days from the 30 days measured in 2006. The time spent to obtain an annual operating license dropped to 22 days from 30 days in 2006.

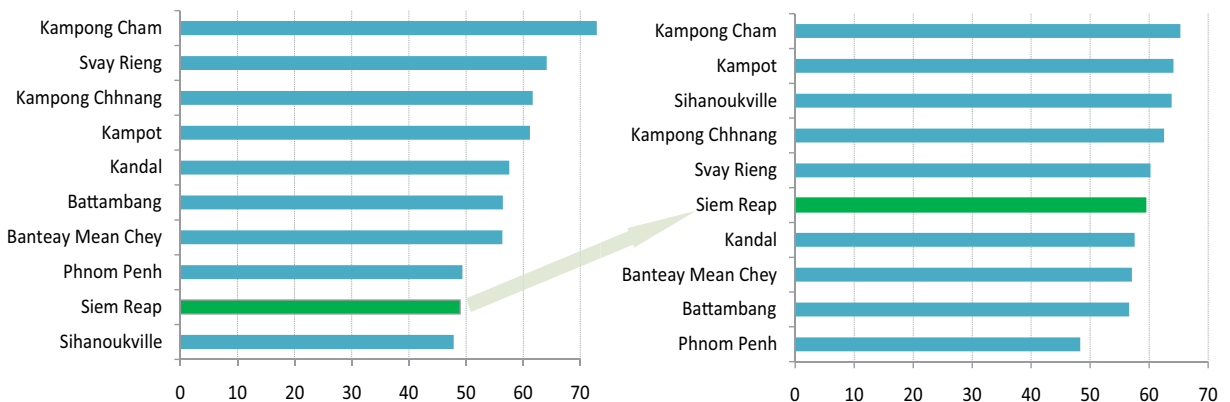
The reforms in business entry in Siem Reap not only eased the burden of administrative procedures on new businesses, but it also had a positive impact on other sub-indices in the province by improving the transparency of provincial regulations, participation of private sector in formulating policy and the proactivity of the provincial government.

Figure 1: Outline of Administrative Reform Project in Siem Reap



Note: For detailed review of administrative reform project in Siem Reap see http://www.ifc.org/ifcext/mekongpsdf.nsf/Content/Other_Pubs.

Figure 2: Ranking of Top Ten Provinces in 2006 and 2009 PBES



Note: For detailed provincial rank, please see http://www.ifc.org/ifcext/mekongpsdf.nsf/Content/Other_Pubs.

“We are very proud of our success. We improved on four out of ten PBES indicators: the time and cost to start a business; property rights; transparency of regulations; and crime prevention. We will continue using PBES results to work on other areas, and we hope the next PBES will show us if we have succeeded.”

**H.E. Sou Phirin, Governor of
Siem Reap Province**

“Previously, procedures were not clear and our members complained of wasting time going from one government office to another, trying to complete all procedures. Since the reforms, many members have already seen the impact of these reforms. Information about starting a business is readily available and there is no need to run around to several offices now. This saves everyone’s time navigating what once was a cumbersome administrative procedure. I hope this will be the beginning of other important reforms. The private sector stands ready to offer our input.”

**Mr. Pheng Kong, President of the
Siem Reap Chamber of Commerce**

“The Provincial Business Environment Scorecard is a useful tool for provincial governments to identify reform priorities in their provinces. The PBES has helped the Siem Reap government to identify reform areas, and the province has had success reforming procedures to reduce the time for business start-up.

Siem Reap is a good example of reform at the provincial level, which has led to a more conducive business environment across the province. I think this is a successful experience that other provinces could learn from. While Siem Reap has successfully carried out reforms in its province, it is important

that this experience is shared with other provinces through provincial workshops. Sharing experience will encourage other provinces to initiate their own reform programs building on the Siem Reap experience.”

**H.E. Phork Sovannarith, Secretary
of State, Ministry of Industry, Mines,
and Energy**

3. Conclusion

Measuring economic governance on a regular basis at the provincial level is an important way to support improvements in the business environment. The PBES is an important measurement tool that uses the voice of the private sector to provide a comparative ranking of the provinces in several key areas. This tool can help Cambodia to create a competitive business environment to attract investment, expand businesses, create jobs and reduce poverty.

The experience of Siem Reap province shows that measuring provincial level economic governance through PBES has encouraged the provincial authority to make reform efforts, which have resulted in an improved business environment. The Government of Cambodia should continue to use tools such as PBES to monitor performance at the provincial level and as an input for developing national level policies to improve the business environment. Having seen the experience of Siem Reap province in using PBES to identify areas where reforms were needed and to measure the results of the reform process, it is clear that something that is measured is more likely to get done.