



# **Provincial Facilitation for Investment and Trade Index (ProFIT)**

*Measuring Economic Governance for Business Development*

**Lao National Chamber of Commerce and Industry**

2018

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## Foreword

The Lao National Chamber of Commerce and Industry (LNCCI) is proud to launch the first-ever Provincial Facilitation for Investment and Trade (ProFIT) Index for Lao PDR with technical assistance from the Mekong Business Initiative (MBI), which is financed by the Australian Department of Foreign Affairs and Trade and implemented by the Asian Development Bank (ADB). ProFIT is a valuable addition to the set of tools that the LNCCI has to promote private sector development through informed dialogue with the Government of Lao PDR. The ProFIT Index aims to measure how good provincial governments, including Vientiane Capital, are in supporting private sector development, notably through measures of economic governance that are under direct control of those governments.

The Government of Lao PDR sees a socialist market economy as the cornerstone of its economic policy, as reflected in Vision 2030 and the 8<sup>th</sup> National Socio-Economic Development Plan. This implies a strong and important role for the private sector in developing businesses, creating employment opportunities, and supporting national and local economic growth. The LNCCI has been in continuous dialogue with the government of Lao PDR to promote private sector development, to identify issues negatively affecting the private sector, and to help formulate solutions.

Following the example of the Provincial Competitiveness Index (PCI) in Viet Nam, the LNCCI decided to undertake a provincial level survey to measure how they rank in economic governance and offer a diagnostic tool to help improve performance. ProFIT employs a methodology that ranks provinces according to their economic governance performance and does not consider other dimensions of competitiveness, such as infrastructure, market access and labor costs.

ProFIT measures performance under six sub-indices, each with several indicators, that were part of the survey and have been analysed in this report. The six sub-indices are a) the ease of starting a business, b) transparency and access to information, c) regulatory burden, d) informal charges, e) consistency of legal implementation and f) business friendliness of provincial governments.

The 2017 ProFIT Index shows that overall performance of provincial governments in supporting and promoting the private sector is low. There is ample room for improvement and through the publication of this report, the LNCCI hopes to engage with those provincial governments in policy dialogue to help them to better understand the needs of the private sector, and ultimately, improve private sector development in their respective provinces. This information can be used as reference to relevant stakeholders in order to find the key issues of doing businesses in Laos; this will lead to a better improvement of investment environment. As a consequence, it will be improved the Ease of Doing Business ranking of Laos from 3 digits to 2 digits based on the Lao Prime Minister has committed in the 4<sup>th</sup> National Parliament.

Based on Vietnam's experience has conducted the Provincial Competitive Index (PCI) for 11 years with a high success, Vietnam communist party has used PCI output as a reference for promoting the governance staff in each province. ProFIT is a project, which reflects to close cooperation between governance and private sectors in order to find the main obstacle of on trade and investment in Laos.

The LNCCI is grateful for the endorsement and support it received from the Ministry of Commerce and Industry and looks forward to continuing and strengthening the policy dialogue. The LNCCI is also grateful for the technical support it received from the Government of Australia and the ADB, and the collaboration of the Vietnam Chamber of Commerce and Industry to better understand the PCI. We look forward to making this a regular event with our partners, so that progress can be measured and encouraged.

Vientiane Capital, dated 18 May 2018

Oudet SOUVANNAVONG

President

A handwritten signature in black ink, appearing to read 'Oudet Souvannavong', with a horizontal line at the end of the signature.

Lao National Chamber of Commerce and Industry

## **Executive Summary**

The Lao Provincial Facilitation for Investment and Trade (ProFIT) Index is based on a survey conducted in 2017 by the LNCCI. The Index measures the willingness and ability of provincial governments to provide an enabling environment for businesses and to promote business development. ProFIT, which is based on the Viet Nam Provincial Competitiveness Index (PCI), employs a methodology that ranks provinces according to their economic governance performance, which can be changed and improved upon in the short and medium term by appropriate policy measures and reforms. The methodology does not consider other dimensions of competitiveness, such as infrastructure, market access and labor costs.

The purpose of ProFIT is to rank provinces according to their performance in promoting private enterprise, to analyse indicators to better understand the strengths and weaknesses of each province in terms of promoting the private sector, and to stimulate the development of local economies through improvements in the ProFIT score.

The survey covered 1% of the total number of registered firms in Lao PDR with an overall response rate of 64.7%. A province is considered doing well, if 1) starting a business is easy, 2) there is transparency and access to information, 3) the regulatory burden is low, 4) formal and informal charges are low, 5) there is a consistency and lack of bias in implementing laws, and 6) the provincial government has a friendly attitude towards businesses. Accordingly, the ProFIT Index consists of six sub-indices, with each sub-index having several indicators, for a total of 22 indicators. The results have been analysed and presented in three categories of provinces: five larger provinces (over 400,000 people), seven medium provinces (200,000-400,000 people, and five smaller provinces (below 200,000 people). This is to better reflect the differences in challenges for the private sector between these categories.

Among the larger provinces, Vientiane Province had the highest ProFIT score, but with a score of only 54 out of 100 there are many areas where all province need to improve their performance. Savannakhet score the highest for the Ease of Starting a Business, closely followed by Vientiane Capital. Vientiane Province scores the best for Transparency and Access to Information, Regulatory Burden, Consistency of Legal Implementation and Business Friendliness. Vientiane Capital has the highest score for Informal Charges, closely followed by Vientiane Province.

In the category of medium provinces, Xieng Khouang has the highest ProFIT score, closely followed by Oudomxay and Houaphanh. The highest score of 54 also indicates ample room for improvement as with the larger provinces. Oudomxay score highest for the Ease of Starting a Business, closely followed by Xieng Khouang. The higher scores of 75 and 73 are encouraging. Khammouane scores highest for Transparency and Access to Information, although the score of 39 shows that performance is not good. Oudomxay has the highest score for Regulatory Burden (75) especially supported by relatively quick renewal of the tax registration certificate. Oudomxay also scores highest for Informal Charges while Bolikhamsay scores best for Consistency of Legal Implementation, closely followed by Houaphanh. Finally, among the medium provinces, Sayaboury stands out for being more Business Friendly than the others.

Attapeu has the highest ProFIT score among the smaller provinces, but like with the other provincial categories the score of 54 indicates that much needs to be improved. Phongsaly scores the best for Ease of Starting a Business, while Attapeu score highest for Transparency and Access to Information, closely followed by Bokeo. Scores for the latter are low (26 to 37) indicating that firms have a hard time getting any information that would help their business. Bokeo scores highest for Regulatory Burden, while Phongsaly has the highest score for Informal Charges, closely followed by Bokeo. Attapeu has the best (but low) score for Consistency of Legal Implementation and for Business Friendliness, closely followed by Sekong.

Analysis across all 17 provinces show that there is a positive relationship between the ProFIT Index and a growth of provincial enterprise and transparency and access to information, it can be interpreted that an improvement of trade and investment facilitation is a significant factor to generate confidence to Lao entrepreneurs. This is a vital component to create a good environment of doing business and to support enterprises' growth.

The ProFIT study yields important conclusions. It is not easy to start a business in Lao PDR, no matter which province, with some provinces being relatively quick, others slow, with several provinces being expensive. It is not easy for firms to get access to essential government information, whether it is plans and budgets, regulations or official fees and costs. Four provinces have no website, while for the remainder 13 provinces, the quality is low, with information provided not being kept up to date. Improving transparency is critical, as this has the strongest relationship with actual private sector growth. Inspections by provincial government authorities are a burden on business, which come on top of inspections by other authorities as deemed necessary by central and district governments. There is a clear difference between categories of provinces and between provinces. The trend appears to be that businesses in the smaller provinces get inspected more often than the larger provinces.

The law demands that tax certificates need to be renewed annually. From both a policy perspective and a business perspective, such renewals should be automatic and with minimal cost. Yet it is clear from the results that renewing the tax certificate every year is a major hurdle in terms of time and money. Informal charges are a sensitive area, and not all respondents can be expected to fully answer these questions. But aggregate numbers tell a story. There is a wide range between provinces, with 53% to 81% of respondents in larger provinces reporting that they pay informal charges, 34% to 88% in medium provinces and 46% to 56% in smaller provinces. Tax negotiations are common throughout all provinces, referring to the practice in Lao PDR of tax officials entering negotiations on the amounts of tax payable, rather than basing these transparently on recorded information on turnover, costs etc., following a prescribed method. In some cases, tax negotiations are deemed necessary in the absence of a book keeping system in some firms. In other cases, negotiations necessitated by pressures on tax collectors to reach certain targets, while for others these are a rent seeking opportunity. In general, tax negotiations are an indicator that informal charges are being pursued and therefore not good for business.

The sub-index of Consistency of Legal Implementation has four indicators: whether firms with good government connections have an advantage, whether the government favours FDI, whether provincial government offices coordinate well with central offices, and whether there is policy consistency between the centre and province. The combined score for all

provinces is low, with a score of 45 (Bolikhamsay) being the highest and 31 (Champasack) being the lowest. Of importance seems to be the feeling firms who have good connections in the government have an advantage in obtaining government contracts. Finally, there is a wide variation in what respondents feel about the attitude of provincial governments towards private business. While the majority is neutral on the subject, those that feel negative about the government attitude range from 19% to 35% in the larger provinces, from 6% to 39% in the medium provinces and from 4% to 23% in the smaller provinces. The majority is neutral, which is not considered to be good. The study shows that provincial governments impose high transaction and direct costs on businesses. In this context, the reported perception of neutrality of provincial governments towards businesses strongly indicates that the private sector just gets on with business, without paying too much attention to the provincial government. If the perceived attitude is positive, it would imply that not only the government tries to support and stimulate business development, but also that government officials have developed an understanding of the challenges faced by the business sector and try and help find solutions.

It is the stated policy of the Government of Lao PDR to promote private sector-led economic growth, strive for economic diversification and ensure job creation in the private sector, especially the SME sector. Over the last ten years, the Government has worked hard to improve the business climate, notably with the introduction of the “one-window” service desk at the central and the provincial levels. Many of the Government’s policies are implemented by provincial governments. The 2017 ProFIT Index shows clearly the differences in implementation between provinces, and consequently point to the policy implications. We first discuss the policy implications for provincial governments followed by those for the Government of Lao PDR.

The renewal of tax certificates takes far too long and is in many cases too expensive. Provincial governments wanting to promote private sector development and support businesses should strive to renew a tax certificate automatically and promptly, at minimal cost. The regulatory burden score could be easily improved by doing this. The provincial website is a great way to communicate with private businesses and make relevant information available to companies. Four provinces can make good progress by having a website, while the other provinces can greatly improve their scores by updating their websites regularly and putting on the relevant documents.

The attitude of provincial governments is by and large neutral towards private businesses, with a significant percentage being negative and unhelpful. A focus by the provincial leadership on improving this through staff training and special programs would help improve these scores in the next few years. Putting helpful information about company operations and requirements on the website will also help improve the business environment. Business registration requirements differ for different types of businesses. However, the large differences between the time taken and the cost involved show that there are important local factors at work. All provinces can make good progress by limiting the time to approve a business registration by limiting unnecessary checks and inspections and by publishing the fees and costs involved on their website.

The IFC used to support the Provincial Private Dialogue, to promote a better understanding between government officials and the private sector. Unfortunately, funding for that initiative was stopped. However, such a dialogue should not be expensive, and provincial governments who will manage to start the dialogue again (with the LNCCI), on a regular basis with a

public agenda and published minutes of discussion, could do well in promoting private businesses and in the ProFIT Index.

The national government plays an important role in ensuring that national policies are implemented as intended at the provincial level. It does this through issuing instructions, through continuous dialogue and through training. To support the improvement of performance in the ProFIT Index, and thereby realising the policy of supporting and promoting private business, the national Government could look at the following 1) simplifying the requirements for renewal of the tax registration certificate and standardise the time and cost involved. This would greatly help provincial governments improve their performance; 2) putting in place a national website with all business registration and renewal requirements, effectively combining information from MPI, MOIC, MOF and the line ministries in one place. Then require provincial governments to explain on their websites how they are implementing these national policies and requirements; 3) providing support to provincial governments by designing a training program that would help local officials to better understand the importance of being positive and helpful towards companies, while at the same time applying the regulations and enforcing the law; and 4) helping provincial governments by designing a standard web-based procurement system that will allow all companies to participate equally in a public bidding process.



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## **ABBREVIATIONS and ACRONYMS**

ADB	-	Asian Development Bank
FDI	-	Foreign Direct Investment
GIZ	-	German International Development Agency
IMF	-	International Monetary Fund
IFC	-	International Finance Corporation
Lao PDR	-	Lao People's Democratic Republic
LNNCI	-	Lao National Chamber of Commerce and Industry
MOIC	-	Ministry of Industry and Commerce
MPI	-	Ministry of Planning and Investment
OECD	-	Organisation for Economic Cooperation and Development
PCI	-	Viet Nam Provincial Competitiveness Index
ProFIT	-	Provincial Facilitation for Investment and Trade
RAD	-	Rank, Analyse, and Develop

## I. Introduction and Background

### Introduction

The Lao Provincial Facilitation for Investment and Trade (ProFIT) Index is based on a survey conducted in 2017 by the Lao National Chamber of Commerce and Industry (LNCCI). The Index measures the willingness and ability of provincial governments to provide an enabling environment for businesses and to promote business development. ProFIT, therefore, employs a methodology that ranks provinces according to their economic governance performance, which can be changed and improved upon in the short and medium term by appropriate policy measures and reforms. The methodology does not consider other dimensions of competitiveness, such as infrastructure, market access and labor costs.

### Background

The concept of the ProFIT Index is based on the Viet Nam Provincial Competitiveness Index (PCI), which has been published annually since 2005. The PCI measures one important dimension of competitiveness: the economic governance at the provincial level. The reason for the focus on economic governance is that it concerns various aspects that are under direct control of provincial governments, and therefore can be changed or improved upon by those governments, thereby promoting private business development. Other important dimensions of competitiveness, such as resource endowments, infrastructure, market access, labor costs etc. are not taken into consideration in the PCI.

For more than 10 years, the PCI has ranked the provinces of Viet Nam according to their performance, putting them into six groups, from excellent to very low. One important aspect of the PCI is that it provides specific recommendations on what provincial governments can do to improve their ranking. The PCI, therefore, not only engenders competition between provinces but provides an important analytical tool to analyse the business environment created by provincial governments.

The PCI consists of 10 sub-indexes, and is based on a questionnaire that is sent out to about 10,000 enterprises every year, with a response rate of about 30% (when excluding wrong addresses and closed businesses, the response rate is closer to 60%). Information about the PCI can be found at <http://eng.pcivietnam.org/>. The 2017 Lao ProFIT is the first time that the PCI methodology has been implemented in Lao PDR. The methodology has been adjusted to suit the special and specific circumstances in Lao PDR.

### 1.1 Purpose of the ProFIT Index: RAD

The ProFIT Index has three primary purposes: **Rank**, **Analyse**, and **Develop**.

**Rank:** The ProFIT Index **ranks** the provinces according to their performance in promoting private enterprise.

**Analyse:** The ProFIT Index is a tool enabling stakeholders to **analyse** individual indicators to better understand the strengths and weaknesses of each province in terms of promoting private business development and to understand where improvements need to be made.

**Develop:** Based on the ranking and the analysis, provincial leaders can implement policies and actions that improve their score and ranking, and ultimately **develop** their local economies.

The ranking of provinces, within their respective categories, is useful as it shows how well (or not) provincial governments are doing compared to others. But it is the analytical tools that the ProFIT Index provides that make it valuable to policy analysts and decision makers. By analysing the reasons behind a score, it is possible to understand where provincial governments need improve, and thereby make progress in promoting private enterprise. Note that ranking and progress are relative. If one province makes progress, and another province makes more progress, than the second province will progress further in the rankings.

## II. The Experience of Other Countries

The Asia Foundation has conducted a series of Economic Governance Indices (EGIs) in countries throughout South and Southeast Asia including Bangladesh, Sri Lanka, Vietnam, Cambodia, and Indonesia. EGIs are country-specific diagnostic tools used to assess and rank sub-national units (provinces, states, districts, etc.) on various aspects of their regulatory environments. The EGI methodology has also been applied in other countries is East Asia, Europe and Latin America. The basic rationale for the EGI methodology is the idea that economic governance impacts private sector development, independent of structural endowments, such as location, infrastructure and human capital.

Malesky et. al.<sup>1</sup> have published research that demonstrates that the EGI effectively captures the key elements of the local business environment while providing voice and leverage to entrepreneurs who may have been ignored previously. It was also found that the EGI provides strong incentives to local officials to reform and improve.

Viet Nam is one of the most successful examples in applying the EGI methodology through its Provincial Competitive Index (PCI), starting in 2005. The PCI consists of 10 sub-indices: entry costs, access to land, transparency and access to information, time costs of regulatory compliance, informal charges, implementation and consistency of policies, state sector bias, proactivity of provincial leadership, business support services, labour and training, and legal institutions.

As a result of consistently applying the PCI methodology every year, Viet Nam has experienced a number of results, including: (1) the business environment has been strengthened, provincial governments have become more transparent and competitiveness has improved; (2) provincial trade and investment facilitation has been strengthened; (3) provincial governors have been encouraged to learn from other provincial governors; (4)

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<sup>1</sup> Malesky, E., & Merchant-Vega, N. (2011). A Peek under the Engine Hood: The Methodology of Subnational Economic Governance Indices. *Hague Journal on the Rule of Law*, 3(2), 186-219.



provincial governors whose provinces show good improvement have been promoted; and (5) inconsistencies between central and provincial laws and regulations have been resolved.

Another example is Kosovo (Europe) which has successfully used a Municipal Competitiveness Index (MCI) to assess economic governance since 2011. The MCI, consists of seven sub-indices: entry costs, informal charges, transparency on business operation, time to comply with business registration, tax rates, and infrastructure and business services. The MCI has been applied to 38 municipalities and has led to a strengthened local business environment.

Various other countries have used the EGI methodology to measure economic governance, including Cambodia (since 2006), Croatia and Indonesia (2007), El Salvador (2009), and Mongolia and the Philippines (2013). In all cases, conducting regular surveys, publishing the results and using those results in policy dialogue and as a competitive tool, have resulted in improvements in the business environment. In Cambodia, for example, the time needed for business registration has been reduced to 30 days, down from 58 days and occurrence of negotiations between companies and tax authorities has been reduced. In Indonesia, the EGI methodology has been applied to estimate the quality of government services, leading to reforms which introduced the single window business registration and a reduction in informal charges.

### **III. Methodology**

The 2017 ProFIT survey was conducted by LNCCI in the period May until August 2017. The sampling was based on the register of LNCCI membership. The target sampling was 1% of registered businesses, with a minimum of 50 per province.<sup>2</sup> Some provinces needed to be visited a second time to achieve the required minimum of 50. In each province, business leaders were invited to the local LNCCI office to discuss the challenges and opportunities they faced, and asked to complete the ProFIT questionnaire.

Table 3.1 shows the number of invitations sent out to firms, the number of responses received, the response rate, the provincial sample as percentage of the total sample and the provincial sample as percentage of registered firms. The firms that were interviewed represent 1% of the total number of registered<sup>3</sup> firms in the country, with provincial variations of between 0.6% (Luang Prabang) and 3.9% (Sekong).

A province is considered doing well, if 1) starting a business is easy, 2) there is transparency and access to information, 3) the regulatory burden is low, 4) formal and informal charges are low, 5) there is a consistency and lack of bias in implementing laws, and 6) the provincial government has a friendly attitude towards businesses. Accordingly, the ProFIT Index consists of six sub-indices, with each sub-index having several indicators, for a total of 22 indicators (see Table 3.2 below).

The sub-indices and the indicators are those that were deemed the most relevant for this purpose. The questionnaire consisted of an introductory section followed by questions

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<sup>2</sup> The newly established Xaysomboun province was not included in the survey.

<sup>3</sup> Registered with the Ministry of Industry and Commerce

relating to each of the six sub-indices. The introductory questions asked about to general information on the business, including type, size, history etc. The indicators for each sub-index were chosen as being the most relevant for the Lao PDR circumstances and the easiest for respondents to understand.

Table 3.1: Sample Sizes and Response Rates

No	Province	Number of Invitations Sent	Number of Responses Received	Response rate (%)	% of National Total	% of Total Number of Enterprises
1	Phongsaly	90	50	55.6	3.9	3.3
2	Luang Namtha	90	50	55.6	3.9	2.2
3	Bokeo	90	50	55.6	3.9	1.2
4	Oudomxay	90	50	55.6	3.9	1.1
5	Luang Prabang	120	75	62.5	5.9	0.6
6	Houaphanh	90	64	71.1	5.0	1.3
7	Sayaboury	100	57	57.0	4.5	0.8
8	Xieng Khouang	100	68	68.0	5.3	0.9
9	Vientiane Capital	400	314	78.5	24.5	0.8
10	Vientiane	120	78	65.0	6.1	0.7
11	Bolikhamsay	90	61	67.8	4.8	1.3
12	Khammouane	90	55	61.1	4.3	1.1
13	Savannakhet	120	80	66.7	6.3	1.0
14	Saravan	90	50	55.6	3.9	1.0
15	Sekong	90	55	61.1	4.3	3.9
16	Champassak	120	74	61.7	5.8	0.7
17	Attapeu	90	50	55.6	3.9	2.7
<b>Total</b>		<b>1980</b>	<b>1281</b>	<b>64.7</b>	<b>100</b>	<b>1.0</b>

Table 3.2: ProFIT List of Sub-indices and Indicators

Sub-Index	% <sup>1</sup>	Indicator	% <sup>2</sup>
1. Starting a Business	16.67	Business registration time	25
		Business registration cost	25
		Operating licensing time	25
		Operating licensing cost	25
2. Transparency and Access to Information	16.67	Access to provincial documents	60
		Provincial websites <sup>3</sup>	20
		Opportunity to comment on draft regulations	20
3. Regulatory Burden	16.67	Inspections by authorities	20
		Tax registration certificate renewal time	20
		Tax registration certificate renewal cost	20
		Operating license renewal time	20
		Operating license renewal cost	20
4. Informal Charges	16.67	Informal charges as share of revenue	50
		Payment of informal charges	10
		Acceptability of informal charges	10
		Commonality of tax negotiations	10
		Necessity of informal charges	10
		Public disclosure of formal charges	10
5. Consistency of Implementation	16.67	Advantages of connections	20
		Preference for FDI	20
		Consistency of regulations with centre	20
		Internal coordination to support business	20
		Province has additional regulations	20
6. Business Friendliness	16.67	Attitude of provincial government	33.3
		Provincial government is helpful	33.3
		Apply new solutions to solve problems	33.3

<sup>1</sup> Weight as percentage of overall ProFIT Index

<sup>2</sup> Weight as percentage of each sub-index.

<sup>3</sup> Access to and quality of websites is the only indicator that is based on “hard” or objective information and does not feature in the questionnaire.

**1. Ease of Starting a Business.** The time and costs involved in starting a business are an important indicator of how easy or difficult it is to do business. The longer the start-up times and the higher the costs involved, the fewer people will be inclined to start a business. In turn, this means that the business sector is less dynamic, with fewer entrants, negatively affecting innovation, job creation and economic growth. The ease of starting a business is therefore an important indicator of the overall business and private sector climate.

The ease of starting a business has been measured through four types of indicators: two concerned with the time it takes for business entry including waiting periods to obtain

business registration and operating licenses<sup>4</sup> and two with the costs involved in completing those procedures. The four types of indicators have each been given equal weight in the scoring.

**2. *Transparency and Access to Information.*** Transparency and ease of access to official information relate to creating a level playing field for all entrepreneurs, making rules, regulations and costs transparent and predictable, and discouraging rent-seeking behaviour. This sub-index has three indicators: access to eight types of important provincial documents, the existence and quality of a website and access to provincial policies and regulations. Access to provincial documents was given a maximum score if access was to six documents and therefore has a weight of 60% (10% for each document) with 20% each of the two remaining types of indicators.

The ProFIT survey asked respondents whether they had access to certain important provincial documents, including the provincial budget, the provincial socio-economic development plan, provincial regulations, instructions and agreements, the provincial investment budget for Infrastructure development, the provincial land use strategic plan, the provincial investment promotion policy, procedures and forms required for the coordination with the Government, and public procurement opportunities. The scoring was done on firms who had managed to obtain at least one of these documents and therefore had a fuller understanding of what was required for access.<sup>5</sup>

The existence and quality of a website were assessed based independent research and were not part of the survey. First, the existence of a provincial website was confirmed (or not). Second, an assessment was made whether the website was up to date, whether it contained useful provincial information (including the documents cited in the previous paragraph) and how many times the website had been accessed in the previous month. This was then combined into a single website score, based on the 100-point scale. From the perspective of the private sector, timely access to rules, regulations, plans, budgets and requisite forms on a web site is important as this reduces transaction costs and rent-seeking opportunities while increasing the ability of the private sector to be responsive and take timely action.

**3. *Regulatory Burden.*** The regulatory burden concerns all the rules and regulations (commonly named “red tape”) that businesses face in conducting their normal commercial activities. Increased levels of regulatory burden impose higher compliance costs in terms of management time that needs to be devoted and higher administrative costs, leading to reduced productivity and profitability. Often, the regulatory burden imposed on the private sector, also creates opportunities for rent-seeking behaviour by officials, leading to additional costs.

The regulatory burden at the provincial level has been measured using five indicators: the number of times that businesses get inspected by provincial government authorities, the time and cost involved in renewing the tax registration certificate (an annual requirement) and the time and cost involved in renewing the operating licence. For the costs involved in the

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<sup>4</sup> Business registration includes the enterprise registration certificate, the tax registration certificate and the company’s seal certificate.

<sup>5</sup> For the companies that did not obtain any document, it was not clear whether they tried to obtain any documents or not. For this reason, this group of firm was ignored in the analysis.

renewal of the tax registration certificate, an earlier ADB-DOSMEP-LNNCI study<sup>6</sup> demonstrates this is a costly annual exercise. The costs of renewal of the tax registration certificate and the operating license include both formal and informal charges. Further study is needed to differentiate between these two types of payment.

**4. *Informal Charges.*** Informal charges are defined as charges levied by government officials that are not part of the formal fees that governments officially charge. By its very nature this is a sensitive area, yet everyone involved in business in Lao PDR is aware that those charges are levied as part of day-to-day business practices. The negative impact of corruption has been well-documented. The International Monetary Fund (IMF), for example, demonstrates that pervasive corruption makes it difficult for governments to promote inclusive economic growth.<sup>7</sup> The OECD, through its *CleanGovBiz* initiative,<sup>8</sup> points out that corruption increases the cost of doing business, leads to waste or inefficient use of public resources, excludes the poor from public services and corrodes public trust.

The sub-index of informal charges uses six indicators: one to measure how much firms pay in informal charges (50%) and five others that measures how common and acceptable informal charges are (five indicators with equal weights of 10% each). For those who responded paying 0% in informal charges, no distinction was made between paying no charges at all and denying that any informal charges were being paid. This would need further research. In analysing the responses for the last five indicators, it was decided that if the question was left blank, the answer was counted as affirmative. The reason behind this decision was that the five questions all asked whether the respondent was aware that informal payments were being and were common. Leaving the question unanswered was taken as an indication that the respondent was reluctant to admit any knowledge of such practices.

One of the five questions referred to in the previous paragraph asked whether tax negotiations are common. This refers to the practice in Lao PDR of tax officials entering negotiations on the amounts of tax payable, rather than basing these transparently on recorded information on turnover, costs etc., following a prescribed method. In some cases, tax negotiations are deemed necessary in the absence of a book keeping system in some firms. In other cases, negotiations necessitated by pressures on tax collectors to reach certain targets, while for others these are a rent seeking opportunity. In general, tax negotiations are an indicator that informal charges are being pursued and therefore not good for business.

**5. *Consistency of Legal Implementation.*** Many of the laws, rules and regulations governing the business sector are issued by the national government and apply country-wide. In some instances, provincial governments have some leeway to issue their own regulations, while in other cases, provincial government may have their own interpretation of the law, or may simply add their own rules and charges. This, in turn, can lead to an increased regulatory burden, uncertainty and opportunities for rent-seeking behaviour.

This sub-index looks at how respondents perceive the consistency of provincial governments' implementation of national law and regulations relevant to the business sector. There are five

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<sup>6</sup> ADB 2009. Lao PDR. *Options for a Regulatory Review Program and an Office of Best Regulatory Practice*. Manila. This study reports on a 2008 red tape study, which concluded that renewal of the tax registration certificate costs the business sector Kip 48 billion, or \$6 million annually. Annual renewal of the three most common licenses, for registration, tax and operations, cost the business sector 0.7% of GDP, in 2008.

<sup>7</sup> IMF. 2016. *Corruption: Costs and Mitigating Strategies*. IMF Staff Discussion Note. Washington.

<sup>8</sup> OECD. 2014. *CleanGovBiz Initiative*. [www.cleangovbiz.org](http://www.cleangovbiz.org).

indicators with equal weights: the advantages of having connections when bidding for public procurement, whether the provincial government gives preference to foreign direct investment over domestic investment, whether provincial policies are consistent with central government policies, to what extent provincial governments, to what extent different departments within a provincial government work well together to support businesses, and whether a province has additional rules and regulations that affect businesses.

**6. *Business Friendliness.*** Provincial governments play an important role in promoting or hindering private sector development. In addition to the first five sub-indices, business friendliness looks at the perceived attitude of the government towards the private sector. A negative or unhelpful attitude can seriously undermine private sector development and therefore stifle economic growth and job creation.

The index of business friendliness of provincial governments has three indicators: the attitude of provincial government officials towards businesses, whether the provincial government is helpful or not, and whether the provincial government is innovative and applies new solutions to problems. These indicators are equally weighted.

### ***Grouping of Provinces for Analytical Purposes***

The analysis of the data was initially done for all 17 provinces as a group. The results, however, were very difficult to interpret did not appear to make much sense. Specifically, some of the provinces with high ProFIT scores did not score well at all in some sub-indices, leading questions of the reasons for the overall rankings. This dilemma was solved by grouping the provinces into three groups according to their population size. The rationale for this grouping by population size is that the challenges and opportunities for businesses in Lao PDR are quite different in larger, more populous provinces as compared to the smaller provinces. For example, in a larger province, businesses may have to deal with a bureaucracy that is overburdened with many business applications, while in a small province the local officials may have more time but could be less familiar with the regulations.

The method of grouping was to create three, somewhat arbitrary, groups: 100,000-200,000 people, 200,000 to 400,000 people and over 400,000, with a distribution of five larger, seven medium and five smaller province groups. This categorisation results in a consistent picture, reflecting some of the realities on the ground. Of course, other categorisations could have been used and this is for future analysis of the data. It is important to note here that whatever the categories used, the conclusions regarding individual provinces and policy recommendations are not affected.

Table 3.3: Grouping of Lao PDR Provinces According to Population

<b>Larger Provinces</b>	<b>Population &gt; 400,000</b>
Savannakhet	969,697
Vientiane Capital	820,940
Champasack	694,023
Luangprabang	431,889
Vientiane Province	419,090
<b>Medium Provinces</b>	<b>Population 200,000-400,000</b>
Saravan	396,697
Khammouane	392,052
Sayaboury	381,376
Oudomxay	307,622
Houaphanh	289,393
Bolikhamsay	273,691
Xien Khouang	244,684
<b>Smaller Provinces</b>	<b>Population &lt; 200,000</b>
Bokeo	179,243
Phongsaly	177,989
Luang Namtha	175,753
Attapeu	139,628
Sekong	113,048

Source: Population and Housing Census 2014

## IV. Enterprise Characteristics

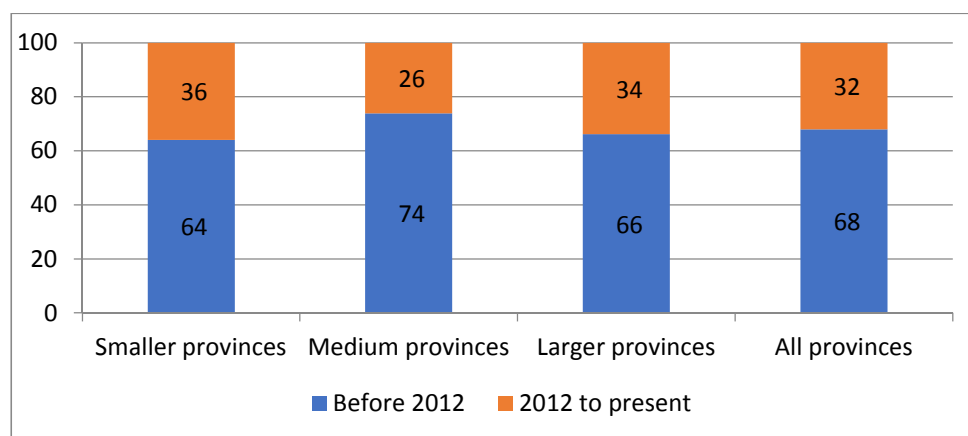
The 2017 ProFIT survey was conducted among LNCCI members. The LNCCI did not have access to the Ministry of Finance’s tax records, while the Ministry of Commerce and Industry’s business registration records are being updated. The use of LNCCI membership as the basis for the survey could mean the introduction of certain biases. It could especially be expected that enterprises which were started in recent years would be under-represented. In this chapter, we analyse several enterprise characteristics among the respondents of the survey, and compare these with the enterprise characteristics of the MPI/GIZ enterprise survey of 2013<sup>9</sup>.

The MPI/GIZ survey was the latest in a series of surveys conducted in 2005, 2007, 2009, 2011 and 2013. The MPI/GIZ survey was a sample survey<sup>10</sup> based on official tax registration records. It is therefore useful to compare enterprise characteristics between that survey and the LNCCI survey to detect similarities and differences.

### *Enterprise Age*

In the MPI/GIZ survey, 33% of enterprises were established in the previous five years. This is consistent with the outcomes of the ProFIT survey, which have been broken down by province size in the figure below. On average, 33% of enterprises have been established in the last five years, with a larger percentage in the smaller provinces and a smaller share in the medium provinces.

Figure 4.1: Year of Enterprise Establishment, by Category of Province



The conclusion is that there was little bias in the LNCCI survey when compared to the MPI/GIZ sample survey which was based on official tax records.

### *Enterprise Size*

Enterprise size is measured by the number of employees. Comparison with the MPI/GIZ survey is not perfect, as the definition of enterprise size was changed in early 2017. The following table shows the differences.

<sup>9</sup> GIZ (2014) HRDME Enterprise Survey 2013 for Lao PDR, Vientiane, July 2014

<sup>10</sup> The sample size was 722 enterprises in five provinces and 15 districts.

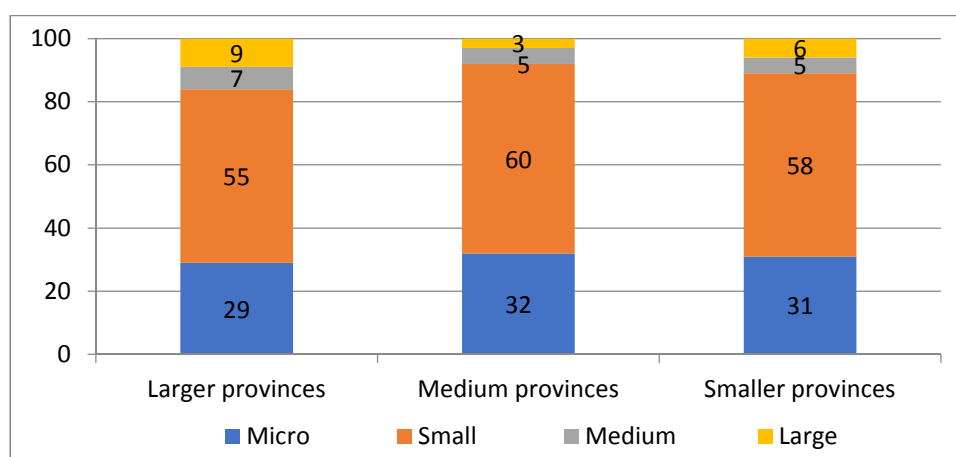


Table 4.1: Size of Enterprise Definition

Category	Number of Employees	
	2011 Definition	2017 Definition
Micro	1-2	1-5
Small	3-9	6-50
Medium	20-99	51-99
Large	>99	>99

In the MPI/GIZ survey, 5% of enterprises were in the large category, 15% were in the medium-sized category, while 80% were in the micro and small categories combined (i.e. enterprises smaller than 20 employees). In the ProFIT survey, the percentage for large companies was 9 for the larger provinces, 3 for the medium provinces and 6 for the smaller provinces respectively. Large companies are therefore marginally over represented in the ProFIT survey. In the combined category of micro and small (i.e. smaller than 50 employees) the ProFIT survey shows 84%, 92%, and 88% respectively. In the Table below, the size representation by province from the LNCCI survey is shown.

Figure 4.2: Enterprise Size Distribution by Province Category



The higher percentages in the LNCCI survey are not surprising given the redefinition of micro and small enterprises to encompass more companies, but the results are reasonably close and therefore credible as representative sample of the business sector.

### ***Enterprises by Sector***

The ProFIT survey asked respondents to put their company into one of four categories: Production, Services, Commerce and Construction. This is relevant for future analysis, as each sector must go through slightly different approval processes, which can involve technical approvals by line ministries and construction permits. In this report, approval processes have not been analysed by sector category. This can be the subject for further detailed analysis. Unfortunately, comparison of the results with the MPI/GIZ survey is not

possible, as a different categorization was used<sup>11</sup>. The following three charts show the types of enterprise for each of the provincial categories.

Figure 4.3: Type of Enterprise in Larger Provinces (%)

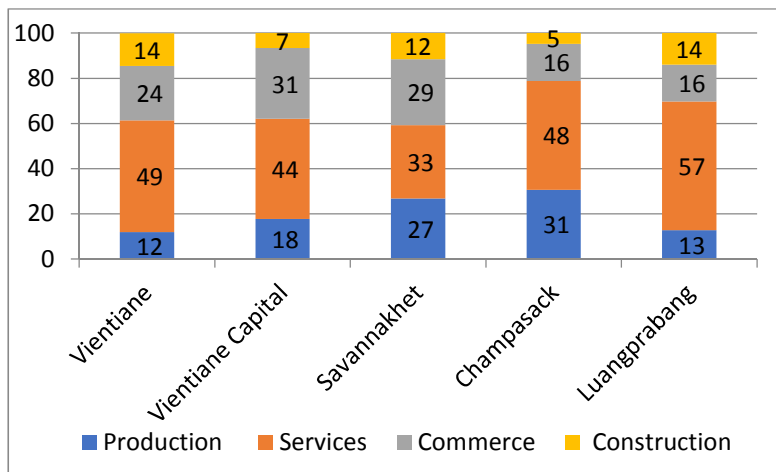
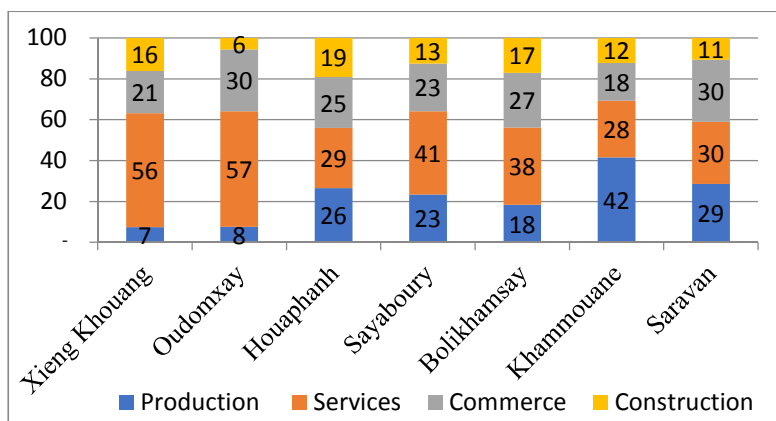
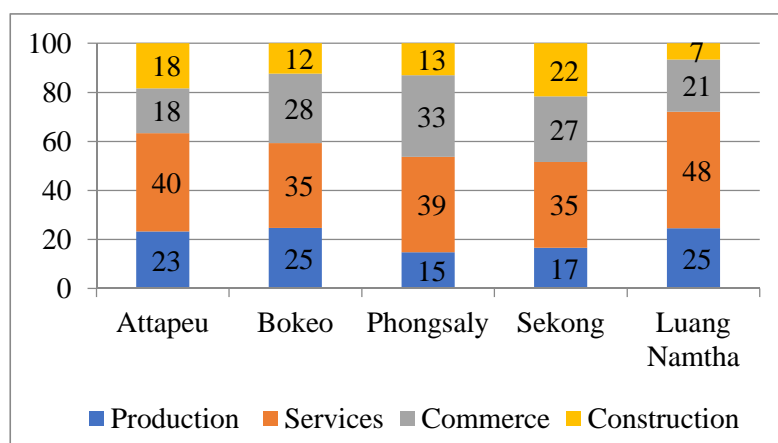


Figure 4.4: Type of Enterprise in Medium Provinces (%)



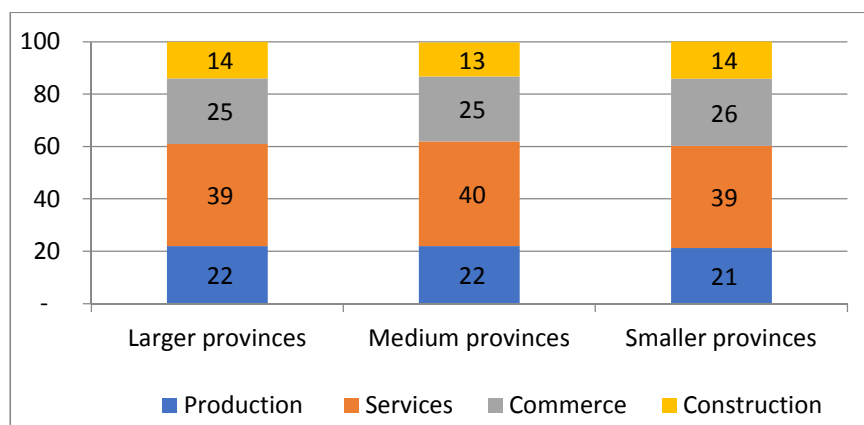
<sup>11</sup> The MPI/GIZ Survey used the International Standard Industrial Classification of All Economic Activities (ISIC), issued by the United Nations, grouped into 19 categories.

Figure 4.5: Type of Enterprise in Smaller Provinces (%)



The three charts show that there is an important variation in types of enterprises between provinces. This appears to be mainly due to issues of factor endowments and other economic opportunities. For example, the higher percentages in the services sector in Vientiane Capital, Luangprabang, Champasack and Luang Namtha may in part be explained by their prominence in the tourism sector.

Figure 4.6: Types of Enterprises by Provincial Category



When these results are summarized by provincial category, the difference are minimal, indicating that the results of the LLNCI survey can be analysed by provincial category, without introducing an undue bias with respect to the sectoral distribution of enterprises.

### Conclusion

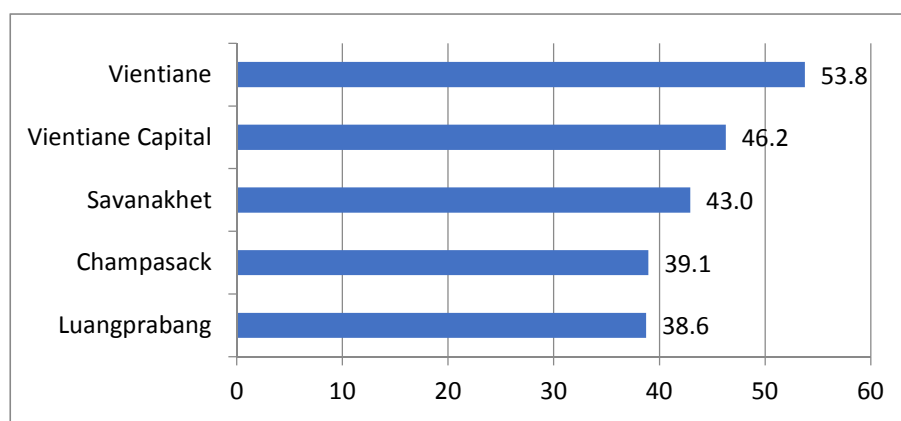
The 2017 LNCCI survey is based on its membership database. Comparison of the structure of enterprise age and enterprise size with those of the MPI/GIZ survey (which was based on official tax records) shows that the LNCCI survey is consistent with previous estimates of business size. Further analysis of enterprise characteristics with respect to sector classification shows that there is little variance between provincial categories. Overall, therefore, the present LNCCI survey can be considered representative of the underlying population of private businesses.

## V. The 2017 ProFIT Index: Larger Provinces

### 5.1 Overall ProFIT Index

The overall ProFIT Index, summarizing the scores for the six sub-indices, is shown in Figure 5.1 below. The highest score (Vientiane Province, 53.8 out of 100) is still low, indicating substantial opportunity for improvement. The second-best score, Vientiane Capital, is eight points lower, while Champasack and Luangprabang are at the bottom, around 15 points behind Vientiane Province.

Figure 5.1: The ProFIT Index for Larger Provinces (100-point scale)



When the results are broken down by the six sub-categories, variations can be observed between provinces and sub-indices. Table 5.1 on the next page provides the details of all sub-index and indicator scores for the larger provinces. Vientiane Province stands out for a relatively high score for the sub-index Regulatory Burden. Especially the time it takes to renew the operating license and the costs involved stand out positively. The province also scores high with being transparent, the consistency of implementing national policies and regulations, and for being business friendly. While Vientiane Province has the highest score among the larger provinces, the overall score of 53.8 out of 100 indicates clearly that there is ample room for improvement in all aspects of private sector development.

Vientiane Capital lags Vientiane Province in all sub-indices, except for starting a business, where the score is the same. When further comparing these two, some important differences stand out and are an indication where policy changes can make an immediate difference. It is much harder in Vientiane Capital to obtain documents, there is a much stronger preference for FDI and the government is being less helpful.

When comparing Savannakhet with Vientiane Province, several important differences stand out, all pointing to necessary and sometimes not difficult policy changes. Notably, Savannakhet scores low under Transparency and Access to Information. Documents are difficult to obtain for the private sector and the province does not operate a website. Time and costs involved in renewing the tax registration certificate are much higher, while there is a preference for FDI over domestic firms.

Luangprabang and Champasack are at the bottom of the list, scoring lower than the other three provinces for all sub-indices except for Champasack for business-friendliness, where it scores better. Neither of these two provinces operate a website and have notably low scores

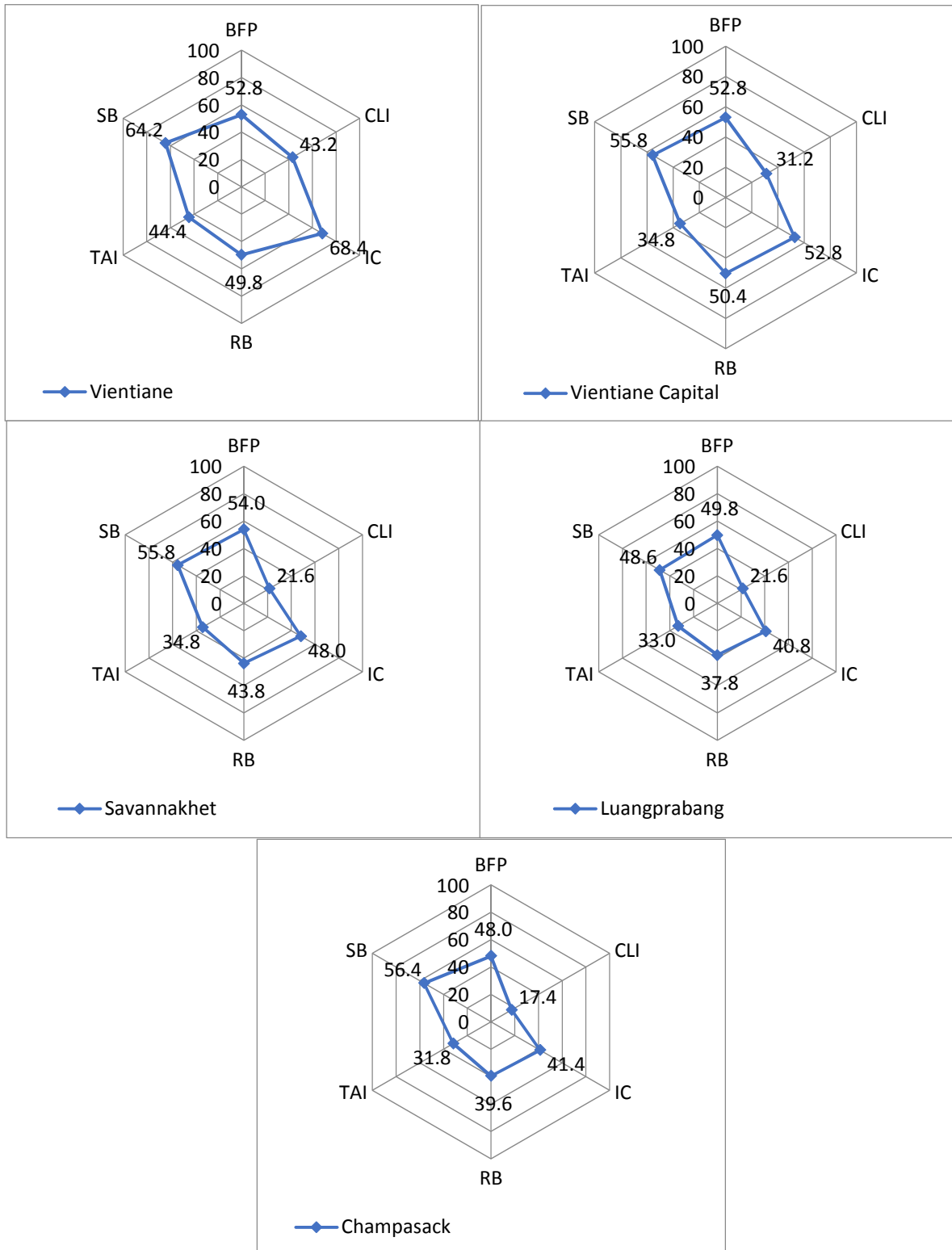
for tax registration certificate renewal time and cost. Luangprabang has high costs for renewal of operating licenses and tax registration certificates and is the least friendly towards and supportive of the private sector.

Table 5.1: Detailed ProFIT Score for Larger Provinces

Sub-ProFIT Indices / Provinces	Vientiane	Vientiane Capital	Savannakhet	Champasack	Luangprabang
<b>Profit Score</b>	<b>53.8</b>	<b>46.2</b>	<b>43.0</b>	<b>39.1</b>	<b>38.6</b>
<b>1. Starting a Business</b>	<b>52.8</b>	<b>52.8</b>	<b>54.0</b>	<b>48.0</b>	<b>49.8</b>
Business registration time	13.8	12.6	14.4	12.6	12.6
Business registration cost	13.2	13.2	10.8	9.0	9.6
Operating licensing time	12.0	12.6	15.6	14.4	15.0
Operating licensing cost	13.8	14.4	13.2	12.0	12.6
<b>2. Transparency and Access to Information</b>	<b>43.2</b>	<b>31.2</b>	<b>21.6</b>	<b>17.4</b>	<b>21.6</b>
Access to provincial documents	25.8	15.0	16.2	13.2	18.0
Opportunity to comment on draft regulations	5.4	4.2	5.4	4.2	3.6
Provincial websites	12.6	12.0	-	-	-
<b>3. Regulatory Burden</b>	<b>68.4</b>	<b>52.8</b>	<b>48.0</b>	<b>41.4</b>	<b>40.8</b>
Inspections by authorities	15.6	15.6	16.2	12.6	16.2
Tax registration certificate renewal time	15.6	9.6	9.6	7.8	8.4
Tax registration certificate renewal cost	10.2	8.4	5.4	5.4	4.8
Operating license renewal time	15.0	9.6	11.4	9.0	7.2
Operating license renewal cost	11.4	9.6	5.4	7.2	4.8
<b>4. Informal Charges</b>	<b>49.8</b>	<b>50.4</b>	<b>43.8</b>	<b>39.6</b>	<b>37.8</b>
Informal charges as share of revenue	4.8	5.4	3.0	4.2	3.0
Payment of informal charges	28.8	29.4	25.8	22.2	18.6
Acceptability of informal charges	5.4	6.0	3.6	3.0	4.8
Commonality of tax negotiations	6.0	5.4	5.4	5.4	7.2
Necessity of informal charges	3.0	2.4	2.4	1.8	1.8
Public disclosure of formal charges	1.8	1.8	3.0	2.4	3.0
<b>5. Consistency of Implementation</b>	<b>44.4</b>	<b>34.2</b>	<b>34.8</b>	<b>31.8</b>	<b>33.0</b>
Advantages of connections	11.4	5.4	5.4	4.8	7.2
Preference for FDI	12.6	7.8	9.0	7.2	8.4
Consistency of regulations with centre	7.8	4.8	6.6	5.4	6.0
Internal coordination to support business	6.0	10.2	9.0	7.8	6.6
Province has additional regulations	6.0	6.0	5.4	6.0	4.8
<b>6. Business Friendliness</b>	<b>64.2</b>	<b>55.8</b>	<b>55.8</b>	<b>56.4</b>	<b>48.6</b>
Attitude of provincial government	16.8	16.2	15.6	16.2	13.8
Provincial government is helpful	19.8	16.2	18.6	16.2	15.0
Apply new solutions to solve problems	27.6	23.4	21.6	24.0	19.2

The diagrams in Figure 5.2 below show the significant differences in sub-index scores between provinces and the large gap between the score and the theoretical maximum (outer ring).

Figure 5.2: Summarized ProFIT Index for Larger Provinces by Sub-Index



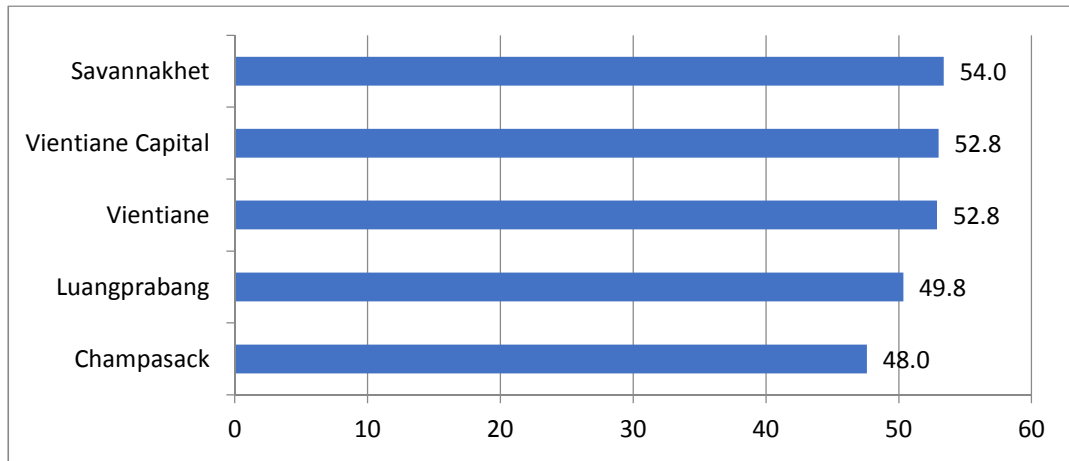
SB=Starting a Business; TAI=Transparency and Access to Information; RB=Regulatory Burden; IC=Informal Charges; CLI=Consistency of Legal Implementation; and BFP= Business Friendliness of Provincial Governments.

## 5.2 Discussion of the six sub-indices

### *Ease of Starting a Business*

The combined score of the four indicators is shown in Figure 5.3 below. As the highest score is 54 out of 100, starting a business is not easy in any of the provinces. Champasack and Luangprabang lag somewhat behind the other three provinces, mainly because of the higher costs involved.

Figure 5.3: Index of Ease of Starting a Business (100-point scale)

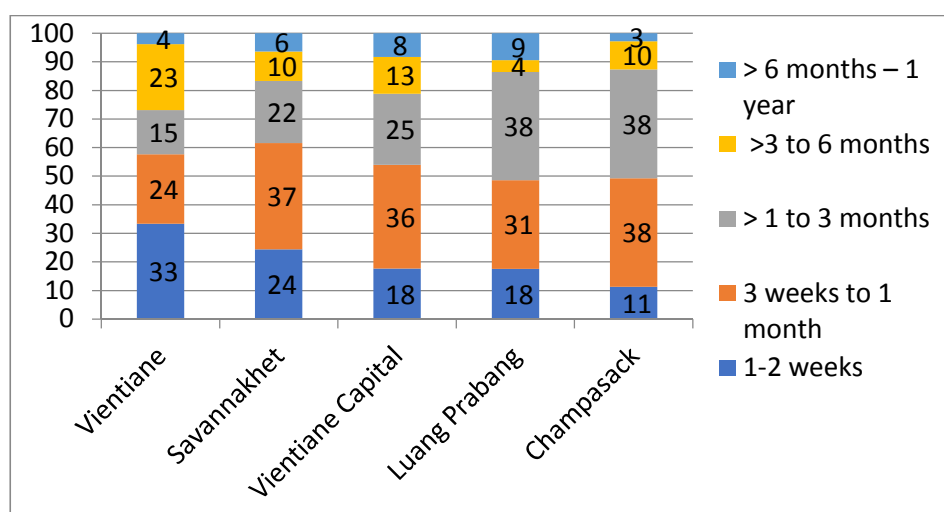


The time it takes for business registration is an important factor in the ease of doing business. Figure 5.4 below shows that between 40% and 50% of business registrations take longer than a month to complete, which is quite long<sup>12</sup>. An important difference between the larger provinces is the period of one to two weeks for completion of business registration. Here, Vientiane Province has a much better performance than the other provinces. When using the one month benchmark, Savannakhet scores higher than the rest.

It is noted that it takes more than 3 months (sometimes up to a year) for 27% of registrations in Vientiane Province, a much higher percentage than the other provinces. A more detailed analysis is needed to show why this is so.

<sup>12</sup> In the 2017 Doing Business Survey, business registration takes an average of 67 days, compared to 23 days for the whole of Asia and the Pacific region.

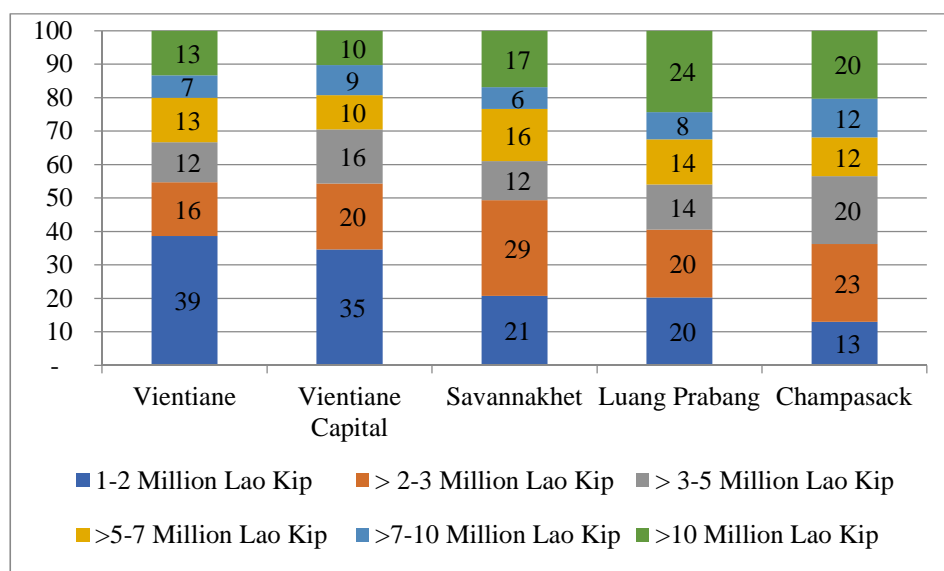
Figure 5.4: Indicator: Time Taken for Business Registration (100-point scale)



Note: This excludes obtaining a construction permit

Business registration costs<sup>13</sup> among the larger provinces show a remarkable variation, with Vientiane Province and Vientiane Capital being the least costly, with Champasack and Luangprabang as the costliest. Formal or official business registration charges are often not published (see 5.5 below) so it is not clear whether just the formal charges vary or whether the variation is due to informal charges. Further analysis is needed.

Figure 5.5: Indicator: Business Registration Costs (100-point scale)



Note: This excludes obtaining a construction permit

<sup>13</sup> Business registration costs include formal as well as informal charges.



### ***Transparency and Access to Information***

The overall transparency and access to information sub-index, consisting of three indicators, shows low scores for all provinces (maximum 43.2 out of 100), but with better scores for Vientiane Province and Vientiane Capital (Figure 5.6 below). Champasack scores low, a combination of the absence of a website and difficulty for enterprises to access important documents.

Figure 5.6: Transparency and Access to Information (100-point scale)

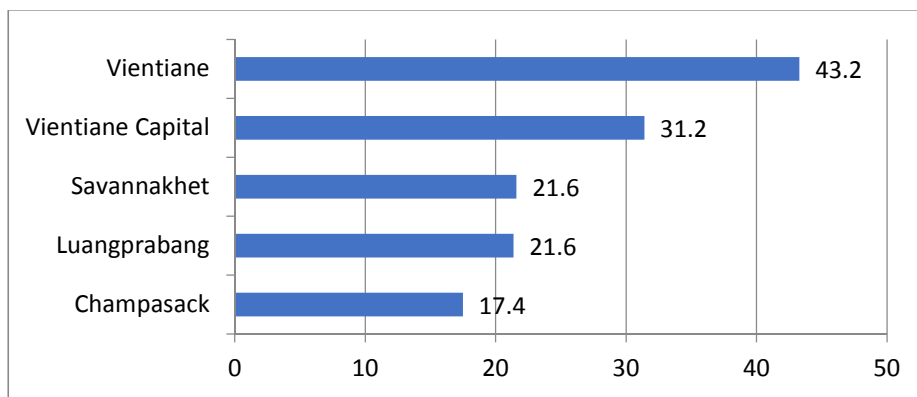
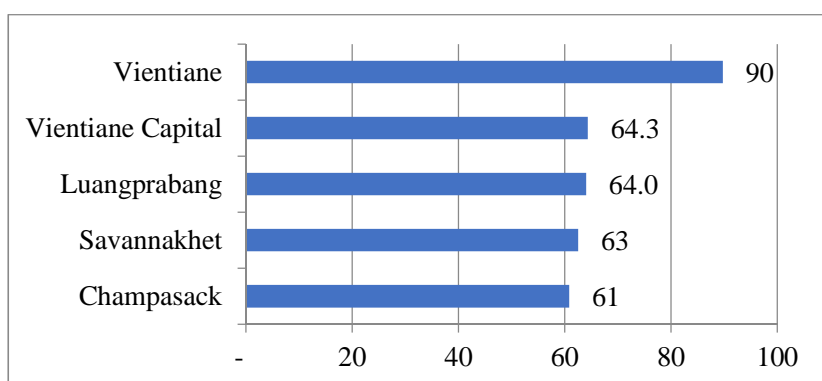


Figure 5.7 shows the access to important documents. A total of 90% of businesses in Vientiane Province had access to at least one document. The other four provinces had much lower access to at least one document. This shows that overall, information is hard to get.

Figure 5.7: Indicator: Percentage of Firms with Access to at least One Document



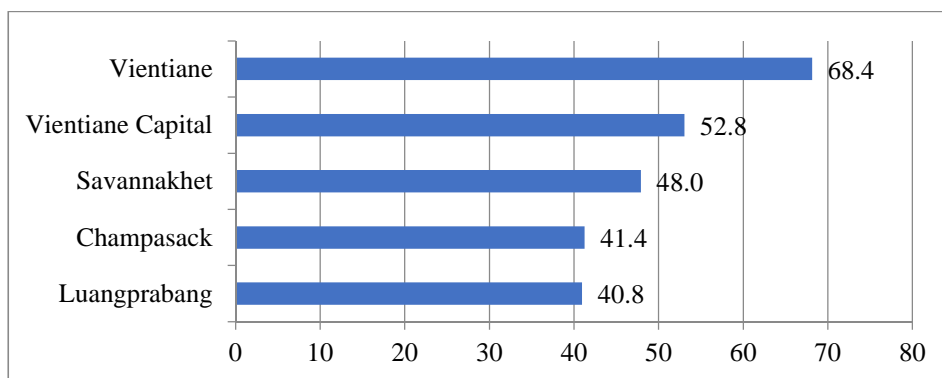
Only two provinces (Vientiane Province and Vientiane Capital) were found to have a website. The quality of those websites needs improving, both in terms of content and timeliness. They are currently not useful for the private sector. Timely access to rules, regulations, plans, budgets and requisite forms on a web site would be supportive of the private sector as it reduces transaction costs and rent-seeking opportunities while increasing the ability of the private sector to be responsive and take timely action.

### ***Regulatory Burden***

Figure 5.8 below shows the combined score of the five indicators for the regulatory burden. Vientiane province scores relatively well, as the number of inspections, on average, is relatively low, and the time taken and costs involved in renewing tax certificates are also relatively low. In contrast, businesses in Champasack are confronted with many more inspections by various authorities, while 40% of businesses must wait for more than one month for the renewal of the tax certificate. The cost of renewing the tax certificate is on average highest in Champasack and Luangprabang, with over 60% having to pay more than 2 million Kip. Because of large variations in Vientiane Province, 40% still pay more than 2 million Kip.

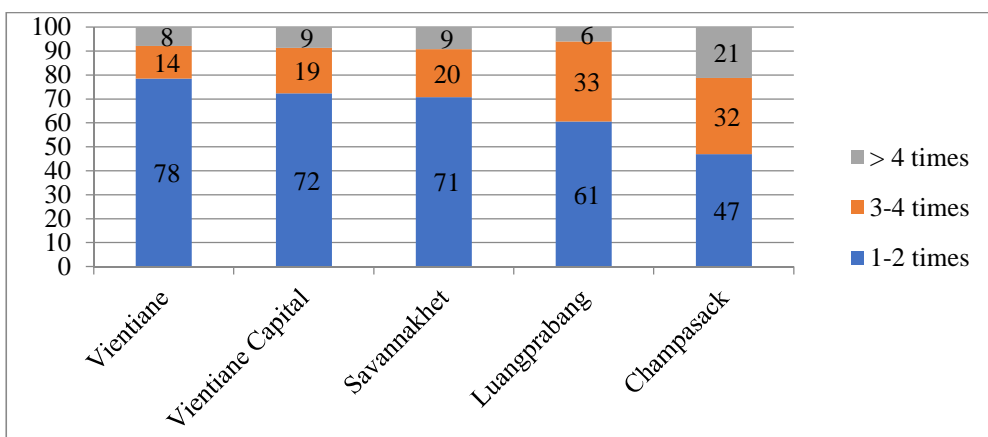
It is clear from these results that there is substantial room for improvement. Especially renewal of the tax registration certificate should be automatic and instantaneous and without much cost. Inspections should only be undertaken if there is justifiable cause.

Figure 5.8: Index of Regulatory Burden (100-point scale)



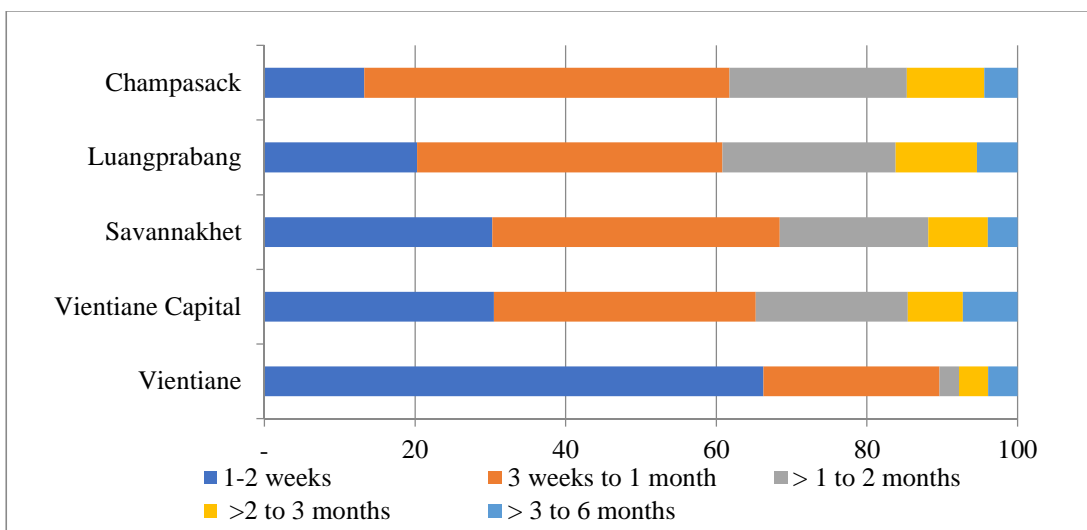
Champasack stands out as particularly burdensome by inspecting enterprises more than four times a year in 21% of the cases, and three times or more in 53% of the cases (Figure 5.9). This poses an excessive cost on companies, in time taken that is not available to manage the company and in opportunities for rent-seeking by inspecting officials.

Figure 5.9: Indicator: Number of Times Inspected by Provincial Government Authorities



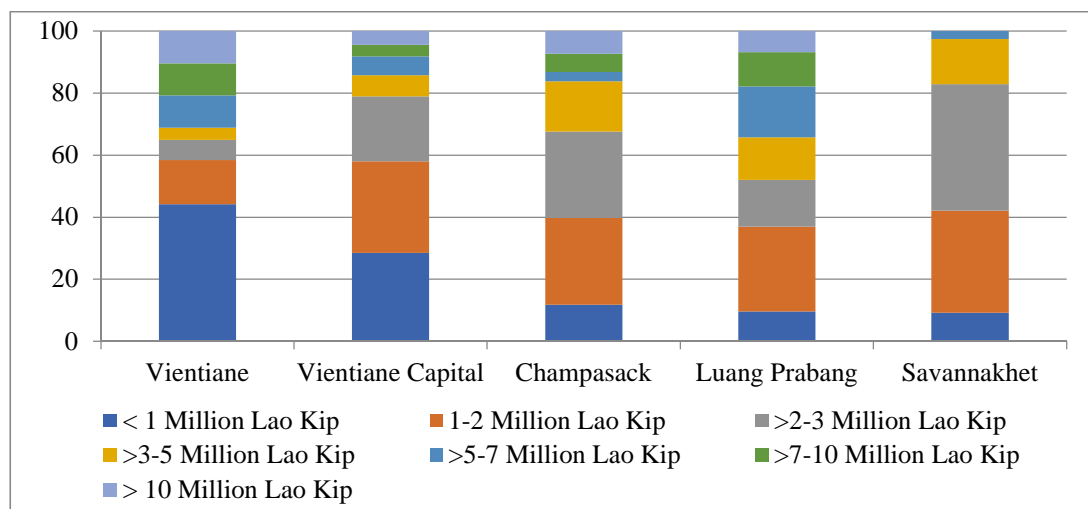
A special case is the necessity to renew the tax registration certificate annually. The survey shows that renewal is both slow and costly. Vientiane province stands out because it clears more than 60% of the applications within two weeks. In the other four provinces, between 70% and 90% of companies must wait three weeks or more for what should be a simple administrative procedure.

Figure 5.10: Indicator: Time Taken for Renewal of Tax Registration Certificate



The cost of renewal of the tax registration certificate can be significant. These costs include formal and informal charges. In Savannakhet, almost 60% of companies pay over 2 million Kip annually. In Vientiane Province, where over 40% of companies pay less than 1 million Kip, there is evidence of high variation in interactions with regulatory officials- a large share (20%) still pay over 7 million Kip. Further analysis is needed to differentiate between formal and informal costs, which would show to what extent variations in official costs do occur.

Figure 5.11: Indicator: Cost of Renewal of Tax Registration Certificate

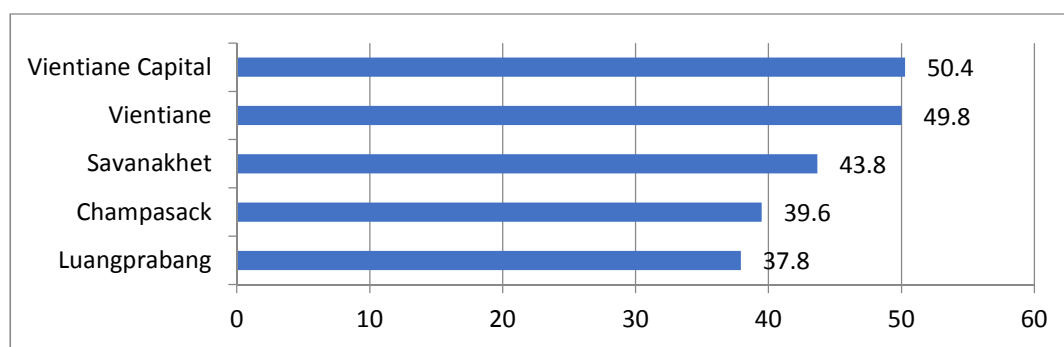


There is little variance between economic sectors for the time taken to renew tax registration certificates. It takes over one month in 30% to 40% of the cases.

### *Informal Charges*

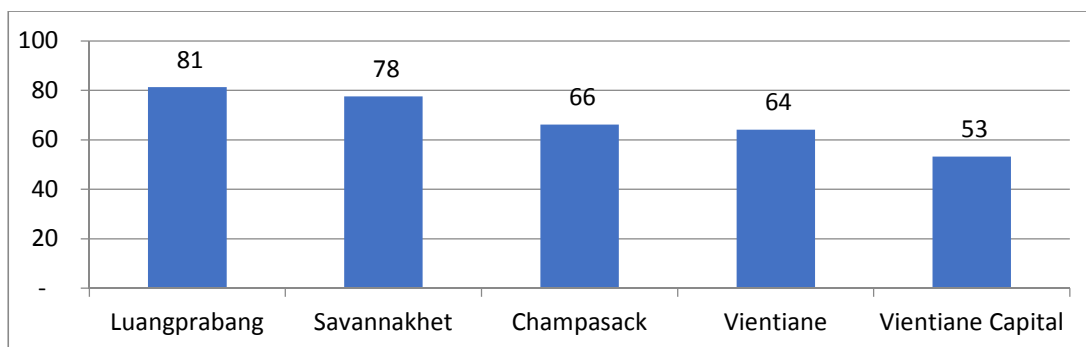
In Figure 5.12, the sub-index of informal charges shows a wide variation between provinces, but all score poorly, which means that the payment of informal charges is very common. Vientiane Province and Vientiane Capital score a bit better than Luangprabang and Champasack, which find themselves at the bottom.

Figure 5.12: Index of Informal Charges (100-point scale)



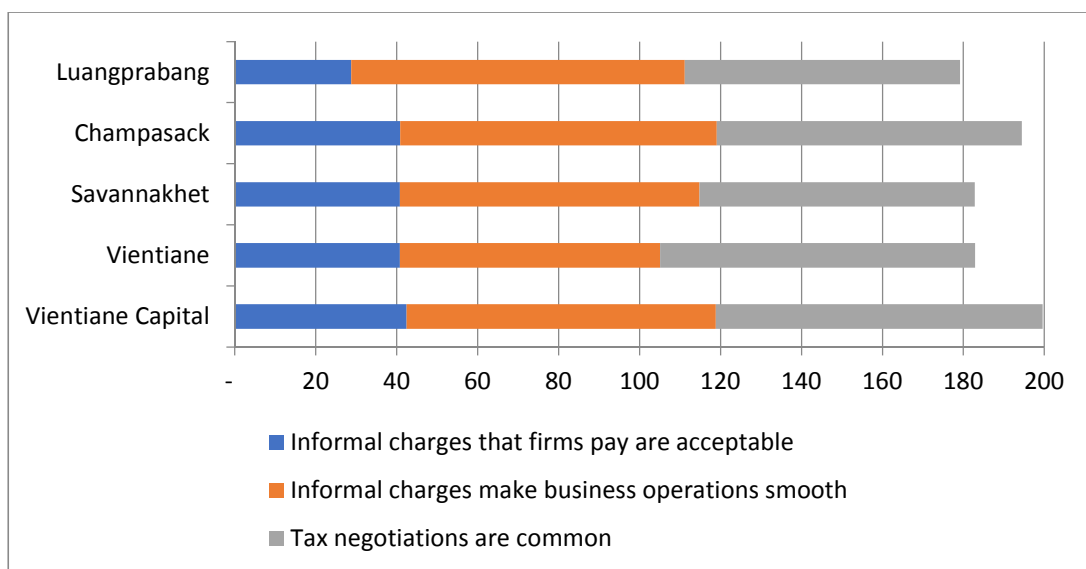
In terms of the percentage of businesses that pay informal charges, Luangprabang scores high at 81% (Figure 5.13).

Figure 5.13: Indicator Payment of Informal Charges  
 Percentage of Respondents who pay informal charges to expedite an application process



The chart in Figure 5.14 shows to what extent informal charges are common and acceptable. Luangprabang stands out because informal charges do not seem to be as accepted as in the other provinces. This reinforces the earlier result that in Luangprabang a high percentage of businesses pay informal charges, and this is clearly seen as unacceptable. This also confirmed by the statement “Informal charges make business operations smooth”, which was supported by 81% of respondents in Luangprabang, higher than in the other provinces. Finally, Vientiane Capital stands out because tax negotiations appear to be more common than in other provinces.

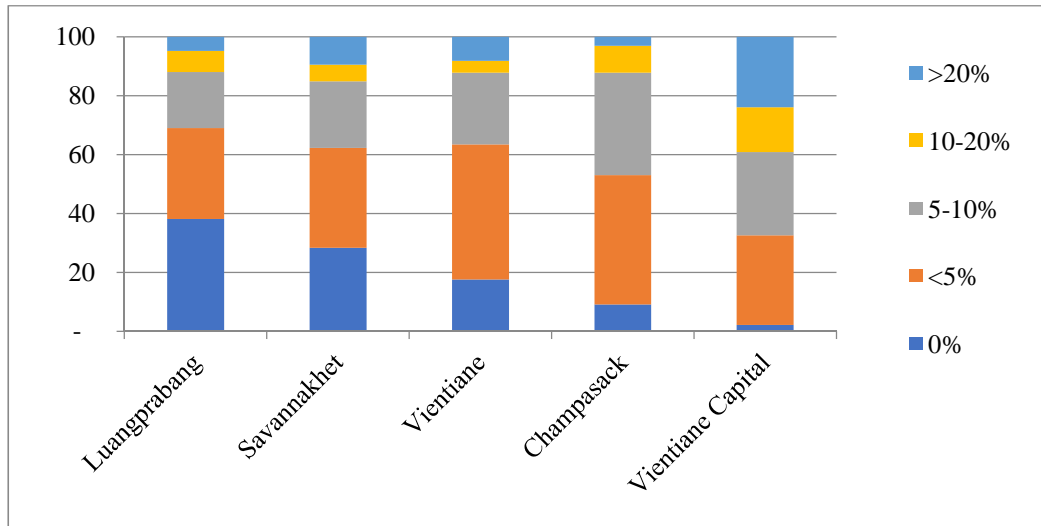
Figure 5.14: Indicator: Informal Charges and Tax Negotiations  
 (% of respondents who answered “yes”)



Informal charges may be more common in Luangprabang Province, but the level of those charges is lower than in other provinces, with 60% reporting an amount of less than 5% of revenue and equal to Vientiane Province (Figure 5.15). This is in contrast with Vientiane Capital which is expensive: almost 65% of respondents report that they pay more than 5% of

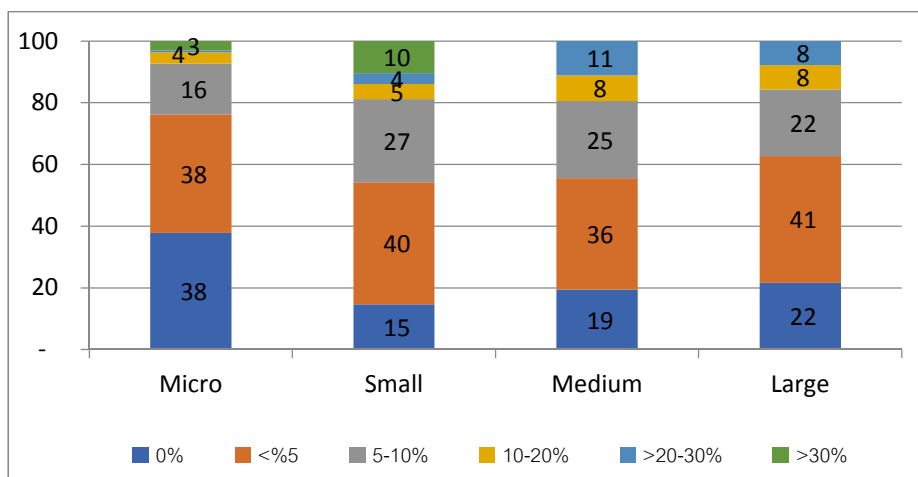
revenue while over 20% report more than 20% of revenue. It should be noted that virtually no firm in Vientiane Capital reportedly pays 0% of revenue in informal charges. This could mean that firms in Vientiane Capital are more open than other provinces about paying informal charges.

Figure 5.15: Indicator: Share of Informal Charges to Total Revenue



Whereas the cost for the renewal of the tax registration certificate fell disproportionately on smaller firms, the total of informal charges is within the same range for small, medium and large enterprises, while somewhat lower for micro enterprises (Figure 5.16). Small and medium enterprises are worst off, with over 55% having to pay more than 5% of revenue in informal charges.

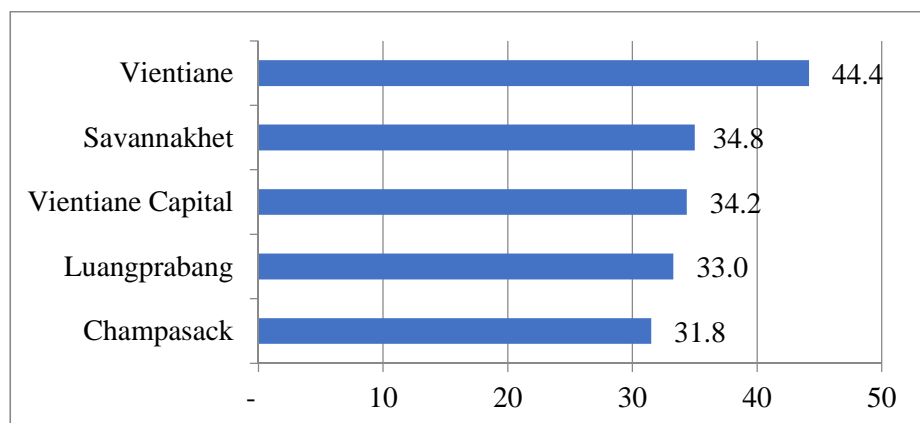
Figure 5.16: Average Informal Charges as Share of Revenue, by Firm Size



### Consistency of Legal Implementation

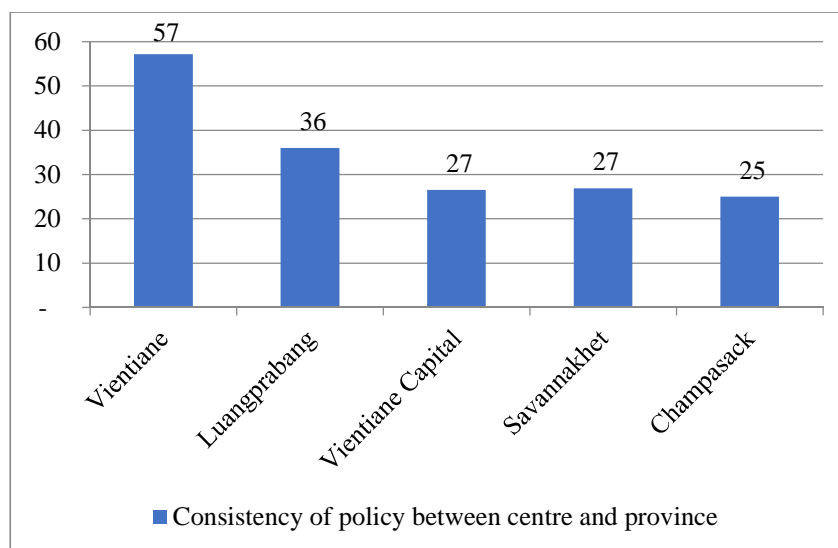
Figure 5.17 below shows that the perception is that there is a high level of inconsistency between the national law and its implementation at the provincial level. Vientiane Province is doing slightly better than the rest but a score of only 44.4 out of 100 is not encouraging from a national policy perspective.

Figure 5.17: Index of Consistency of Legal Implementation (100-point scale)



There is a strong perception that local governments are not good at implementing central government laws and regulations. This leads to a high degree of inconsistency across all provinces. For example, national tax laws are implemented at the provincial and district levels. But officials in those local governments are not always aware of or properly trained in prevailing tax laws and regulations, leading to inconsistent implementation. Vientiane Capital, Savannakhet and Champasack stand out on the negative side (Figure 5.18).

Figure 5.18: Indicator: Consistency of Policy Implementation (% of respondents who answered “yes”)



There is a strong perception that provincial governments give preference to foreign direct investment when it comes to supporting and promoting the private sector. This is not surprising, given that many FDI projects tend to be larger and promise many advantages in terms of employment and perks. Yet, while FDI can produce important employment (and

training) opportunities, economic growth and employment creation in the provinces depend to a large extent on domestic firms<sup>14</sup>.

**Business Friendliness**

The index of business friendliness of provincial governments shows a range of negative (49) to neutral attitudes (64) (Figure 5.19). For two of the three indicators, the majority is neutral, which is not considered to be good. The previous five sub-indices show that provincial governments impose high transaction and direct costs on businesses. In this context, the reported perception of neutrality of provincial governments towards businesses strongly indicates that the private sector just gets on with business, without paying too much attention to the provincial government. If the perceived attitude is positive, it would imply that not only the government tries to support and stimulate business development, but also that government officials have developed an understanding of the challenges faced by the business sector and try and help find solutions. The third indicator, measuring if government are innovative in supporting firms, shows that some provinces are better than others, but that governments who really want to support the private sector must become more pro-active and creative.

Figure 5.19: Index of Business Friendliness (100-point scale)

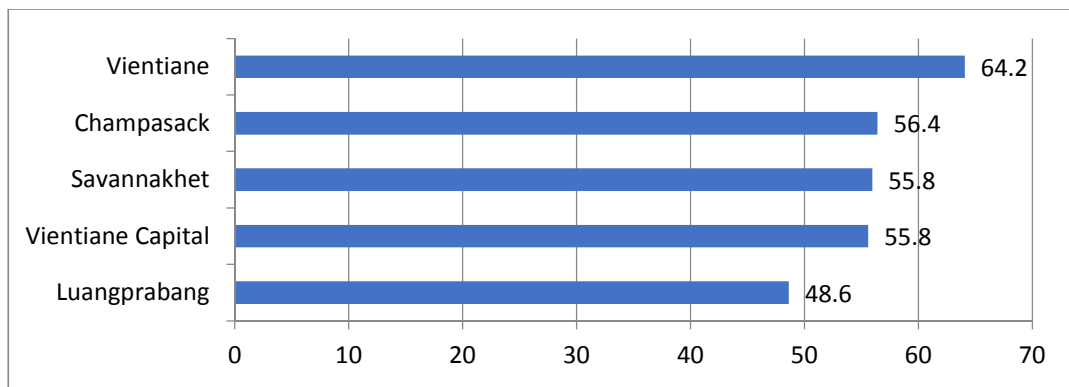
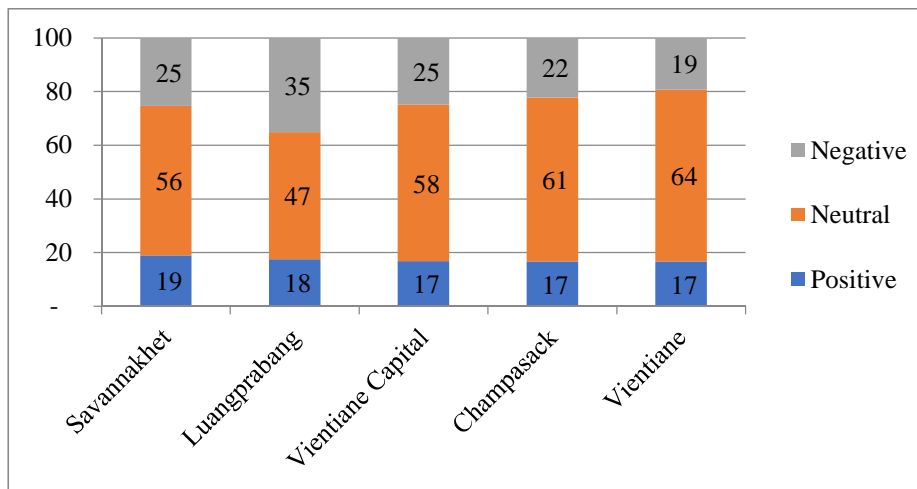


Figure 5.20 shows that on the one extreme, Luangprabang scores 35 out of 100 in being negative towards private business, while it scores 27 out 100 as being unhelpful. On the other hand, Vientiane Province scores 19 out of 100 for being negative and 29 out of 100 for being helpful.

<sup>14</sup> There are various aspects of this argument. It is argued that in a small under-developed economy, where the majority of the work force is not formally employed, broad-based growth in economic activity must come from domestic or local firms, although larger FDI projects have an important role to play in terms of stimulating economic activity in a region and providing training and knowledge-transfer opportunities. Also, in Lao PDR, there are relatively few attractive opportunities for FDI. In a small economy, FDI tends to be “lumpy”, but statistics from the Bank of The Lao PDR show that FDI is between \$200m and \$300m per quarter over the last 2 years. This is very small for a \$16bn economy.



Figure 5.20: Indicator: Attitude of Provincial Government towards the Private Sector (100-point scale)



The conclusions for this sub-index are that provincial governments are not very business-friendly (maximum score 64 out of 100), that only a small percentage of provincial governments are having a positive attitude towards private business (17% to 19%), and a surprisingly large percentage local government as negative (19% to 35%).

## VI. The 2017 ProFIT survey: Medium Provinces

### 6.1 Overall ProFIT Index

The overall ProFIT Index, summarizing the scores for the six sub-indices, is shown in Figure 6.1 below. The highest score (Xieng Khouang, 55.7 out of 100) is low, indicating substantial room for improvement. Saravan and Khammouane are at the bottom with 48.9 and 45.0 points respectively.

Figure 6.1: ProFIT Scores for Medium Provinces (100-point scale)

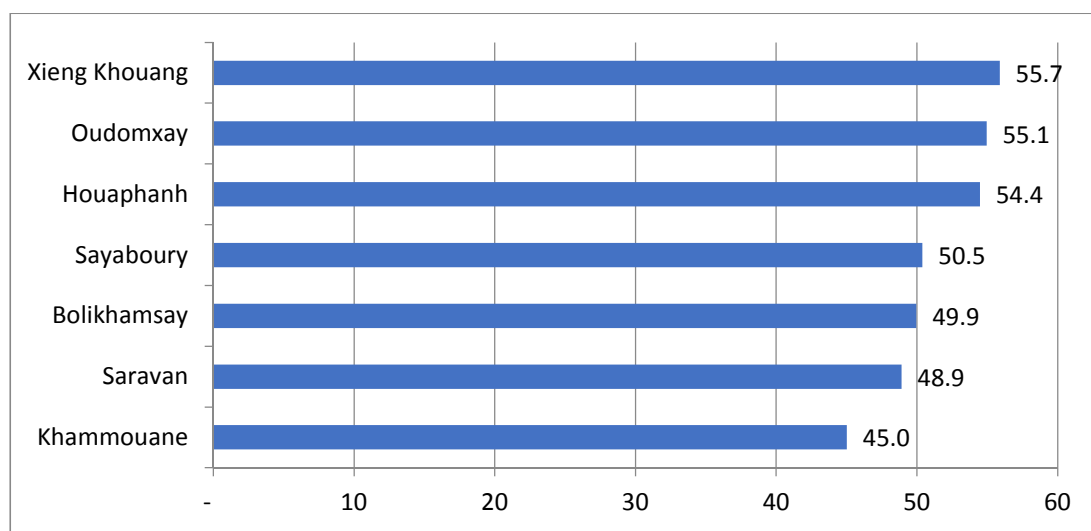


Table 6.1 shows the sub-index and indicator scores for the seven provinces. The scores of the top three provinces are close together. Xieng Khouang and Houaphanh score better for ease of starting a business and a lesser regulatory burden, but score lower for transparency. Access to provincial documents is particularly difficult in Houaphanh. The top three also score better than the others for informal charges. Notable differences within the top three are that Houaphanh scores low for transparency and the consistency of implementation, while Oudomxay scores much higher for transparency.

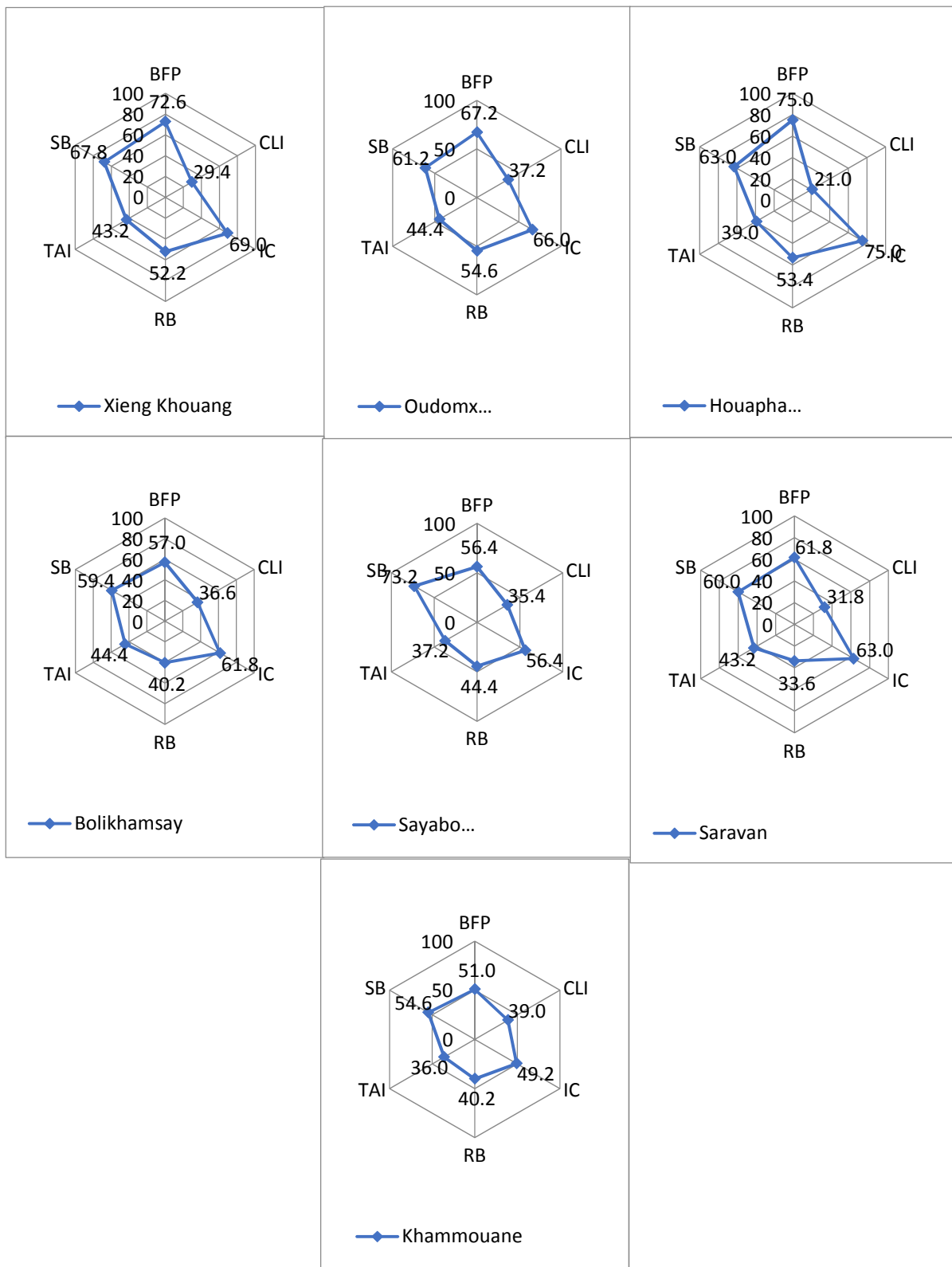
Sayaboury and Khammouane have a low score for regulatory burden, starting a business and consistency of implementation. Saravan scores lowest for informal charges, while Sayaboury has the highest score for being business-friendly. Bolikhamsay scores highest for consistency of implementation.

The diagrams in Figure 6.2 below show the significant differences in sub-index scores between provinces and the large gap between the score and the theoretical maximum (outer ring).

Table 6.1: Detailed ProFIT Score for Medium Provinces

Sub-ProFIT Indices / Provinces	XiegnKhouang	Oudomxay	Houaphanh	Sayaboury	Bolikhamsay	Saravan	Khammouane
<b>Profit Score</b>	<b>55.7</b>	<b>55.1</b>	<b>54.4</b>	<b>50.5</b>	<b>49.9</b>	<b>48.9</b>	<b>45.0</b>
<b>1. Starting a Business</b>	<b>72.6</b>	<b>67.2</b>	<b>75.0</b>	<b>56.4</b>	<b>57.0</b>	<b>61.8</b>	<b>51.0</b>
Business registration time	18.0	18.0	20.4	14.4	15.0	17.4	14.4
Business registration cost	17.4	13.8	19.2	13.8	10.8	14.4	9.6
Operating licensing time	19.2	19.2	18.6	16.2	17.4	16.8	16.2
Operating licensing cost	18.0	16.2	16.8	12.0	13.8	13.2	10.8
<b>2. Transparency and Access to Information</b>	<b>29.4</b>	<b>37.2</b>	<b>21.0</b>	<b>35.4</b>	<b>36.6</b>	<b>31.8</b>	<b>39.0</b>
Access to provincial documents	13.8	19.8	6.6	18.6	20.4	12.6	18.6
Opportunity to comment on draft regulations	4.2	7.2	2.4	4.8	5.4	6.6	7.8
Provincial websites	11.4	10.2	12.0	12.0	10.8	12.6	12.6
<b>3. Regulatory Burden</b>	<b>69.0</b>	<b>66.0</b>	<b>75.0</b>	<b>56.4</b>	<b>61.8</b>	<b>63.0</b>	<b>49.2</b>
Inspections by authorities	15.6	14.4	15.6	12.0	16.2	13.8	12.0
Tax registration certificate renewal time	14.4	16.2	17.4	13.2	13.8	13.2	12.0
Tax registration certificate renewal cost	12.0	10.2	11.4	8.4	9.0	9.6	6.6
Operating license renewal time	13.2	15.6	17.4	13.2	13.2	13.8	13.2
Operating license renewal cost	13.8	9.6	13.2	9.6	9.6	12.6	5.4
<b>4. Informal Charges</b>	<b>52.2</b>	<b>54.6</b>	<b>53.4</b>	<b>44.4</b>	<b>40.2</b>	<b>33.6</b>	<b>40.2</b>
Informal charges as share of revenue	6.0	5.4	7.8	4.8	5.4	1.8	3.0
Payment of informal charges	32.4	33.6	32.4	24.0	22.8	14.4	21.0
Acceptability of informal charges	4.2	3.6	3.6	6.6	5.4	4.2	6.0
Commonality of tax negotiations	6.0	6.0	4.8	4.2	4.2	5.4	6.0
Necessity of informal charges	2.4	3.0	3.0	3.0	1.8	4.2	2.4
Public disclosure of formal charges	1.2	3.0	1.8	1.8	0.6	3.6	1.8
<b>5. Consistency of Implementation</b>	<b>43.2</b>	<b>44.4</b>	<b>39.0</b>	<b>37.2</b>	<b>44.4</b>	<b>43.2</b>	<b>36.0</b>
Advantages of connections	10.8	9.6	7.2	7.8	11.4	10.2	4.8
Preference for FDI	11.4	10.2	10.2	10.2	10.8	9.6	8.4
Consistency of regulations with centre	3.6	7.2	4.8	4.8	6.6	9.0	3.6
Internal coordination to support business	8.4	9.0	10.8	7.8	10.2	9.0	12.6
Province has additional regulations	9.0	8.4	6.0	6.6	5.4	5.4	6.6
<b>6. Business Friendliness</b>	<b>67.8</b>	<b>61.2</b>	<b>63.0</b>	<b>73.2</b>	<b>59.4</b>	<b>60.0</b>	<b>54.6</b>
Attitude of provincial government	19.2	18.0	16.2	18.6	15.6	13.8	16.8
Provincial government is helpful	19.8	18.0	19.2	22.2	18.6	19.2	17.4
Apply new solutions to solve problems	28.8	25.2	27.6	32.4	25.2	27.0	20.4

Figure 6.2: Summarized ProFIT Score for Medium Provinces



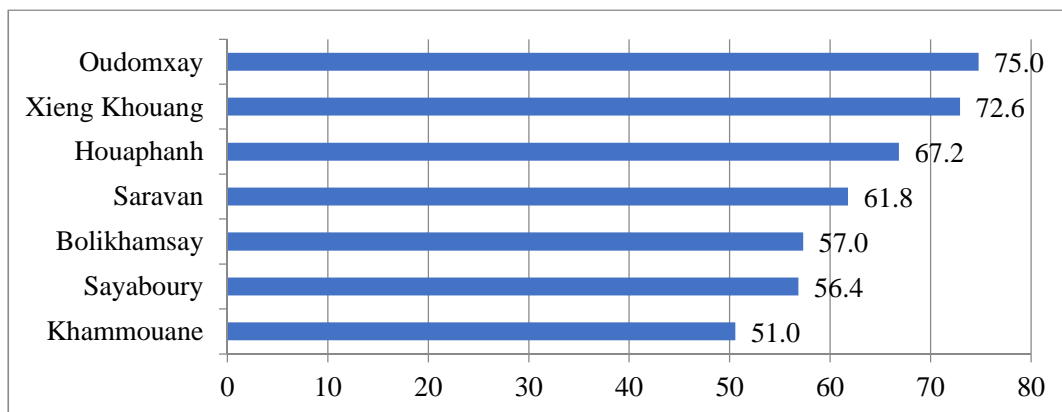
SB=Starting a Business; TAI=Transparency and Access to Information; RB=Regulatory Burden; IC=Informal Charges; CLI=Consistency of Legal Implementation; and BFP= Business Friendliness of Provincial Governments.

## 6.2 Discussion of the six sub-indices

### *Ease of Starting a Business*

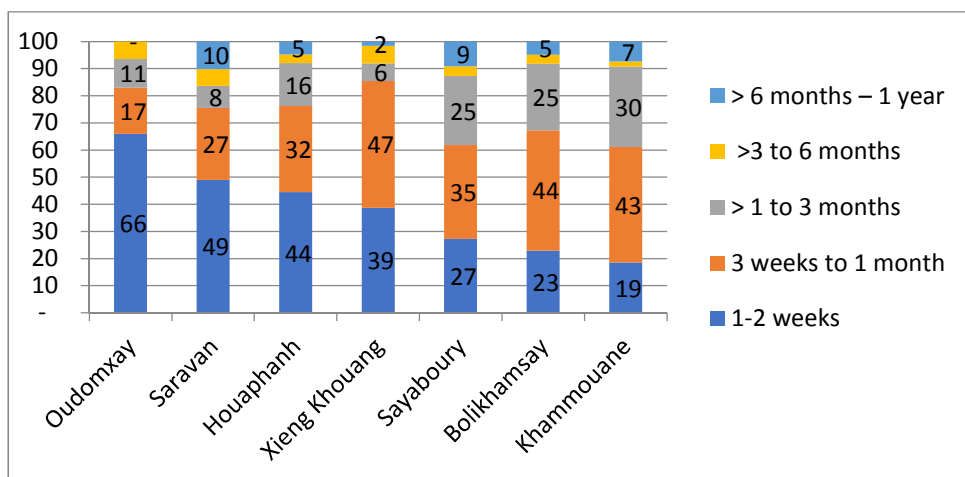
The combined score of the four indicators is shown in Figure 6.3 below. Oudomxay and Xieng Khouang score relatively high, as do Houaphanh and Saravan. All four provinces are relatively quick in approving business registrations and are also relatively less costly than the others.

Figure 6.3: Index of Starting a Business (100 point-scale)



The time it takes for business registration is an important factor in the ease of doing business. Figure 6.4 below shows that between about 14% and 38% of business registrations take up to a month to be completed, which is long but much better than in the case of the large provinces. There are significant differences between these provinces in time taken to complete business registrations. Oudomxay stands out, with 66% of registrations taking less than two weeks to complete. This could be considered as the standard to which all provinces should strive to achieve. At the other end of the spectrum are Sayaboury, Bolikhamsay and Khammouane, which have a low percentage of registrations completed with two weeks, but have high percentages (33% to 38%) of registrations that take more than three months.

Figure 6.4: Indicator: Time Taken for Business Registration



Note: This excludes obtaining a construction permit

The pattern for business registration costs follows the time taken closely, except for Xieng Khouang, where the costs are relatively low, but with a high percentage of registrations taking between three weeks to a month

***Transparency and Access to Information***

The overall transparency and access to information sub-index, consisting of three indicators, shows low scores for all provinces (maximum 39 out of 100), with not much variation, except for Oudomxay (Figure 6.5).

Figure 6.5: Transparency and Access to Information (100-point scale)

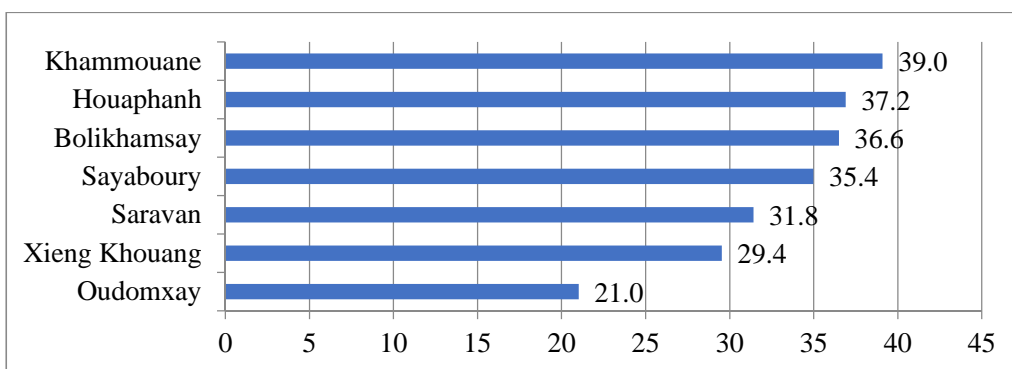
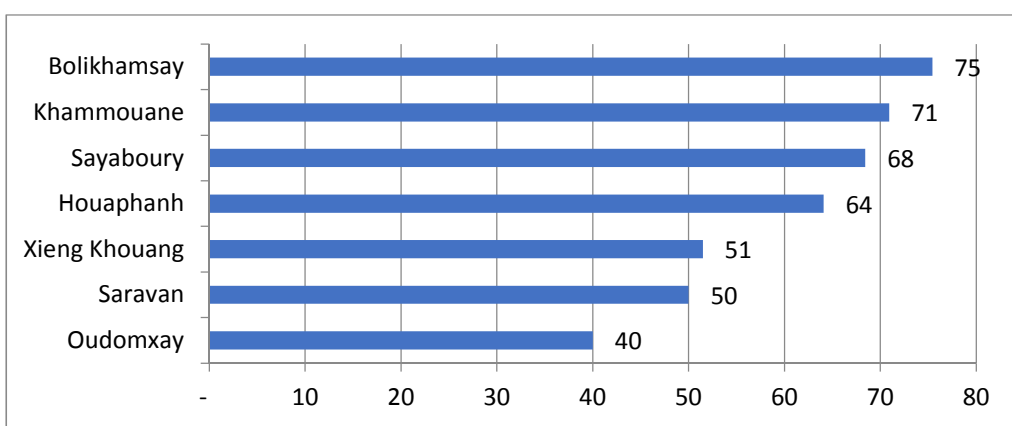


Figure 6.6 shows the access to important documents. Businesses in Bolikhamsay and Khammouane had good access to provincial documents, while companies in Saravan and Oudomxay had difficulty getting access to any official document. Notably, all seven medium-sized provinces have a provincial website. The quality of the websites ranges from 51 to 64 out of 100, indicating the need for much improvement.

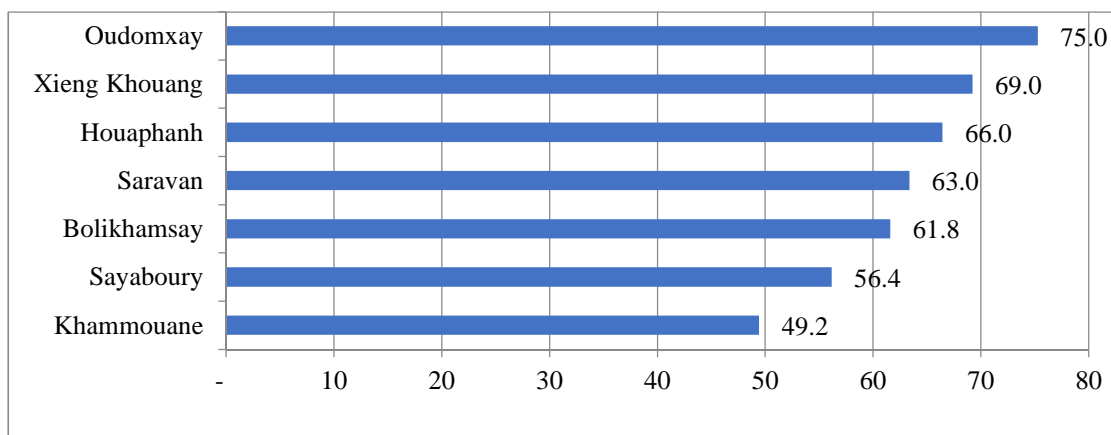
Figure 6.6: Indicator: Percentage of Firms with Access to at least One Document (100-point scale)



## Regulatory Burden

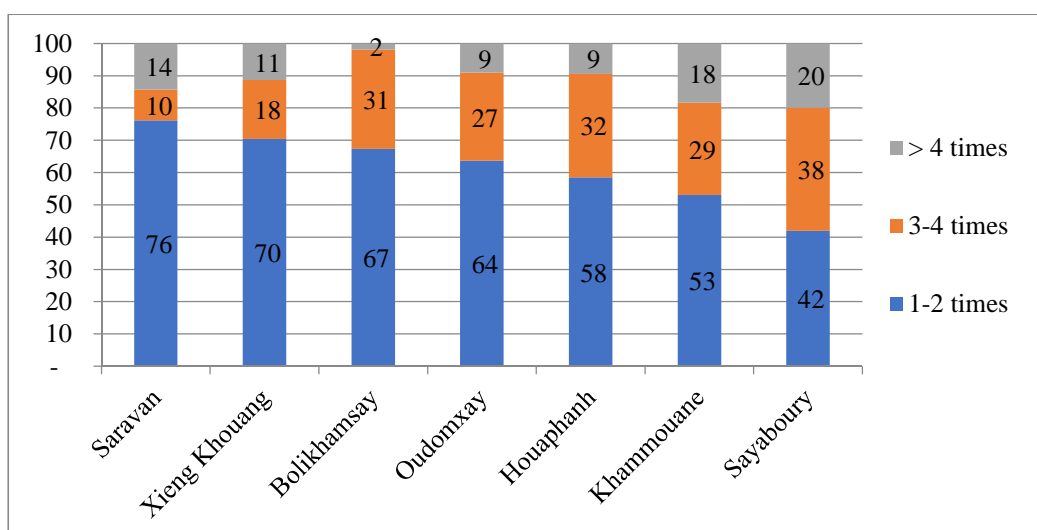
Figure 6.7 below shows the combined score of the five indicators for the regulatory burden. Oudomxay tops the list, indicating relatively less of a regulatory burden than other provinces, with Sayaboury and Khammouane at the bottom.

Figure 6.7: Index of Regulatory Burden (100-point scale)



Sayaboury and Khammouane stand out for a relatively high score for more than four inspections per year and with a relatively low score for 1-2 times (Figure 6.8).

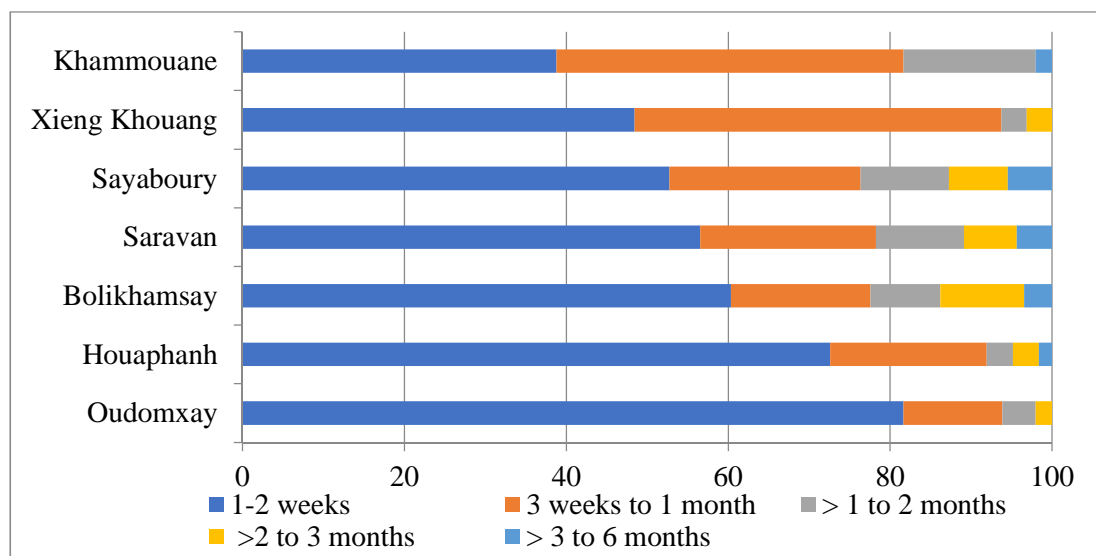
Figure 6.8: Indicator Number of Times Inspected by Provincial Government Authorities



Tax registration certificate renewal is relatively quick in Oudomxay with over 80% reporting a turn-around time of less than two weeks (Figure 6.9). Houaphanh, Bolikhamsay and Saravan are next, achieving over 50% of certificates issued within two weeks. Xieng

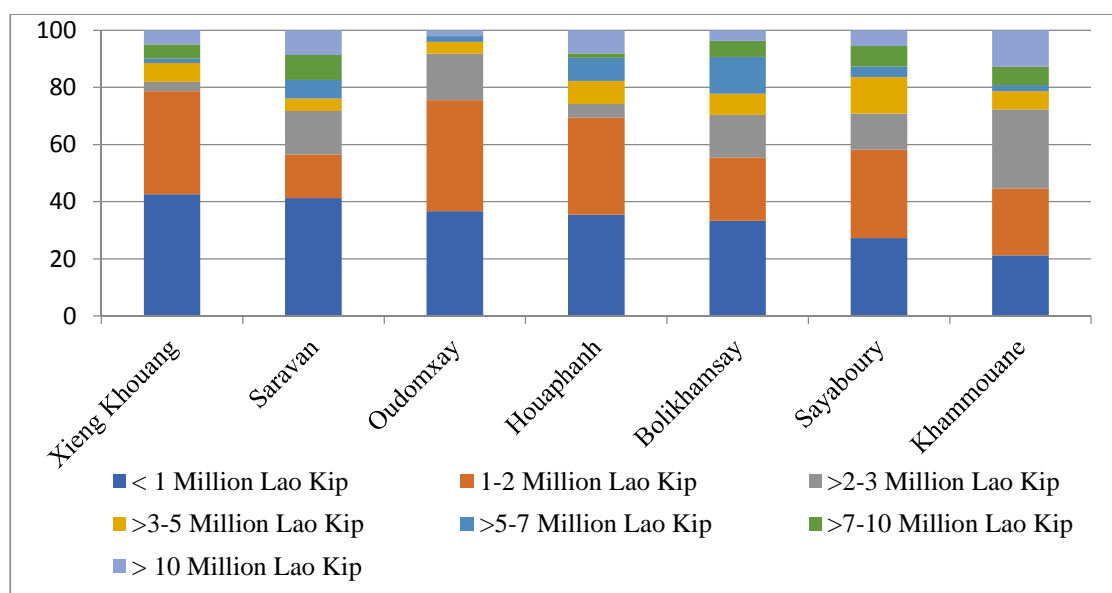
Khouang manages to re-issue the tax certificate within 1 month in most cases, while Khammouane, Bolikhamsay, Saravan and Sayaboury take more than 1 month in about 20% of the cases.

Figure 6.9: Indicator: Time Taken for Renewal of the Tax Registration Certificate



The costs involved in renewing tax registration certificates vary widely (Figure 6.10). In Xieng Khouang, 80% of firms report a cost of less than 2 million Kip while in Khammouane, almost 60% of companies report paying more than 2 million Kip.

Figure 6.10: Indicator: Costs for Renewal of Tax Registration Certificate



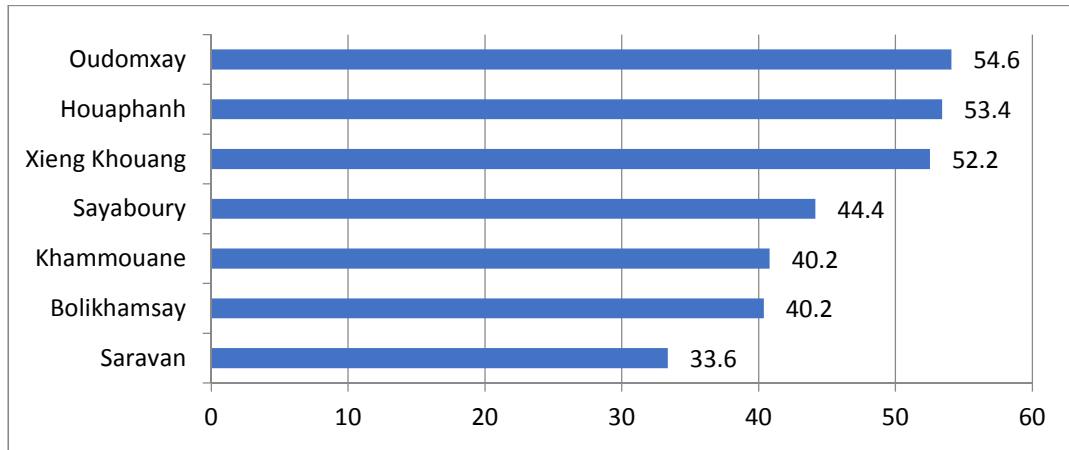
### Informal Charges

In Figure 6.11 below, the sub-index of informal charges shows a wide variation between provinces, but all are scoring very low, which means that the payment of informal charges is



very common? Xieng Khouang, Houaphanh and Oudomxay score better than the rest, albeit at low levels. Saravan stands out with a very low score.

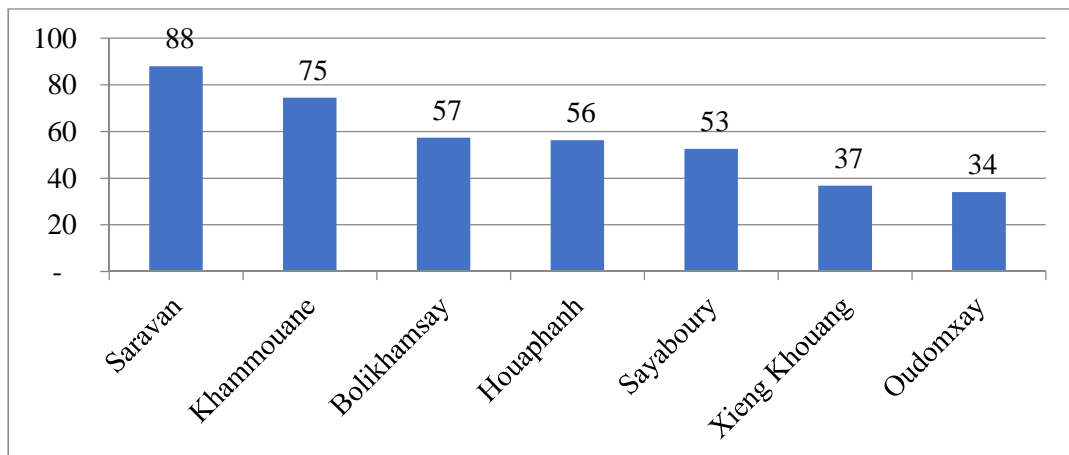
Figure 6.11: Index of informal charges (100-point scale)



In terms of the percentage of businesses that pay informal charges, Saravan scores high at 88%, closely followed by Khammouane. At the other end of the scale in Oudomxay with 34% (Figure 6.12).

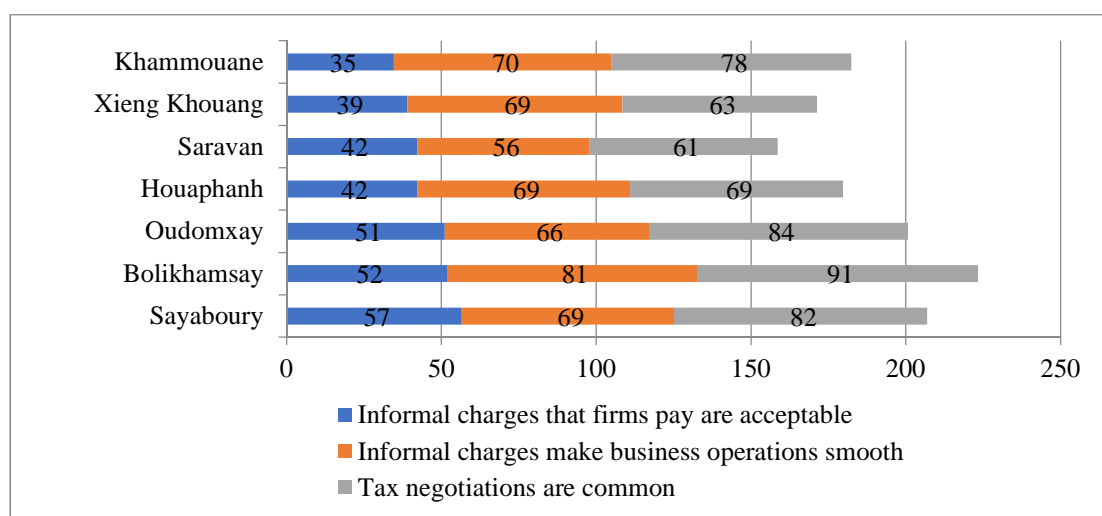
Figure 6.12: Indicator: Payment of Informal Charges

Percentage of Respondents who pay informal charges to expedite an application process



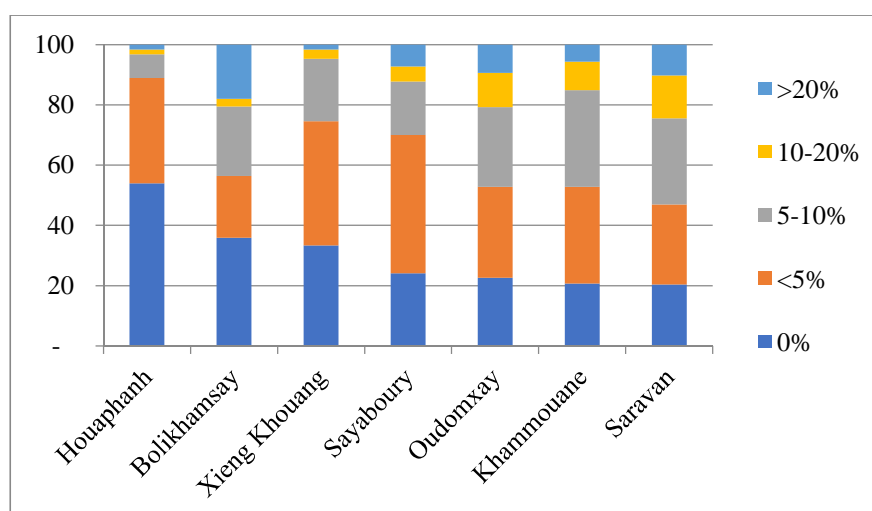
The chart in Figure 6.13 summarizes the results. There appears to be little variation in acceptability of informal charges. The need to pay informal charges to make business operations smooth is similar in all provinces, except for Bolikhamsay, with a score of 81 out of 100. However, there is a wide variation in tax negotiations between the provinces. Tax negotiations appear to be the norm in Bolikhamsay, followed by Oudomxay and Sayaboury.

Figure 6.13: Indicator: Informal Charges and Tax Negotiations  
(% of respondents who answered “yes”)



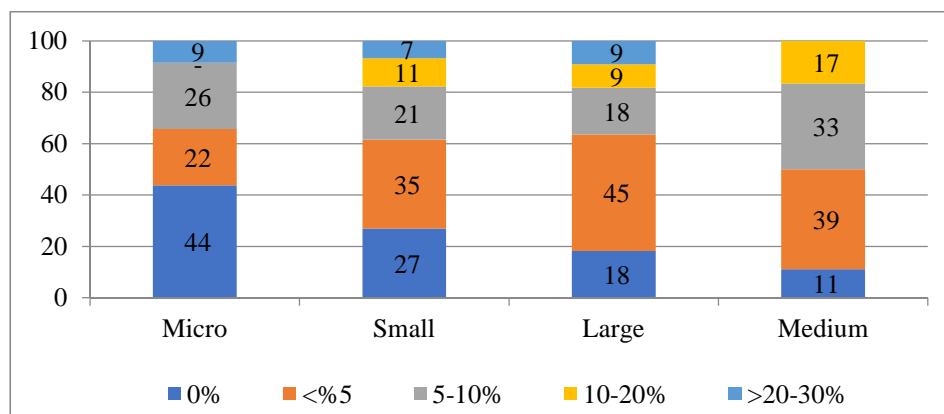
In terms of the costs of informal charges (as % of total company revenue) Khammouane, Saravan and Oudomxay stand out as being expensive with over 50% reporting informal charges of more than 5% of revenue (Figure 6.14). On the other hand, Houaphanh and Xieng Khouang are relatively cheap in terms of informal charges.

Figure 6.14: Indicator: Share of Informal Charges to Total Revenue



The total of informal charges appears to fall disproportionately on medium-sized firms, while micro and large firms pay somewhat less (66% and 63% respectively pay less than 5% of revenue). Micro firms pay nothing in 44% of the cases, which is an encouraging outcome (Figure 6.15).

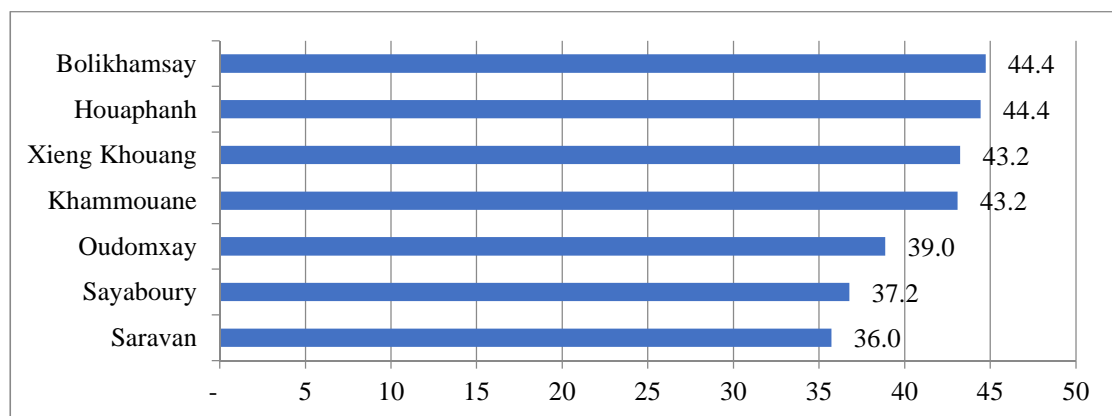
Figure 6.15: Average Informal Charges as Share of Revenue, by Firm Size



### *Consistency of Legal Implementation*

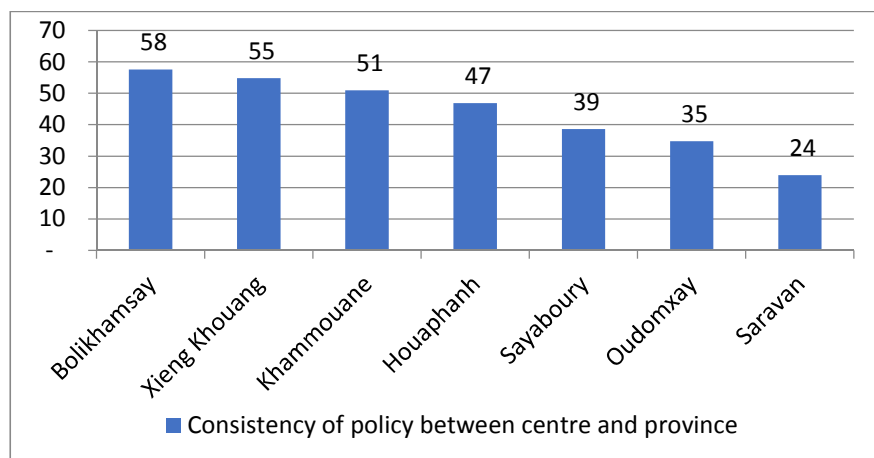
Figure 6.16 shows that there is a high level of inconsistency between the national law and its interpretation at the provincial level. Bolikhamsay is only slightly ahead of the next three provinces, but the score of 44.4 out of 100 is not encouraging from a national policy perspective.

Figure 6.16: Index of Consistency of Legal Implementation (100-point scale)



There is a strong perception that local governments are not good at implementing central government laws and regulations (Figure 6.17). This leads to a high degree of inconsistency across all provinces. Sayaboury, Oudomxay and Saravan stand out on the negative side. As was the case with the larger provinces, governments appear to give preferential treatment to FDI over domestic or local firms.

Figure 6.17: Indicator: Consistency of Policy Implementation  
(% of respondents who answered “yes”)



### ***Business Friendliness***

Figure 6.18 shows that the sub-index of business friendliness of provincial governments shows a range of negative (54.6) to positive attitudes (73.2). For the first two indicators, the attitude of provincial government officials towards businesses and whether the provincial government is helpful or not, the majority is neutral with a bit of variation between provinces. On the one extreme Saravan and Bolikhamsay score 39 and 37 out of 100 in being seen as negative towards private business, while Sayaboury has the highest scores as being most positive and helpful. As was observed with the larger provinces, the majority of firms reporting a neutral attitude of the provincial government is not considered to be positive.

Figure 6.18: Index of Business Friendliness (100-point scale)

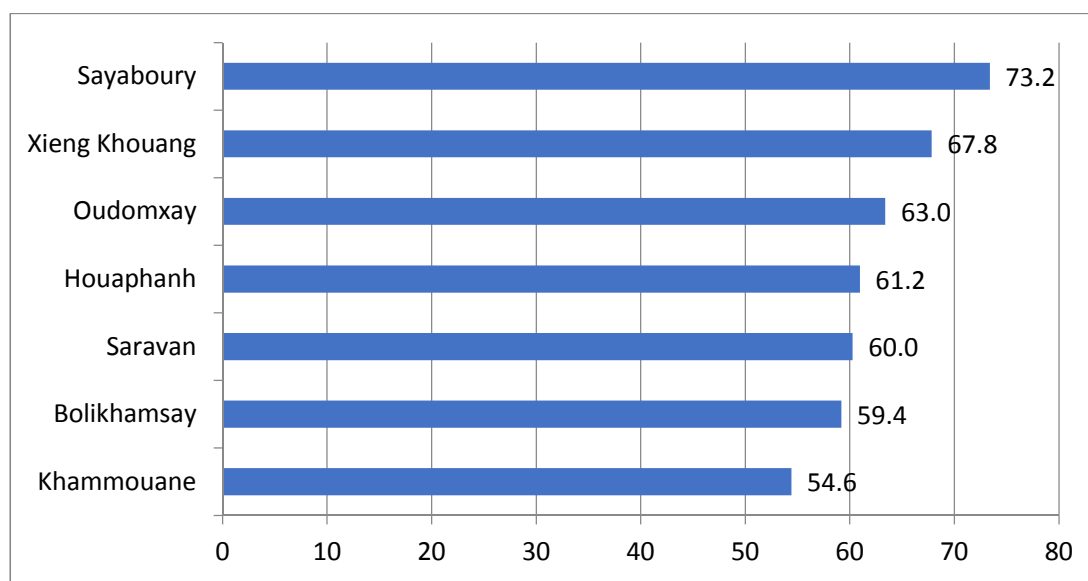
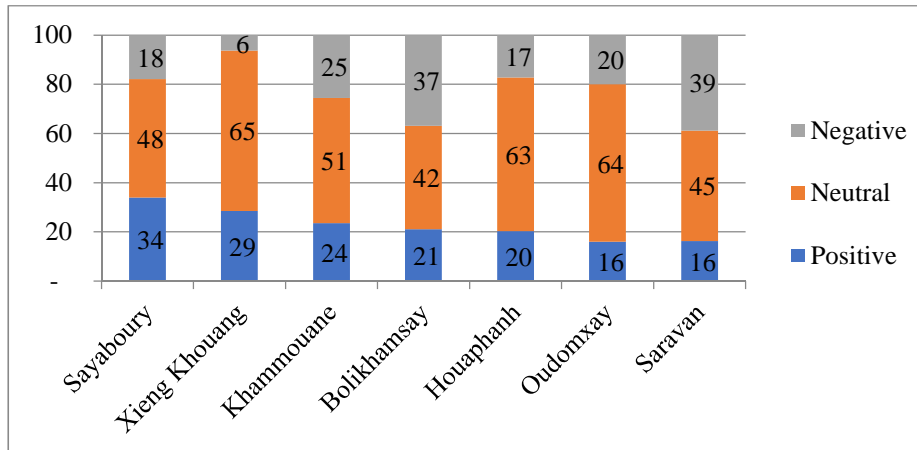


Figure 6.19 shows that Saravan and Bolikhamsay stand out because of a high percentage of firms reporting a negative attitude of their government the private sector. This is in contract

with Xieng Khouang, where only 6% of firms report negative attitude. It is encouraging that 34% of firms in Sayaboury report a positive attitude, a much higher percentage than in any of the larger provinces.

Figure 6.19: Indicator Attitude of the Provincial Government towards the Private Sector



## VII. The 2017 ProFIT Survey: Smaller Provinces

### 7.1 Overall ProFIT Index

The overall ProFIT Index, summarizing the scores for the six sub-indices, is shown in Figure 7.1 below. The highest score (Attapeu, 53.7 out of 100) is low, indicating substantial room for improvement.

Figure 7.1: The ProFIT Index for Smaller Provinces (100-point scale)

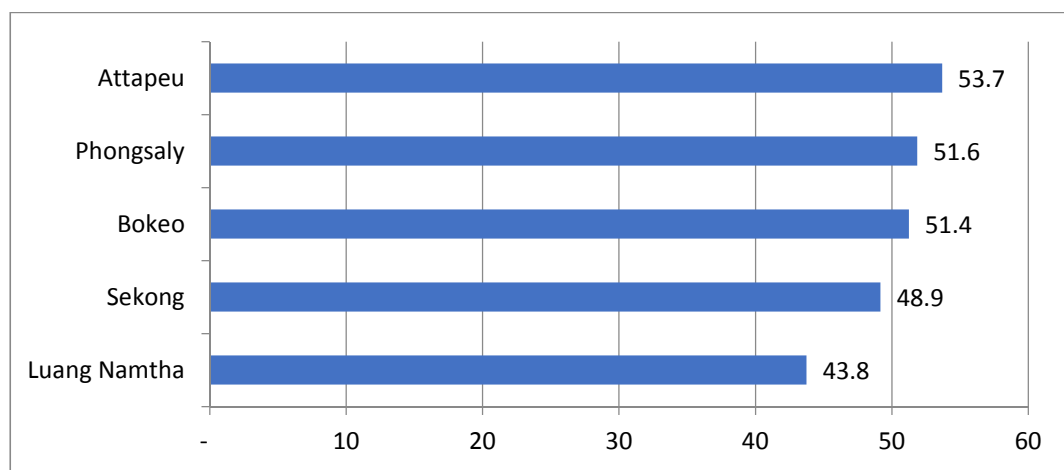


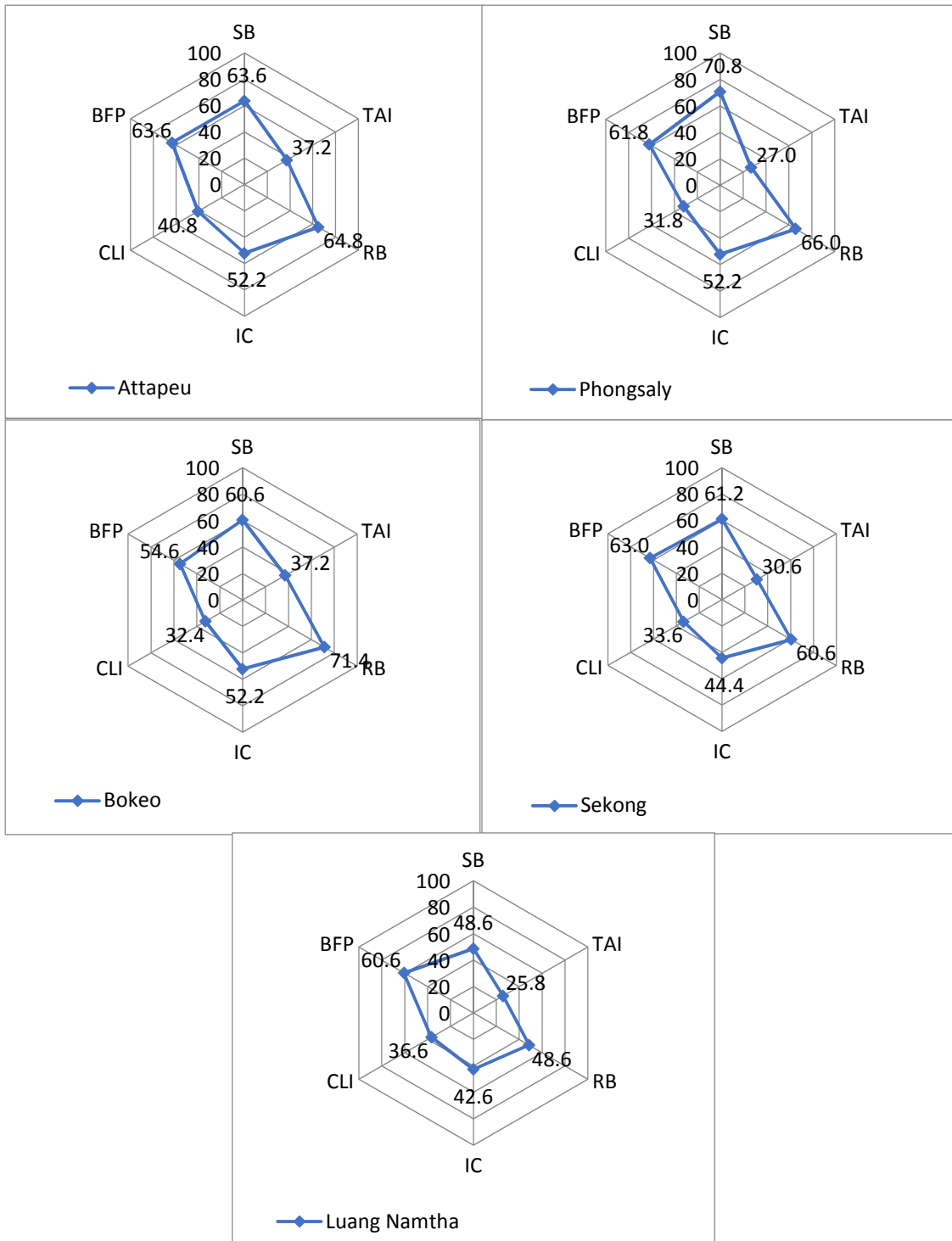
Table 7.1 shows the sub-index and indicator scores for this category. Attapeu has the highest scores for starting a business, transparency (together with Bokeo), consistency of implementation and business-friendliness. Bokeo stands out with a highest score for regulatory burden, while Phongsaly has the highest score for starting a business. Sekong scores relatively well for business-friendliness and Luang Namtha has the lowest score for starting a business, transparency and informal charges.

The diagrams in Figure 7.2 show the significant differences in sub-index scores between provinces and the large gap between the score and the theoretical maximum (outer ring).

Table 7.1: Detailed ProFIT Score for Smaller Provinces

Sub-ProFIT Indices / Provinces	Attapeu	Phongsaly	Bokeo	Sekong	Luang Namtha
<b>Profit Score</b>	<b>53.7</b>	<b>51.6</b>	<b>51.4</b>	<b>48.9</b>	<b>43.8</b>
<b>1. Starting a Business</b>	<b>63.6</b>	<b>70.8</b>	<b>60.6</b>	<b>61.2</b>	<b>48.6</b>
Business registration time	17.4	17.4	14.4	18.0	12
Business registration cost	14.4	14.4	13.8	12.0	12
Operating licensing time	17.4	19.8	16.8	18.0	13.8
Operating licensing cost	14.4	19.2	15.6	13.2	10.8
<b>2. Transparency and Access to Information</b>	<b>37.2</b>	<b>27.0</b>	<b>37.2</b>	<b>30.6</b>	<b>25.8</b>
Access to provincial documents	18.6	16.2	18.0	13.8	19.2
Opportunity to comment on draft regulations	4.2	3.0	4.8	2.4	6.6
Provincial websites	14.4	7.8	14.4	14.4	-
<b>3. Regulatory Burden</b>	<b>64.8</b>	<b>66.0</b>	<b>71.4</b>	<b>60.6</b>	<b>48.6</b>
Inspections by authorities	14.4	9.6	14.4	13.8	11.4
Tax registration certificate renewal time	13.8	15.0	16.2	13.8	9.6
Tax registration certificate renewal cost	10.8	12.0	10.8	9.0	7.8
Operating license renewal time	14.4	16.8	16.8	14.4	9.6
Operating license renewal cost	11.4	12.6	13.2	9.6	10.2
<b>4. Informal Charges</b>	<b>52.2</b>	<b>52.2</b>	<b>52.2</b>	<b>44.4</b>	<b>42.6</b>
Informal charges as share of revenue	6.0	6.0	6.0	5.4	6
Payment of informal charges	27.6	35.4	32.4	28.2	23.4
Acceptability of informal charges	6.6	4.2	4.2	4.2	5.4
Commonality of tax negotiations	5.4	4.8	6.0	4.8	4.2
Necessity of informal charges	3.0	1.2	2.4	1.2	1.8
Public disclosure of formal charges	3.6	0.6	1.2	0.6	1.8
<b>5. Consistency of Implementation</b>	<b>40.8</b>	<b>31.8</b>	<b>32.4</b>	<b>33.6</b>	<b>36.6</b>
Advantages of connections	10.2	8.4	6.0	8.4	7.8
Preference for FDI	10.8	6.6	9.6	9.0	9.6
Consistency of regulations with centre	3.6	3.6	4.2	5.4	5.4
Internal coordination to support business	9.0	8.4	7.8	5.4	7.2
Province has additional regulations	7.2	4.8	4.8	5.4	6.6
<b>6. Business Friendliness</b>	<b>63.6</b>	<b>61.8</b>	<b>54.6</b>	<b>63.0</b>	<b>60.6</b>
Attitude of provincial government	18.0	18.0	15.6	15.6	18
Provincial government is helpful	18.0	18.0	16.2	18.6	18.6
Apply new solutions to solve problems	27.6	25.8	22.8	28.8	24

Figure 7.2: Summarized ProFIT Index for Smaller Provinces by Sub-Index



SB=Starting a Business; TAI=Transparency and Access to Information; RB=Regulatory Burden; IC=Informal Charges; CLI=Consistency of Legal Implementation; and BFP= Business Friendliness of Provincial Governments.



## 7.2 Discussion of the Six Sub-indices

### *Ease of Starting a Business*

The combined score of the two indicators is shown in Figure 7.3. There is a large variation with Phongsaly scoring a solid 71 out of 100, while at the other end of the scale, Luang Namtha scores only 49 because of a combination of long time taken and high cost for registration.

Figure 7.3: Index of the Ease of Starting a Business (100 point-scale)

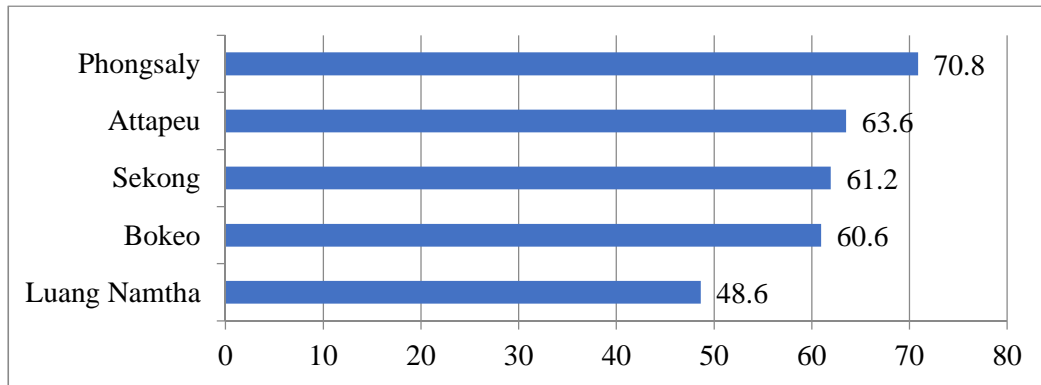
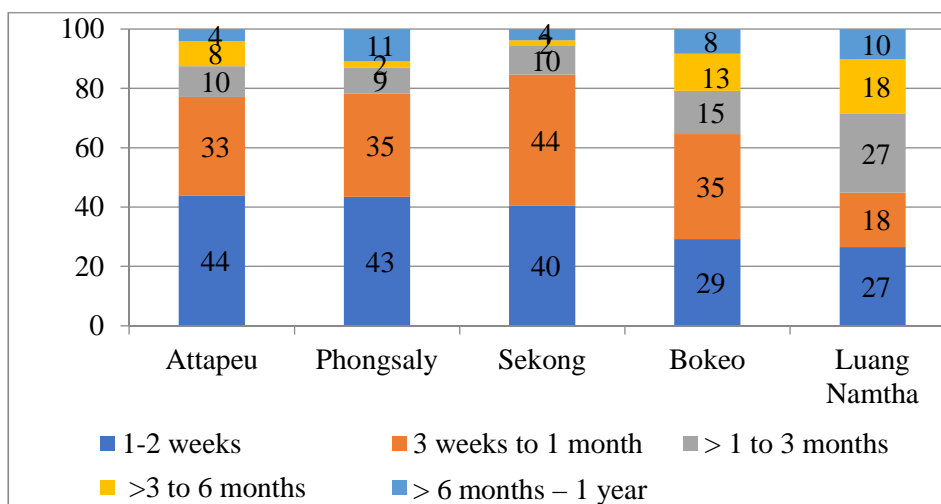


Figure 7.4 shows that Luang Namtha and Bokeo score only 27 and 29 for completing the registration within two weeks, while Attapeu, with a score of 44, is still slow. Luang Namtha is by far the slowest, with a score of 28 for taking longer than 3 months. Sekong, on the other hand, is the fastest, with only 16% taking longer than 3 months.

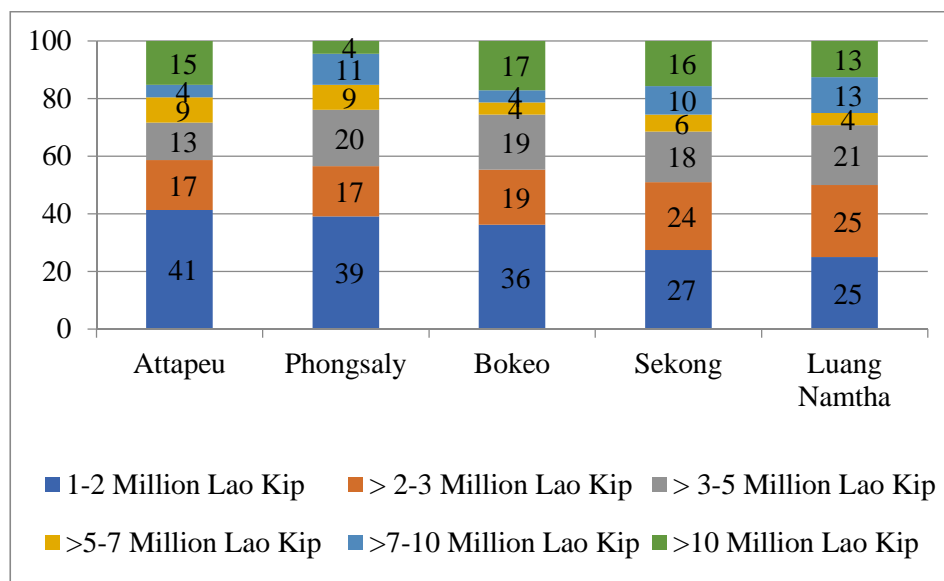
Figure 7.4: Indicator: Time Taken for Business Registration (100-point scale)



Note: This excludes obtaining a construction permit

All smaller provinces appear to be costly when it comes to business registration. Over 40% in all cases pay more than 3 million Kip (Figure 7.5). Sekong and Luang Namtha are the most expensive.

Figure 7.5: Indicator: Business Registration Costs (100-point scale)



Note: This excludes obtaining a construction permit

### ***Transparency and Access to Information***

Figure 7.6 shows that the overall transparency and access to information sub-index, consisting of three indicators, is low for all provinces (maximum 37.2 out of 100), but with slightly better scores for Attapeu and Bokeo.

Figure 7.6: Index of Transparency and Access to Information (100-point scale)

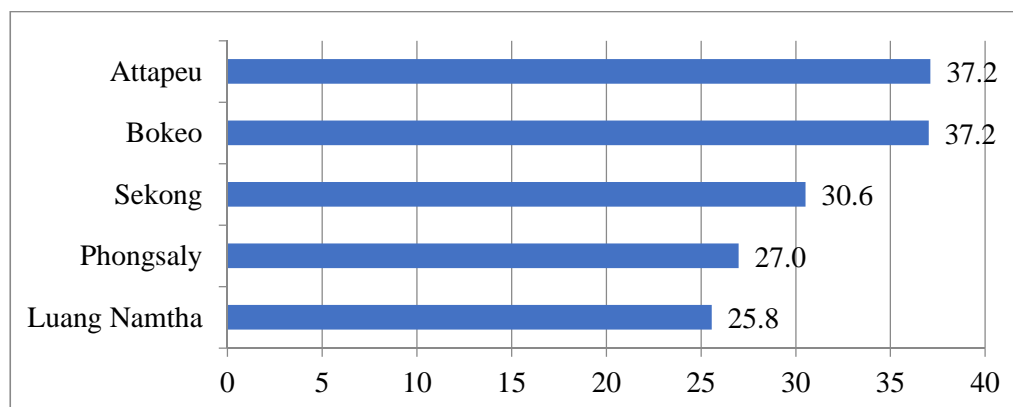
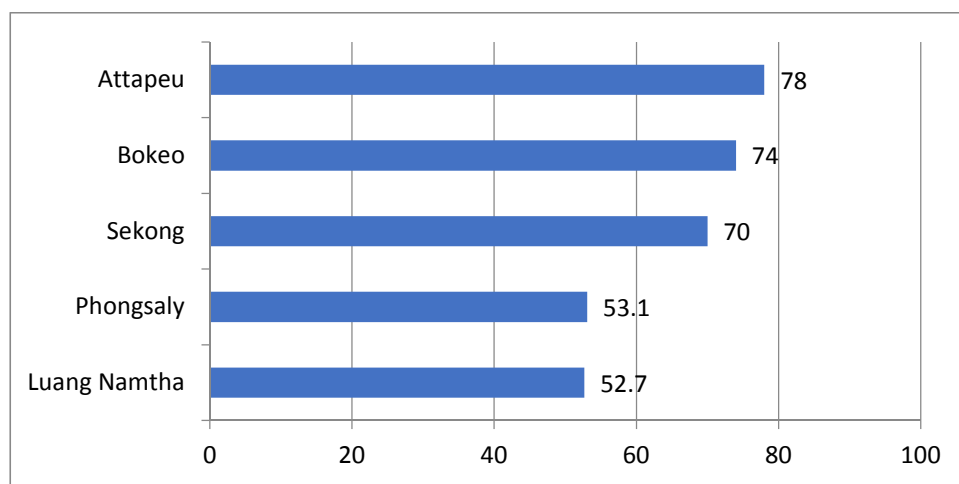


Figure 7.7 shows that only 78% of businesses in Attapeu had access to at least one document. Luang Namtha and Phongsaly had a much lower access score for this. This shows that overall, information is hard to get.

Figure 7.7: Indicator: Percentage of Firms with Access to at Least One Document



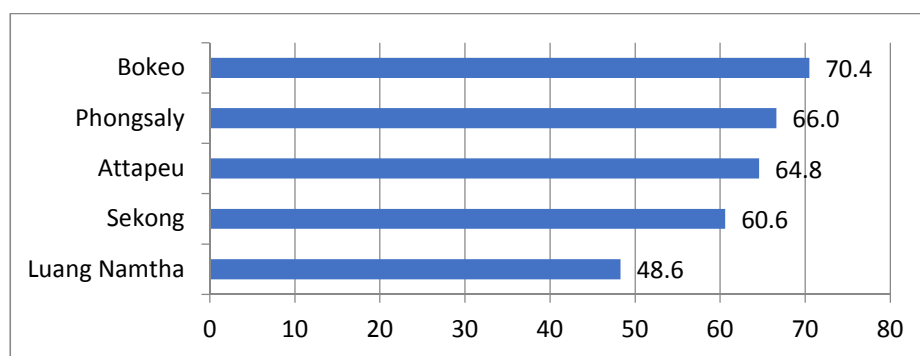
Four out of five smaller provinces have a website, with Luang Namtha being the exception. The quality of the websites appears to be reasonable, except for the one in Phongsaly, which has very little relevant and up to date information.

### *Regulatory Burden*

Figure 7.8 shows the combined score for the five indicators for the regulatory burden. Bokeo scores well, as the time taken to renew tax registration certificates is short. Businesses in Phongsaly are confronted with many more inspections by various authorities than the other provinces (a score of 31 for more than four times), while in Luang Namtha, over 20% of businesses must wait more than one month for the renewal of the tax registration certificate. The cost of renewing the tax registration certificate is on average highest in Luang Namtha and Sekong, with 40% to 50% having to pay more than 2 million Kip, with Phongsaly being relatively cheaper.

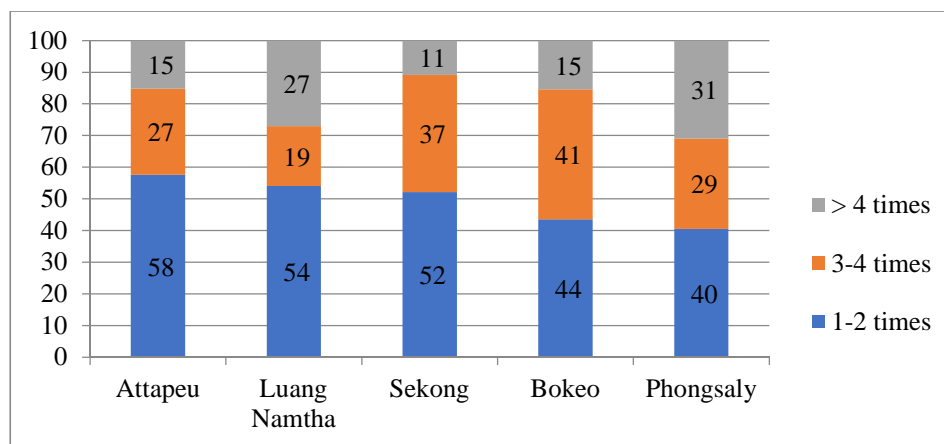
It is clear from these results that there is substantial room for improvement. Especially renewal of the tax registration certificate should be automatic and instantaneous and without much cost. Inspections should only be undertaken if there is justifiable cause.

Figure 7.8: Index of Regulatory Burden (100-point scale)



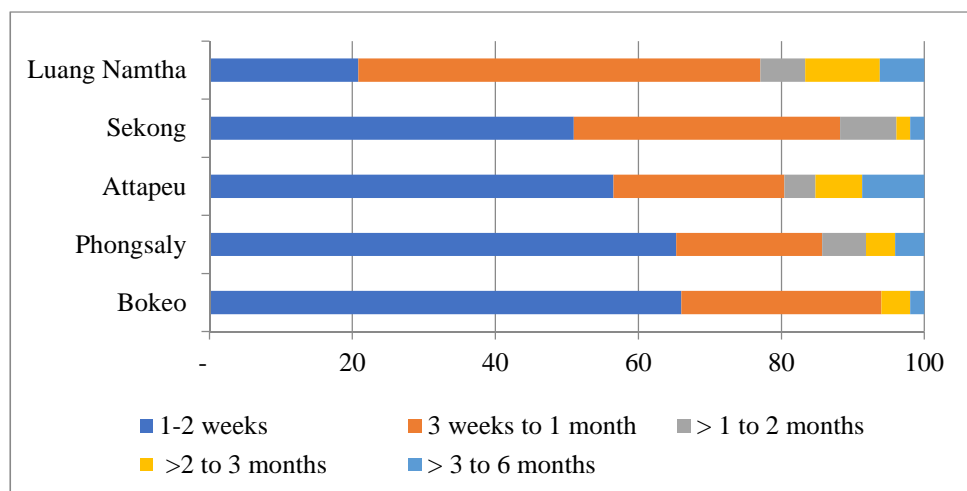
Phongsaly and Luang Namtha stand out by inspecting enterprises more than four times a year in 31% and 27% of the cases, while Bokeo and Phongsaly notably inspect companies more than two times in 56% and 60% of cases (Figure 7.9). This poses an excessive burden on companies, in time taken that is not available to manage the company and in opportunities for rent-seeking by inspecting officials.

Figure 7.9: Indicator: Number of Times Inspected by Provincial Government Authorities



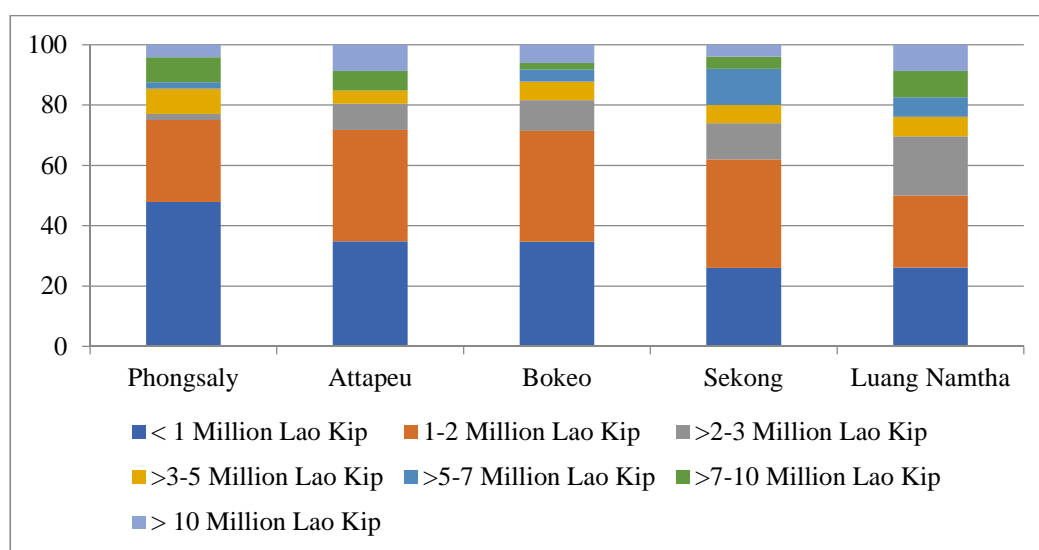
A special case is the necessity to renew the tax registration certificate annually. The survey shows that renewal is both slow and costly. In Luang Namtha, only 21% of applications are processed within two weeks (Figure 7.10). In Luang Namtha and Attapeu, around 20% of applications take more than one month to process.

Figure 7.10: Indicator: Time Taken for Renewal of Tax Certificate



The cost of renewal of the tax registration certificate can be significant. These costs include formal and informal charges. In Luang Namtha, 50% of firms pay over 2 million Kip annually (Figure 7.11). In Phongsaly, over 40% of companies pay less than 1 million Kip, but over 20% pay more than 2 million Kip.

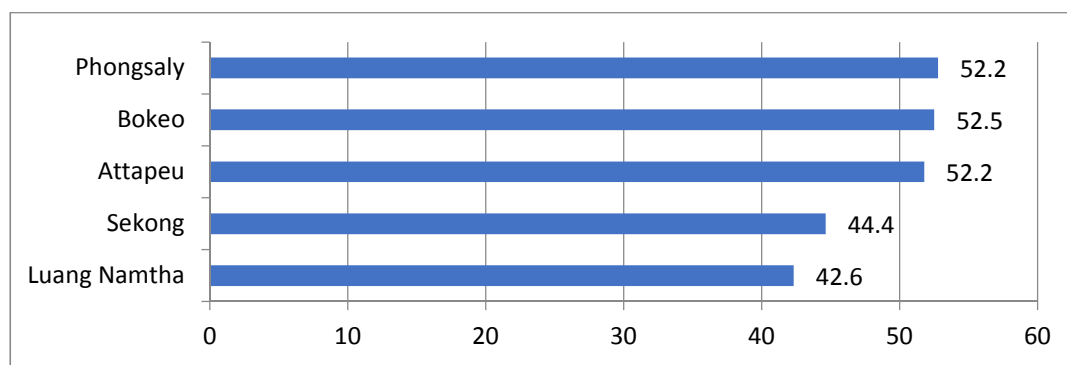
Figure 7.11: Indicator Cost of Renewal of Tax Registration Certificate



### *Informal Charges*

In Figure 7.12 below, the index of informal charges shows a wide variation between provinces, but all are scoring very low, which means that the payment of informal charges is very common. Phongsaly and Bokeo score a bit better than Luang Namtha and Sekong, which find themselves at the bottom.

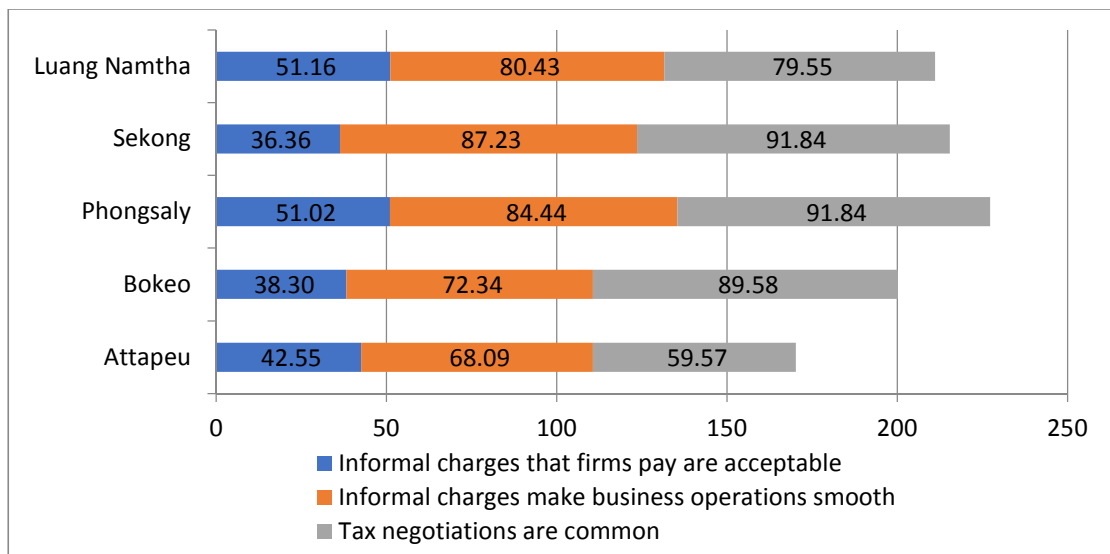
Figure 7.12: Index of Informal Charges (100-point scale)



There is not a significant difference in the percentage of businesses that pay informal charges. Luang Namtha (56%) is at the top and (44%) Attapeu is at the bottom.

Sekong and Phongsaly stand out as provinces where tax negotiations are the norm, closely followed by Bokeo (Figure 7.13). Informal charges are seen to be less acceptable in Sekong and Bokeo than in Phongsaly and Luang Namtha. The latter has the highest percentage that pays informal charges, while Luang Namtha is also the most expensive for informal payments.

Figure 7.13: Indicator: Informal Charges and Tax Negotiations  
% of respondents who answered “yes”



In terms of informal charges as percentage of overall company revenues, there are large variations between provinces. Figure 7.14 shows that Luang Namtha stands out as the most expensive by far, while Attapeu has the lowest informal charges. It is notable that over 60% of firms in Sekong do not pay informal charges. On the other hand, as noted earlier, Luang Namtha is expensive, with over 60% of firms paying more than 5% of revenue, and over 20% of firms paying more than 20% of revenue.

Figure 7.14: Indicator: Share of Informal Charges to Total Revenue

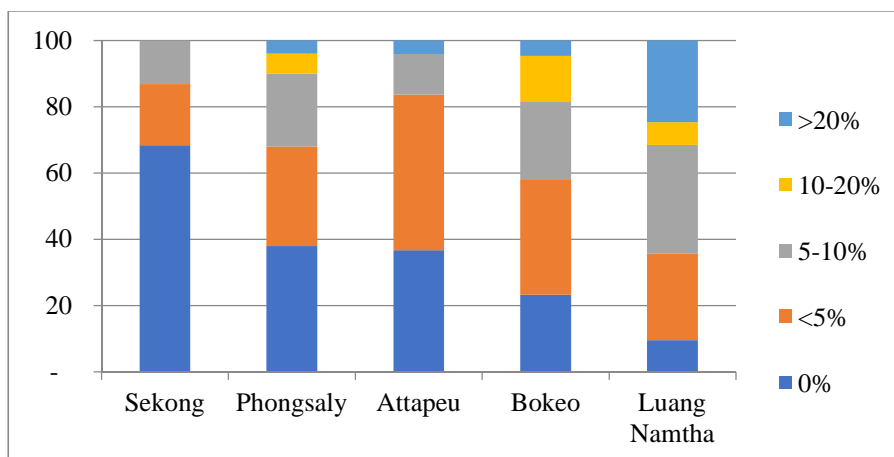
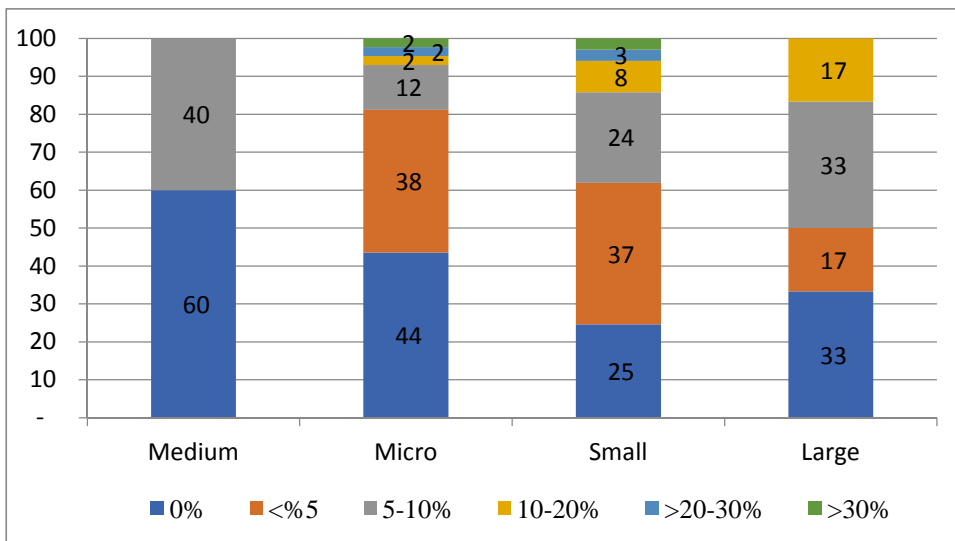


Figure 7.15 shows a mixed picture. One thing that stands out is that 60% of medium firms do not pay anything in informal charges, while this percentage is much smaller for the other three categories. It is deeply concerning that small enterprises pay much more than large enterprises, and that 50% of large and 40% of medium enterprises pay more than 10% of revenue in informal charges.

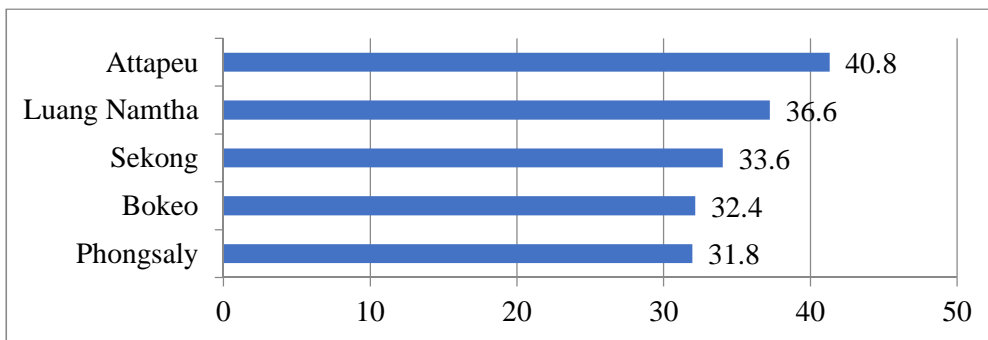
Figure 7.15: Average Informal Charges as Share of Revenue, by Firm Size



### *Consistency of Legal Implementation*

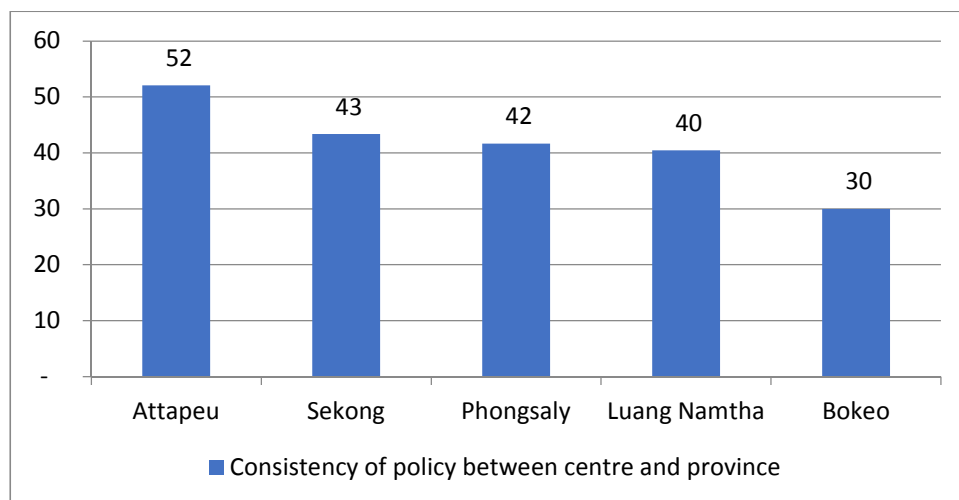
Figure 7.16 shows that there is a high level of inconsistency between the national law and its implementation at the provincial level. Attapeu is doing slightly better than the rest but a score of only 40.8 out of 100 is not encouraging from a national policy perspective.

Figure 7.16: Index of Consistency of Legal Implementation (100-point scale)



There is a strong perception that local governments are not good at implementing central government laws and regulations. This leads to a high degree of inconsistency across all provinces. Figure 7.17 shows that Bokeo stands out on the negative side with only 30% believing central policies are effectively implemented.

Figure 7.17: Indicator: Consistency of Policy Implementation  
 (% of respondents who answered “yes”)



As with the previous categories of province, firms observe that government give string preference to FDI over local firms.

### ***Business Friendliness***

The index of business friendliness of provincial governments shows a range of negative (54.6) to neutral attitudes) (Figure 7.18). Bokeo stands out at the bottom, as it has the highest percentages for a negative attitude and for being unhelpful. Interestingly, Attapeu has the highest “positive” score (33%), but also a very high “negative” score (22%) with a much smaller “neutral” score than the other provinces. It would be useful to further study these polarised views in Attapeu. As was observed with the larger provinces, the majority of firms reporting a neutral attitude of the provincial government is not considered to be positive.

Figure 7.18: Index of Business Friendliness (100-point scale)

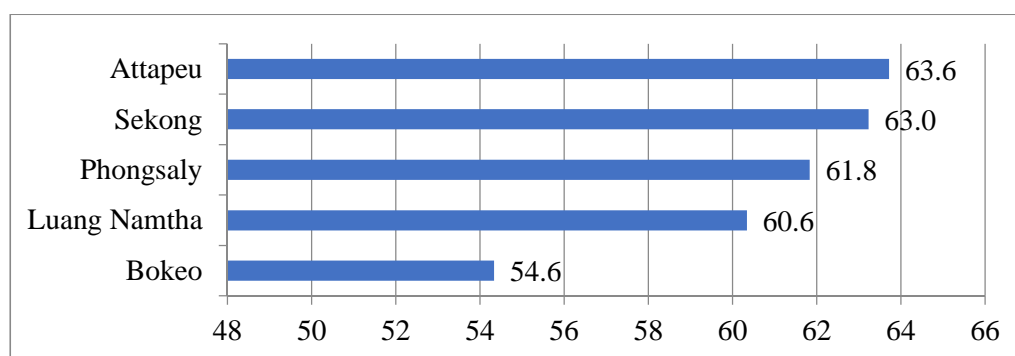
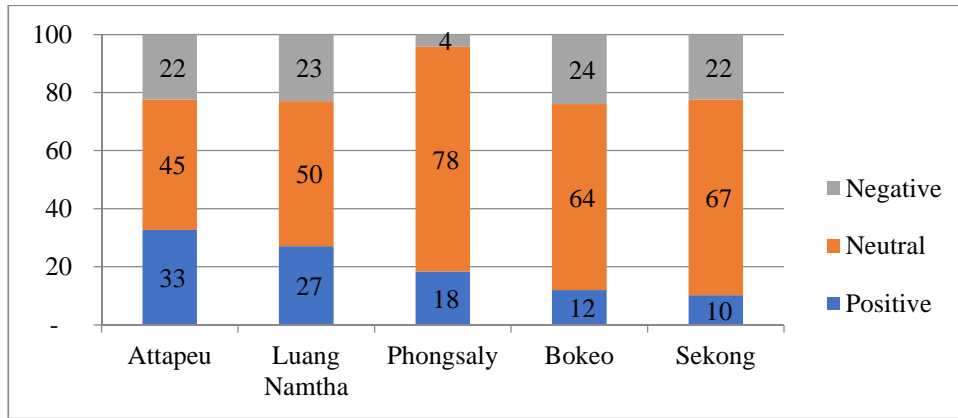


Figure 7.19 shows that Attapeu has the highest score for being business-friendly (albeit at a low 33 out of 100) and that Phongsaly has a remarkably low score for a negative attitude (4 out of 100), with a high neutral score.



Figure 1.19: Indicator Attitude of the Provincial Government towards the Private Sector (100-point scale)



The conclusions for this sub-index are that provincial governments are not very business-friendly (maximum score 64 out of 100), that overall few firms see provincial governments as having a positive attitude towards private business (10% to 33%), and a surprisingly large percentage local government as negative (22% to 24%).

## VIII. Selected Comparisons Across All Provinces

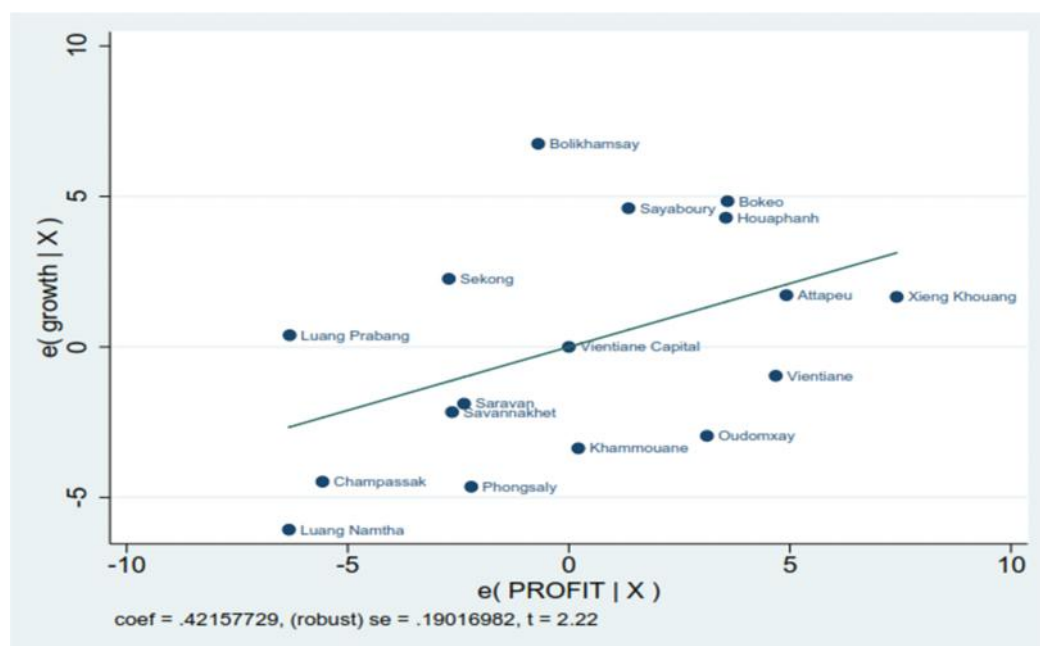
The ProFIT Survey and Index analysis are focused on how provincial governments are performing in private sector aspects of economic governance. The results are divided into three categories of province: smaller, medium and larger. This is warranted by the important differences between these categories in terms of the issues that are faced by the private sector. However, in several areas it is useful to make some comparisons across all provinces to draw lessons which may be useful for policy makers.

In this chapter, we will look at how the ProFIT Index relates to the growth in the number of firms. We will also look at the importance of the transparency sub-index and its relation to growth. Then we will look at the time and cost involved to start a business and how this has evolved in the last five years. We will also look at the time and cost involved in renewing the tax registration certificate, by economic sector and by firm size. Finally, we look at informal charges as percentage of revenue, also by economic sector and by firm size.

### *Growth in the Number of Firms*

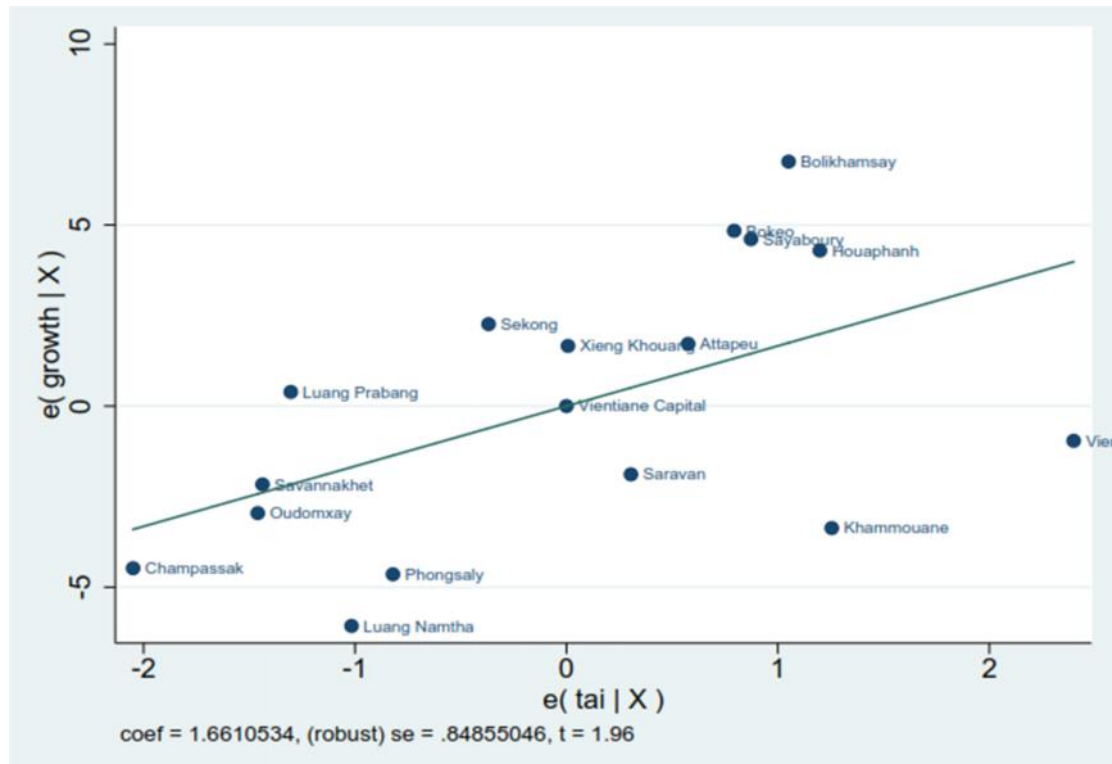
This aspect measures the number of new companies as a percentage of the total. Although not a perfect fit, there is a significant, positive relationship between the overall ProFIT score and the growth in the number of firms. The overall findings suggest that a 1% point improvement in the overall ProFIT score results in an additional growth in the number of enterprises of 0.42% (at a 95% significant level) as shown in Figure 8.1. It also shows the importance for provincial governments to pay close attention to the sub-indices and the indicators if they want to stimulate private sector growth.

Figure 8.1: Correlation Between Enterprise Growth and ProFIT Score, 2015-2016



The sub-index for Transparency and Access to Information plays a crucial role in the expansion of the private sector (Figure 8.2). There is a positive relation between an improvement in transparency and access to information and provincial private sector expansion. The findings suggest that a 1%-point improvement in the provincial transparency sub-index will result in an additional expansion in the number of enterprises by 1.66% (at a 95% significant level). Therefore, an improvement in transparency and access to information is a vital component to generate confidence to entrepreneurs and is a significant factor in creating a good business environment and support enterprise growth.

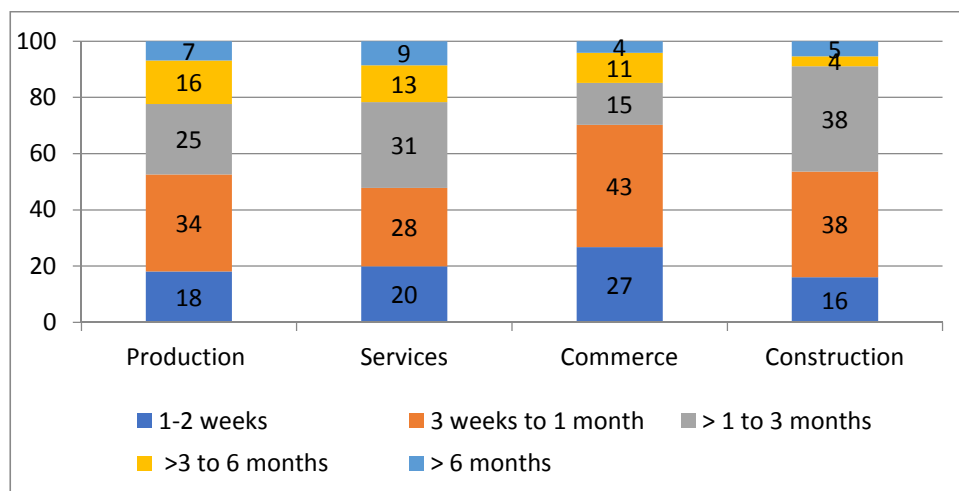
Figure 8.2: Correlation between Enterprise Growth and Transparency



### *Starting a Business*

When looking across all provinces at the time taken to start a business, by economic sector, there are some interesting differences. It could be expected that there would a relationship between capital cost outlays and speed of approvals. Commerce is the fastest as expected in this regard, with 70% of approvals granted within one month (Figure 8.3). Production and Construction take longer with 58% and 47% of applications needing more than one month to complete. However, applications in the Services sector take a relatively long time, with only 48% completed within one month. As the Services sector is growing to be more important as the economy modernizes, this warrants further investigation.

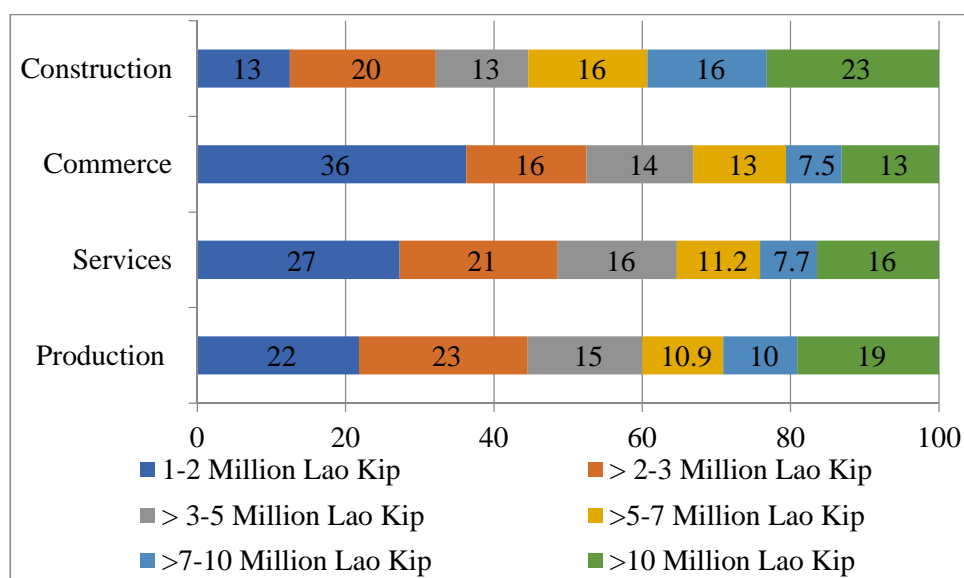
Figure 8.3: Time Taken to Start a Business, by Economic Sector



Note: This excludes obtaining a construction permit

The cost of starting a business in Construction is the highest with the lowest in Commerce. It is not clear, however, why Services is only marginally cheaper than Production. As with the time, above, this needs to be further investigated.

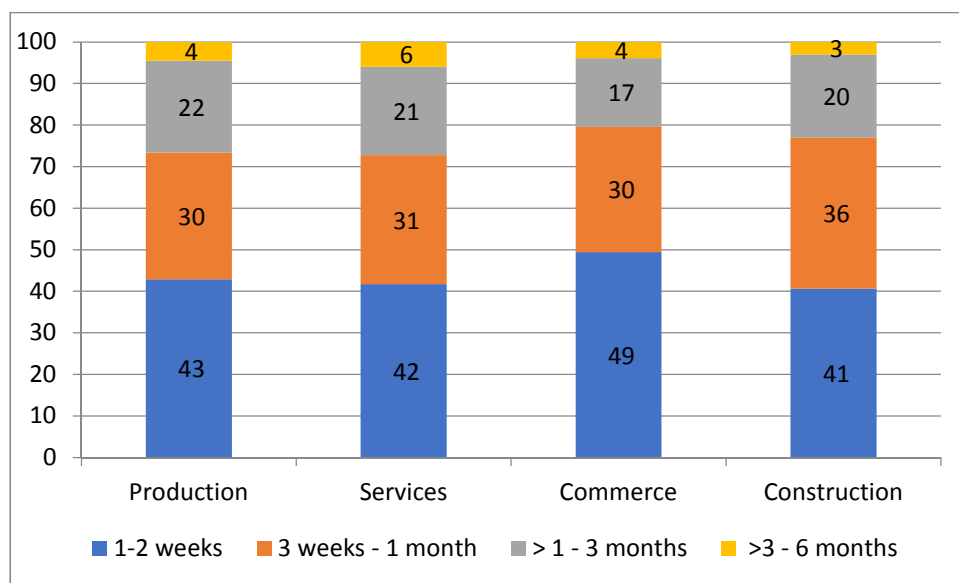
Figure 8.4: Cost of Starting a Business, by Economic Sector



Note: This excludes obtaining a construction permit

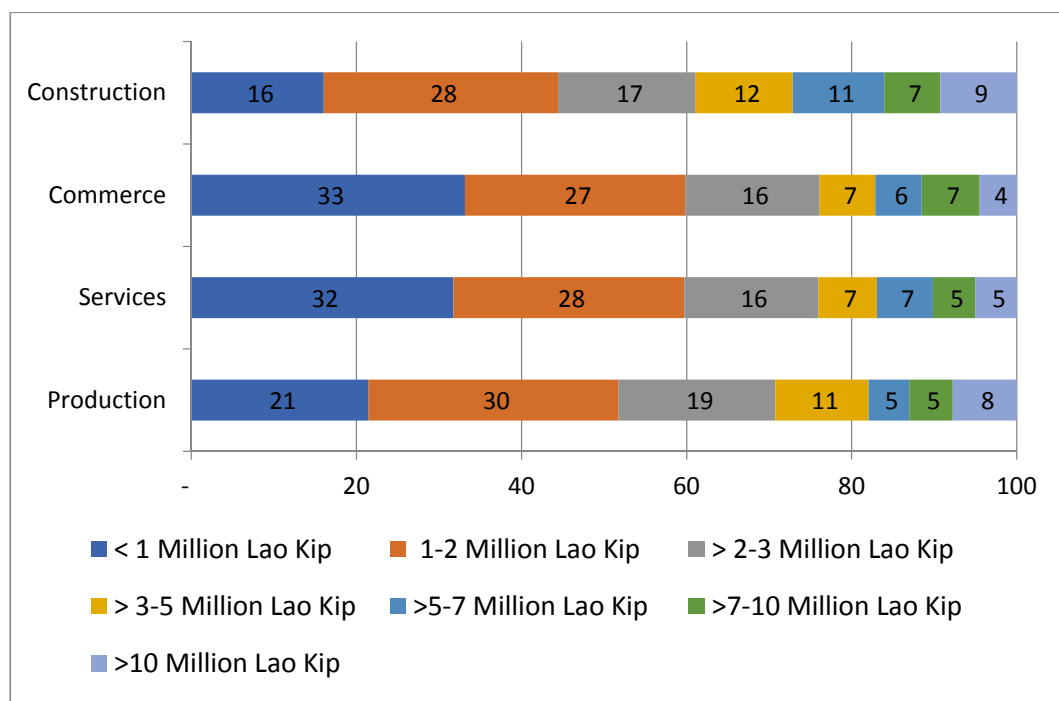
In the discussions of the three provincial categories, the issue of time and cost involved in renewing the tax registration certificate was highlighted. The fact that a tax registration certificate costs time and money is a clear indication of an unnecessary regulatory burden, of opportunities for graft by public officials and additional costs of doing business. Figures 8.5 and 79 shows the time and costs for the renewal, for all provinces and by economic sector. Remarkably, there is not much difference between economic sectors of the time involved. Over 50% in all cases takes more than two weeks, which is not acceptable from an efficiency and commercial point of view.

Figure 8.5: Time Needed to Renew a Tax Registration Certificate, by Economic Sector



The costs, however, vary by economic sector. In Construction, 39% pays more than three million Kip annually, while in Commerce and Services around 24% pays that amount. In Production, this is 29%.

Figure 8.6: Cost to Renew a Tax Registration Certificate, by Economic Sector



When time and cost of renewal of the tax registration certificate are analysed by firm size, a relationship with the size of a firm emerges (Figures 8.7 and 8.8). There is, however, a small

difference between small and medium firms, in favour of the medium firms. This may be a statistical anomaly. What is concerning is that 57% of micro enterprises pay more than 1 million Kip, that 48% of small enterprises pay more than 2 million Kip, and that 34% of medium enterprises pay more than 3 million Kip. These are serious cost burdens on firms, without any clear economic or social benefits.

Figure 8.7: Time Needed to Renew a Tax Registration Certificate, by Firm Size

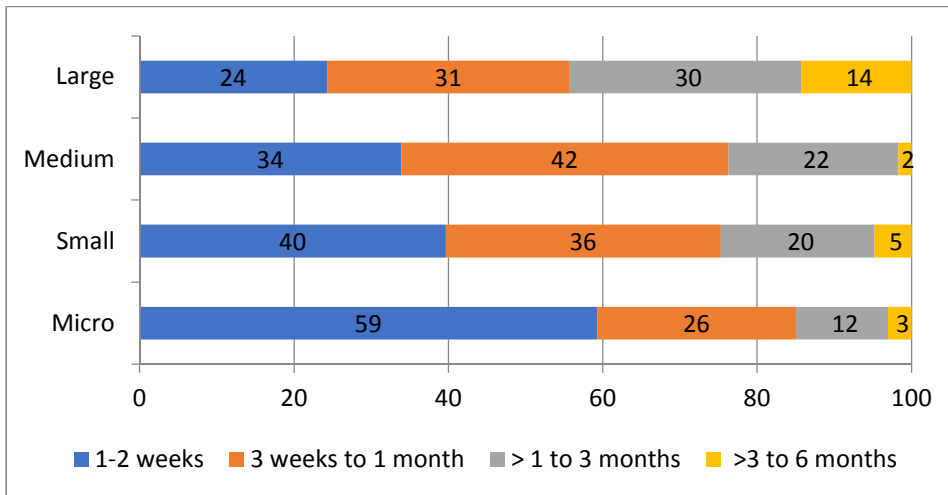


Figure 8.8: Cost to Renew a Tax Registration Certificate, by Firm Size

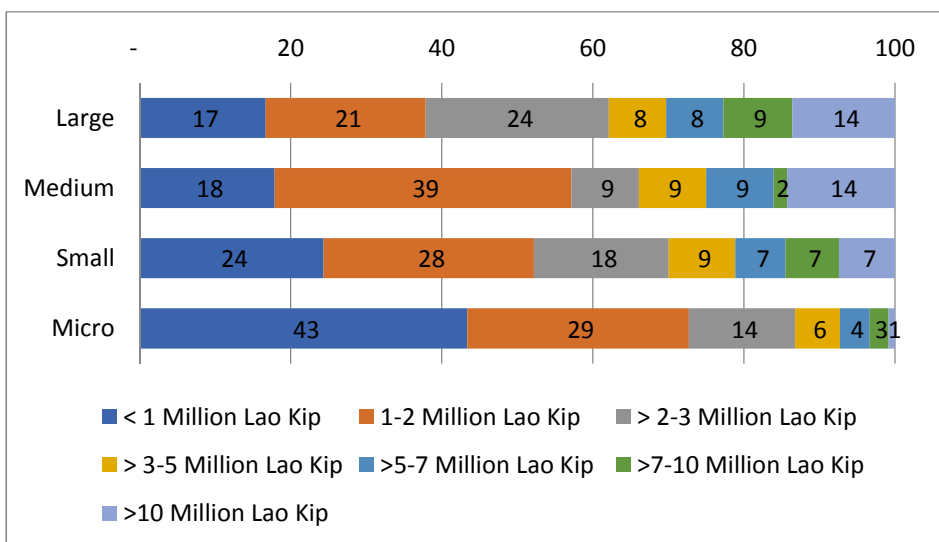
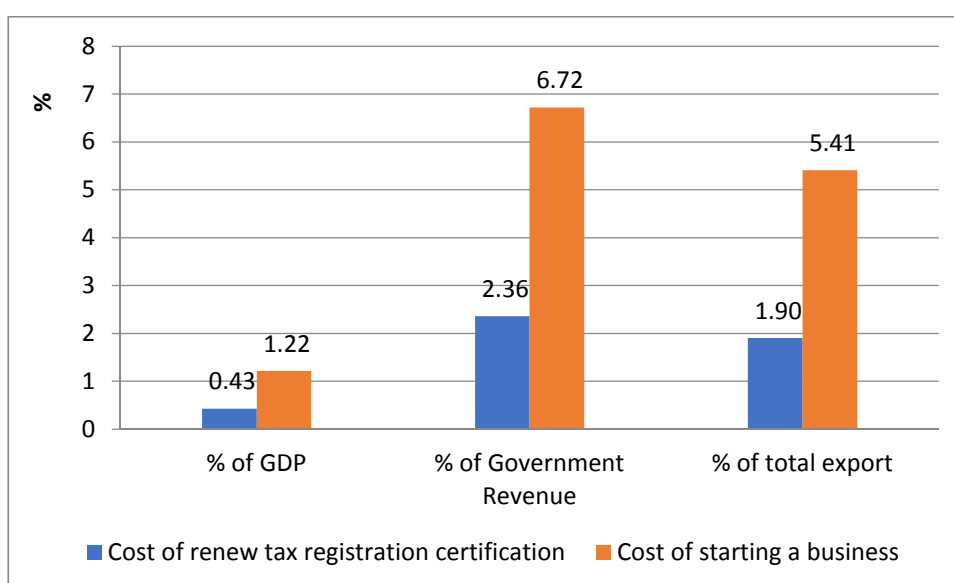


Figure 8.9 shows the relative cost of starting a business and of renewal of the tax registration certificate. Starting a business (enterprise registration, tax registration certificate and company seal) has an average cost of Kip 9.1 million. When multiplied with the total number of enterprises, the total cost of starting a business is Kip 1,221 billion, which represents 1.2% of the GDP, 6.7% of total government revenue and 5.4% of the total exports, in 2015. The total cost of renewal of the tax registration certificate is approximately Kip 429 billion, which accounted for 2.4% of the total government revenue and 1.9% of the total exports. These results demonstrate that the cost of starting a business is a significant factor that affects overall operating costs, profitability and competitiveness.

Figure 8.9: Cost of starting a business and renew tax registration certificate by economic sectors in 2016



## **IX. Conclusions and Policy Implications**

This first ever ProFIT survey in Lao PDR has yielded valuable insights. The presentation of the results in this 2017 report leads to several conclusions and policy recommendations. The ProFIT survey contains much more information than has been presented here. The data set will be publicly available, and governments, academia, students and other interested parties are encouraged to analyse the data and draw their own conclusions on important matters. In this chapter, we look at some of the main conclusions from the data analysis and present policy recommendations for provincial governments. In addition, we also discuss some broader policy recommendations for the national government to consider.

### **Conclusions**

#### ***Ease of Starting a Business***

It is not easy to start a business in Lao PDR, no matter which province. This is confirmed by the World Bank Ease of Doing Business Survey (2017), where Lao PDR ranks 139 out of 190 countries for starting a business. For the larger provinces, it is slightly easier and cheaper to start a business in Vientiane Province, Vientiane Capital and Savannakhet. Luangprabang and Champasack are slow and expensive when it comes to business registration. Interestingly, in the medium sized provinces, business registration is often much quicker and involves lower costs. Oudomxay and Xieng Khouang are relatively fast in approving business registration, while Khammouane and Bolikhamsay are relatively slow and expensive. Among the smaller provinces, Attapeu and Phongsaly stand out because of their rapid approvals, while business registration costs are very high in Sekong and Luang Namtha.

#### ***Transparency and Access to Information***

It is not easy for firms to get access to essential government information, whether it is plans and budgets, regulations or official fees and costs. Vientiane Province has the highest score for access to at least one document, while all other provinces in the three categories score low. An essential tool for providing access to important information is the provincial website. Four out of 17 provinces do not have a website to start with (Luangprabang, Champassak, Savannakhet and Luang Namtha). For the remainder 13 provinces, the quality is low, with information provided not being kept up to date. Improving transparency is critical, as this has the strongest relationship with actual private sector growth.

#### ***Regulatory Burden***

Inspections by provincial government authorities are a burden on business, which come on top of inspections by other authorities as deemed necessary by central and district governments. There is a clear difference between categories of provinces and between provinces. Among the larger provinces, Champassak stands out with over 50% getting inspected three times or more each year. This in contrast to Vientiane Province, where only 22% get inspected three times or more. Among the medium provinces, Sayaboury stands out with 58% getting inspected three times or more, while this is only 24% for Saravan. Among the smaller provinces, Phongsaly has a score of 60% for three times or more, while even in



the best scoring small province, Attapeu, 42% get inspected more than three times. The trend appears to be that businesses in the smaller provinces get inspected more often than the larger provinces.

The law demands that tax certificates need to be renewed annually. From both a policy perspective and a business perspective, such renewals should be automatic and with minimal cost. Yet it is clear from the results that renewing the tax certificate every year is a major hurdle in terms of time and money. Among the large provinces, Vientiane Province has the fastest turn-around, while Champasack is the slowest in reaching the two-week benchmark. The costs involved in renewing the tax certificate are the lowest in Vientiane Province and Vientiane Capital, while they are the highest in Luangprabang and Champasack. In the medium provinces, Oudomxay and Houaphanh stand out with a high score for renewal within two weeks. Khammouane is slow. At the same time, Khammouane is also the most expensive, while costs are generally lower in Oudomxay and Xieng Khouang. Among the smaller provinces, Phongsaly and Bokeo are faster (on the two-week benchmark) while Luang Namtha and Sekong are the most expensive.

### ***Informal Charges***

Informal charges are a sensitive area, and not all respondents can be expected to fully answer these questions. But aggregate numbers tell a story. There is a wide range between provinces, with 53% to 81% of respondents in larger provinces reporting that they pay informal charges, 34% to 88% in medium provinces and 46% to 56% in smaller provinces. Among the larger provinces, payment of informal charges is more common in Luangprabang and Savannakhet. Among the medium provinces, Saravan and Khammouane stand out in this respect, while in the smaller provinces, there is little variation. If not all respondents were frank in their responses, it can be concluded that payment of informal charges is common in most provinces, with Xieng Khouang and Oudomxay being the best performers.

Tax negotiations are very common throughout all provinces, with businesses in Attapeu, Saravan and Xieng Khouang reporting lower occurrences than in the other provinces. Over 90% of businesses in Bolikhamsay, Sekong and Phongsaly report that tax negotiations are common, indicating a tougher business climate in those provinces as tax liabilities are not predictable and transparent, and ample opportunities for rent-seeking behaviour exist. The responses on the share of informal charges to total revenue are interesting. In certain provinces, some respondents reported as much as over 20% of total revenue. That appears to be high, but plausible if they concern smaller and newer businesses with little or no revenue. There are remarkable differences between provinces. Among the larger provinces, Vientiane Capital stands out being the most expensive, while Luangprabang has the lowest charges as percentage of revenue. Oudomxay and Bolikhamsay charge the highest among the medium provinces and Luang Namtha stands out in this respect among the smaller provinces. Across all provinces, informal charges as percentage of total revenue are high, adding substantially to the cost of doing business. Provinces that have a high percentage of respondents reporting 0% of revenue include Luangprabang (39%), Houaphanh (53%) and Sekong (69%).

### ***Consistency of Legal Implementation***

This sub-index has four indicators: whether firms with good government connections have an advantage, whether the government favours FDI, whether provincial government offices coordinate well with central offices, and whether there is policy consistency between the

centre and province. The combined score for all provinces is low, with a score of 45 (Bolikhamsay) being the highest and 31 (Champasack) being the lowest. Of importance seems to be the feeling firms who have good connections in the government have an advantage in obtaining government contracts.

### ***Business Friendliness***

There is a wide variation in what respondents feel about the attitude of provincial governments towards private business. While the majority is neutral on the subject, those that feel negative about the government attitude range from 19% to 35% in the larger provinces, from 6% to 39% in the medium provinces and from 4% to 23% in the smaller provinces. Provinces with a negative score over 25% include Luangprabang, Bolikhamsay and Saravan. Respondents were also asked how they felt the support from the provincial government for private business is. Again, the majority is neutral on the subject. The score for “unhelpful” ranges from 9% to 27% in larger provinces, for 4% to 10% in medium provinces and 8% to 20% in smaller provinces. Luangprabang is the only province with a score of over 20% for being unhelpful.

### **Policy Implications**

It is the stated policy of the Government of Lao PDR to promote private sector-led economic growth, strive for economic diversification and ensure job creation in the private sector, especially the SME sector. Over the last ten years, the Government has worked hard to improve the business climate, notably with the introduction of the “one-window” service desk at the central and the provincial levels. Many of the Government’s policies are implemented by provincial governments. The 2017 ProFIT Index shows clearly the differences in implementation between provinces, and consequently point to the policy implications. We first discuss the policy implications for provincial governments followed by those for the Government of Lao PDR

#### ***Provincial Governments***

As the six sub-indices of the ProFIT Index and their 16 indicators have made clear, there is a lot of room for improvement in all areas, and other ones that are not covered by this analysis. This discussion of policy implications focuses on those areas where progress is relatively easy to achieve (low-hanging fruit) and, consequently, provinces could already show progress in the next 2018 ProFIT survey.

##### **1. Renewal of Tax Certificates**

The renewal of tax certificates takes far too long and is in many cases too expensive. Provincial governments wanting to promote private sector development and support businesses should strive to renew a tax certificate automatically and promptly, at minimal cost. The regulatory burden score could be easily improved by doing this.

##### **2. Provincial Website**

The provincial website is a great way to communicate with private businesses and make relevant information available to companies. Four provinces can make good progress by

having a website, while the other provinces can greatly improve their scores by updating their websites regularly and putting on the relevant documents.

### **3. Business Friendliness**

The attitude of provincial governments is by and large neutral towards private businesses, with a significant percentage being negative and unhelpful. A focus by the provincial leadership on improving this through staff training and special programs would help improve these scores in the next few years. Putting helpful information about company operations and requirements on the website will also help improve the business environment.

### **4. Starting a Business**

This is a more complex area as the registration requirements differ for different types of businesses. However, the large differences between the time taken and the cost involved show that there are important local factors at work. All provinces can make good progress by limiting the time to approve a business registration by limiting unnecessary checks and inspections and by publishing the fees and costs involved on their website.

### **5. Level Playing Field**

There is a strong feeling that companies with good connections in provincial governments have an advantage when bidding for government contracts. This is negative for business sentiment, efficiency and cost effectiveness. By publishing procurement opportunities on the website, and opening procurement bids publicly, costs could be substantially reduced and a level playing field for private companies promoted.

### **6. Information Sharing**

The IFC used to support the Provincial Private Dialogue, to promote a better understanding between government officials and the private sector. Unfortunately, funding for that initiative was stopped. However, such a dialogue should not be expensive, and provincial governments who will manage to start the dialogue again (with the LNCCI), on a regular basis with a public agenda and published minutes of discussion, could do well in promoting private businesses and in the ProFIT Index.

## ***National Government***

The national government plays an important role in ensuring that national policies are implemented as intended at the provincial level. It does this through issuing instructions, through continuous dialogue and through training. To support the improvement of performance in the ProFIT Index, and thereby realising the policy of supporting and promoting private business, the national Government could look at the following:

### **1. Tax Administration**

Simplify the requirements for renewal of the tax registration certificate and standardise the time and cost involved. This would greatly help provincial governments improve their performance.

## **2. Website**

Put in place a national website with all business registration and renewal requirements, effectively combining information from MPI, MOIC, MOF and the line ministries in one place. Then require provincial governments to explain on their websites how they are implementing these national policies and requirements.

## **3. Business Friendliness**

The national government should provide support to provincial governments by designing a training program that would help local officials to better understand the importance of being positive and helpful towards companies, while at the same time applying the regulations and enforcing the law.

## **4. Level Playing Field**

The national government could help provincial governments by designing a standard web-based procurement system that will allow all companies to participate equally in a public bidding process.

## **Appendices**

## Appendix 1

Table 1: Summary of Countries that have Estimated Economic Governance

<b>Country and title (Year of first implementation)</b>	<b>Conceptual Approach</b>	<b>Information Source</b>	<b>Utilization (No of times implemented)</b>	<b>Sustainability</b>
1. Vietnam PCI (2005)	Economic governance	Business surveys, hard data	Well-supported (10+)	Likely sustainable
2. El Salvador MCI (2009)	Economic governance	Business surveys	Well-supported (3+)	sustainable
3. Philippines CMCI (2013)	Business environment	Business environment	Well-supported (2+)	sustainable
4. Croatia RCI (2007)	Business environment	Mostly hard data; business surveys	Well-supported (3+)	Potential
5. Kosovo MCI (2011)	Economic governance	Business surveys	Well-supported (5+)	Potential
6. Mongolia PCI (2013)	Business environment	hard data; business surveys	Well-supported (3+)	Potential
7. Bulgaria LBEI (2008)	Economic governance	Hard data, business surveys	Limited (1)	Discontinue
8. Bangladesh DEGI (2010)	Economic governance	business surveys	Limited (1)	Discontinue
9. Cambodia PBES (2006)	Economic governance	business surveys; some hard data	Limited (2)	Discontinue
10. Indonesia LEG (2007)	Economic governance	business surveys; hard data	Limited (2)	Discontinue
11. Malaysia BEI (2012)	Economic governance	business surveys; data collection	Limited (1)	Discontinue
12. Sri Lanka EGI (2007)	Economic governance	business surveys; hard data	Limited (1)	Discontinue
13. Tamil Nadu, India EEI (2009)	Economic governance	Business household surveys; hard data	Limited (1)	Discontinue



Table 2: Comparing the subindices of the Subnational Indices

Country Index	Entry costs	Land access, Prop right	Informal Illegal charge	Transparen- cy, Bus. Participation	Time Complying with regs	Legal Institutions Dispute resolu	Local govt. pro-activity	Crime, public safety	Taxes rates	Infra- structure	Bus. dev. Services	Work- force training	Enviro Sustain- ability
1. Vietnam PCI (2005)													
2. El Salvador MCI (2009)													
3. Philippines CMCI (2013)	Broadly defined												
4. Croatia RCI (2007)	Broadly defined												
5. Kosova MCI (2011)													
6. Mongolia PCI (2013)	Broadly defined												
7. Bulgaria LBEI (2008)													
8. Bangladesh DEGI (2010)													
9. Cambodia PBES (2006)													
10. Indonesia LEG (2007)													
11. Malaysia BEI (2012)													
12. Sri Lanka EGI (2007)													
13. Tamil Nada, India EEI (2009)													

Source: Country index reports; Malesky and Merchant-Vega, 2011