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School of Government, College of Law, Government and International Studies

Universiti Utara Malaysia

06010 UUM Sintok, Kedah.

Tel. : 04-9287901

Fax : 04-9287914

Email : [jgd@uum.edu.my](mailto:jgd@uum.edu.my)

# **Sustainability of Small and Medium Enterprises (SMEs) in Indonesia: A Framework of Analysis**

H. Indra Muchlis Adnan\*  
*Universitas Islam Indragiri, Riau, Indonesia*

\*Corresponding author's email: [indra.inhil@gmail.com](mailto:indra.inhil@gmail.com)

## **ABSTRACT**

*There is a lack of comprehensive literature on the sustainability of SMEs in Indonesia. This paper, therefore, aims at filling in this gap by analyzing barriers towards sustainability of Indonesian SMEs. Spurred by a regional economic integration, the growth of Indonesian economy depends largely in part on the success of SMEs development. However, lack of government intervention causes widespread concerns among small and medium business owners which, in turn, affect their ability to compete fairly in an open market economy. Based on this framework, the paper attempts to highlight areas of concern that inhibit the ability of SMEs to be competitive in a globalized world. The paper then recommends several strategies that need to be implemented by the government in order to address the internal and external factors affecting the competitive sustainable advantage of SMEs in Indonesia.*

**Keywords:** *Sustainability, Small and Medium Sized Enterprises, Indonesia*

## **INTRODUCTION**

The presence of Chinese products, even before the ASEAN-China Free Trade Area (ACFTA) in early 2010 significantly affects the level of competition among local entrepreneurs. In Central Java, for example, there are a lot of entrepreneurs who are unable to compete due to an overwhelming competition from Chinese products. Those who previously could produce, now prefer to be traders or distributors. Without the support or protection from government, local businesses continue to suffer .

Such conditions should not be allowed to continue and protracted, because it could affect the national economy. In fact Indonesia is targeting in 2016 per capita income of U.S. \$ 5,000 per year so it could be equal with countries of the world's middle class. The target of that size means an increase of nearly

60% of per capita income which is now in the range of U.S. \$ 3,000 per year. This is certainly not easy, because the next five years the Indonesian economy is forecasted to grow about 6% -7%. Inevitably, the government must unravel the cause, and find a way out so that the phenomenon of decrease in the level of effort does not continue. Economic infrastructure must be improved and made available as needed. A conducive business environment is very important in order to encourage business growth among the local entrepreneurs. In addition to that, government should also take steps to negotiate with other countries so that the emerging free trade agreements do not threaten the sustainability of local businesses.

Small and Medium Enterprises (SMEs) have a strategic role in national economic development. During the last economic crisis, many business owners closed their business but Small and Medium Enterprises (SMEs) proved more resilient and were able to survive even with marginal profits. Unfortunately, government has not given much attention and help to the development of SMEs due to the perception that their products are in small scale and have not been able to compete with other multi national corporations. Therefore, in order to sustain the local economy, government policy in the future should focus more attention to grow and develop these SMEs.

### **CONDITION OF SMEs IN INDONESIA**

The number of SMEs in Indonesia are very high considering the fact that most businesses in Indonesia are in the form of small and medium scale enterprises (SMEs). Further, in the amount of turnover and assets, the overall turnover and assets of SMEs in Indonesia together have surpassed even some of the biggest companies in Indonesia. These data indicate that SMEs are in fact important to the local economy. Besides maintaining a stable economy, SMEs offer employment, increase GDP, develop businesses, and increase revenues for state and local governments through taxation.

### **OBSTACLES FACED BY SMEs**

SMEs have an important role in the development of business in Indonesia especially in Indragiri Hilir. SMEs are a catalyst for growth of big business. Almost all big businesses started from SMEs. Small and medium enterprises (SMEs) should be increased and active in order to advance and compete with larger companies. SMEs in Indragiri Hilir have shown a higher durability and a buffer of life. Most owners of SMEs are housewives who use the

extra income to support the family and enhance the well-beings of family members.

The responsibility to develop SMEs is not only confined to government. The government in essence has an obligation to help solve three classical problems that often hit the SME, i.e. market access, capital and technology which has often been the talk in seminars or conferences. Overall, there are several things that must be considered in conducting the development of SME's business units, including working conditions, promotion of new businesses, access to information, access to financing, market access, improving product quality and human resources, the availability of business development services, cluster development, network business, and competition. Meanwhile, with the help of private sector, SMEs can become a formidable force in the Indonesian economy. For example, the role of the banking sector is also very important in relation to all matters concerning finance, especially in terms of lending policy determination.

Thus, efforts to develop SMEs must be comprehensive. For example, strategies to develop SMEs must be integrated with national economic development plan and implemented on a continuing basis. Economic policies should be geared at creating strong linkages between large enterprises and SMEs. Currently, the Ministry of Cooperatives and Small and Medium Enterprises plans to create 20 million new small and medium businesses in 2020. 2020 is a promising future because so many opportunities will manifest as ASEAN becomes an economic community as stipulated in the Bali Concord II. This enhanced economic community will allow the circulation of unrestricted goods and among countries in ASEAN. The open market economy will be good for SMEs because of the the larger market segmentation for Indonesian products. However, before Indonesian SMEs are ready to compete with other companies from ASEAN, it is imperative that the government introduce measures to reduce the ongoing issues facing many SMEs. Besieged by a host of internal and external obstacles, Indonesian SMEs cannot become sustainable if these issues are not being addressed quickly.

In general, the problems faced by Small and Medium Enterprises (SMEs), among others, include:

#### A. Internal factors

1. Management of Small and Medium Enterprises Still Characteristically Generally Traditional
2. Lack of Limited Access to Capital and Financing
3. Untrained Human Resources (HR)

4. Access to information is weak. Small businesses are generally a family business unit, have a very limited business networks and low market penetration capabilities, plus the resulting product is very limited in number and have the qualities that are less competitive.
5. SME Entrepreneur Mentality. The spirit of entrepreneurship of the SMEs is lacking. For example, willingness to innovate, tenacious without surrender, be willing to sacrifice and to take risk.
6. Inadequate Formal Legality
7. Limited access to credit to financial institutions, particularly banks.
8. Lack of Limited Access to Capital and Financing

## B. External Factors

### 1. Limited Infrastructures

Lack of information relating to the advancement of science and technology, leading facilities and infrastructure. In addition, SMEs often face difficulty in obtaining a place to run its business due to high rents or where there is less strategic.

### 2. Illegal Charges

Extortion becomes one of the obstacles for SMEs. This happens repeatedly, eg every week or every month.

### 3. Implications of Regional Autonomy

With the enactment of Law no. 22 of 1999 on Regional Government which was amended by Law no. 32 of 2004, local authorities have the autonomy to organize and manage the local community. These changes will have implications for small and medium-sized businesses in the form of new levies imposed on SMEs. If this condition is not addressed soon it will reduce the competitiveness of SMEs. In addition, the spirit of excessive regionalism, sometimes creating conditions that are less attractive to employers outside the region to expand its business in the area.

### 4. Implications of Free Trade

ACFTA which came into force in 2003 poses broad implications to small and medium enterprises to compete fairly. In this case, SMEs are required to be productive and efficient, and can produce products that correspond to the frequency of the global market with quality standards such as the issue of quality (ISO 9000), environmental (ISO 14,000), and the issue of Rights

(Human Rights) as well as employment issues. These issue are often used unfairly by the developed countries as an obstacle (Non Tariff Barrier for Trade). To that end, SMEs need to prepare themselves to compete both comparative advantage and competitive advantage.

#### 5. Nature of Products

Most of the products of small industries have traits or characteristics as the products and crafts with a short resistance. In other words, the products produced by SMEs Indonesia are fragile and not durable.

#### 6. Limited Market Access and Information

Limited market access inhibit the SMEs product to be marketed competitively in both the national and international markets. In addition to access to financing, SMEs also find it difficult in terms of access to information. The lack of information influences the ability of SMEs products to compete against other products. On the other hand, there are products or services that can potentially compete in the international market but are unable to do so because of limited opportunities.

#### 7. Not Fully Conducive Business Climate

Efforts to empower small and medium enterprises (SMEs) from year to year are always monitored and evaluated in terms of its contribution to gross domestic product (GDP), employment, exports and the development of business actors. Overall macro-economic indicators are always used as a reference in policy making and the empowerment of SMEs to be an indicator of success.

### **STRATEGIES FOR THE DEVELOPMENT OF SMEs**

From the description of the problems faced by SMEs in the above there are several steps that can be taken by the Government in order to cultivate future Small and Medium Enterprises:

#### 1. Creation of a Conducive Business Climate

Governments need to pursue the creation of a conducive climate, among others, by striving for simplification of business licensing procedures, tax breaks and so forth.

## 2. Capital Assistance

The government needs to extend special credit scheme under the conditions that are not burdensome for SMEs, to help increase its capital, either through formal financial services sector, informal financial services sector, guarantee schemes, leasing and venture capital funds. Financing for SMEs should use the Micro Finance Institutions (MFIs) of existing and non-banks.

## 3. Business Protection

Certain types of businesses, especially the kind of traditional businesses that are economically weak, should get protection from the government, either through legislation or government regulation that is geared towards mutually beneficial (win-win solution).

## 4. Strategic Partnership

Government needs to develop partnerships of mutual help among SMEs, or between SMEs and large employers in the country and abroad, to avoid a monopoly in the business. In addition, also to expand market share and more efficient business management. Thus, SMEs will have the strength to compete with other business actors, both from within and abroad.

## 5. Training

Government needs to improve training for SMEs in both aspects of entrepreneurship, management, administration and knowledge and skills in business development. In addition, SMEs should be given opportunities to apply the results of training in the field to practice the theory through the development of pilot partnerships.

## 6. Establish Special Institutions

It is important that government tries to develop a specialized agency responsible for coordinating all activities related to SMEs cultivate efforts and also serve to find solutions in order to address both internal and external problems faced by SMEs.

## 7. Business Association

Associations that already exist need to be strengthened, to enhance its role in the development of networks among other business information that is needed for business development for its members.



## 8. Increased Promotion

To further speed up the process of partnership between SMEs and large enterprises, government needs special media in an effort to promote the products produced.

## CONCLUSION

This exploratory research investigates the internal and external factors that inhibit the ability of SMEs in Indonesia to be sustainable in light of competition from Chinese products as well as products from ASEAN countries. The eminent threat of free trade agreements such as ACFTA and the establishment of ASEAN Economic Community pose an even greater challenge to the survival of SMEs. Therefore, it is imperative that government steps in to establish developmental programs that enhance and equip SMEs entrepreneurs to face these challenges. With the right intervention strategies, SMEs in Indonesia will be more resilient to face the competition and contribute to the national economy. On the other hand, if no concrete plans to help the SMEs are available, then SMEs will be unable to have a sustainable competitive advantage over foreign competitors.

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# **The Civil Service, Good Governance and Democracy in Nigeria**

**Musa Abutudu, PhD\***

*Department of Political Science, University of Benin, Benin City, Nigeria*

\*Corresponding author; email: abutudu.musa@uniben.edu

## **ABSTRACT**

*The civil service has the crucial responsibility of giving concrete expression to the aspirations of any government. Governments therefore often spare no efforts in aligning the civil service with its performance expectations. Since the late 1980s, but more importantly, from 1999, the attempts to reform the civil service have been made in the context of the general economic reform programmes sponsored by the World Bank and the International Monetary Fund. These reforms sought to anchor the civil service on professionalism, transparency, accountability and responsiveness. All these summed up into good governance. However, in spite of the ethical universality which the concept of good governance seem to suggest, it actually came out in practice as a device meant to reorient the civil service to put the private sector and its businesslike processes at the core of public service delivery. The contradictions that have been thrown up in this reorientation have not only led to a decline in the publicness of the civil service, it has also led to the growing personalization of the delivery of public entitlements in the service. In the circumstances, the reforms have tended to undermine juridical certainty which in a democracy, define and create legal entitlements in public administration.*

**Keywords:** *Civil Service; Democracy; Governance; Juridical Security; Service Delivery.*

## **INTRODUCTION**

The civil service is the core agency of public administration, which has been defined as “the machinery, as well as the integral processes, through which the government performs its functions” (Nnoli, 2000: 44). Matters involving decision-making, planning, and advising, among others which are aspects of the routine activities of governments are actually carried out within the civil service. This makes the civil service and the civil servants critical objects of encounter between the state and the citizens. To this extent, whatever image the broad mass of people may have of the state is shaped to a large extent by the quality and performance of the civil service. As a core machinery of the state, the quality of advice, planning and policy implementation

that emanates from the civil service are some of the major measures of the efficiency and effectiveness of any government (Ezeani, 2005: 124). It is for this reason that governments often go to great length to align the civil service with its performance expectations, or at least, justify civil service reform processes as one of enhancing productivity and service delivery.

African bureaucracies have been the subject of various attempts at transformation since independence in the 1960s. These initial efforts at changes were driven by the need to de-racialise, indigenise and retool them for rapid economic and social development. In this process, the political ideological thrust of the development process embarked upon by the state has proved to be a significant driving force in the shape and direction of civil service reforms (Mukandala, 2000). By giving practical content to the policies and programmes which embody the political and ideological interests of government, the civil service provides a critical support base for government. In a democracy, the efficient delivery of the dividends of democracy through the implementations of decisions and policies is of crucial to governmental performance. The way the civil service is structured and its underlying philosophy will also be critical in determining the kind of advice it gives to government, how it plans for, and manages the resources of government.

In spite of the fact that the civil service gives content to the politically and ideologically determined policies and programmes of government, it is itself expected to carry out these functions in a depoliticized, impartial and professional manner. Thus, the civil service bequeathed to Nigeria by British colonialism was supposedly characterized by permanence, anonymity, neutrality and impartiality. Recruitment was based on merit, underlined by competitive examinations. These features gave the service a high degree of continuity and some assurance of “legal certainty” or “juridical security” (Cardona, 2004). Continuity which permanence imparted ensures that despite political turbulence occasioned by successive military incursions into the political arena, the business of government does not breakdown. The paradox here is that the ability of the military to function as a government was facilitated by the civil service. It is also to be noted that the features of neutrality, impartiality and anonymity which create an expectation of “legal certainty” or “juridical security” around public administration, also suffered when the military took over power.

The gradual politicization of the service due to military rule, its corruption due to purges in 1975 and further down the line, all combined to destroy vital elements of the tradition of civil service. The economic crisis of the 1980s and the eventual adoption of the World Bank/IMF inspired structural adjustment programme have affected the civil service in several ways. Most importantly however, the personnel dimension of the ideology of state shrinking (the ceding of space to the market in a public sector versus private sector contest was in fact the ideological peg of SAP) has its decisive impact on the civil

service. It is the major site of retrenchment of state personnel. This is not only meant to reduce the workforce as a way of putting a lid on spiraling public expenditure, but also cutting off the critical base of a public sector driven development process. The imposition of the ideology of the market on the civil service has also meant a change in the language of discourse about the execution of government business. The shift from *administration* to *governance* could easily be mistaken for a mere change in language, but in reality, it encapsulated the dictates of a new order.

## **FROM ADMINISTRATION TO GOOD GOVERNANCE**

The adoption of the free market ideology through the instrumentality of the World Bank and the International Monetary Fund (IMF), during the late 1980s produced a strong impulse for civil service reforms. The logic of a lean state that was proposed under the IMF/World Bank reforms came with a notion of the kind of public administration required to implement the new order. In certain respects, there were attempts to inject market forces into the way government business was carried out.

In Africa, the necessity for a new logic of public administration is anchored on the high level of corruption of the state, its bloated nature, and weak capacity. These factors create a fundamental inability on the part of the administrative apparatus of the state to conceptualise and implement development programmes. Certain features of the existing administrative structures are seen as promoting inefficiency in the way government business was carried out. Its permanent nature (already reeling under severe blows by authoritarian regimes which were never comfortable with the autonomy of the civil service) is one of the earliest casualties of the changes. Public service which appears to celebrate bureaucratic 'red tapism,' the hallmark of those who have no stake in what they do, is not likely to provide a sound basis for accountability, transparency or responsiveness in government. Meanwhile, in the absence of a strong and virile private sector, the civil service and the rest of the public sector are seen by African politicians as an avenue to douse political tension by creating employment within the service which added little or nothing to productivity and economic growth, but accounted for a large chunk of public expenditure. To foster development, the defining strategy of which had effectively passed into the hands of the World Bank and the IMF, a new orientation to the business of government is required. This new framework is expected to fuse politics, economics and management in the conduct of government business. This required fusion was rooted in the ethics of the free market. This framework is encapsulated in the concept of governance, which the World Bank defined essentially in terms of the "manner power and authority are exercised for development in the management of a country's economic and social resources" (World Bank, 1992: 1; cited in Nanda, 2006: 272).

This conception of governance is quite general, and could easily refer to *any* manner in which authority and power are combined in the management of the socio-economic affairs of a state. To this extent, the way most African governments have been run, and which have created the vast deterioration in the living standards witnessed in the continent could only be ascribed to 'bad governance'. What is therefore required was to retool politics and the management of the resources of the state through 'good governance'. Given the large presence of the public sector in economic management, good governance takes on the tone of a clear and unambiguous acceptance of free enterprise philosophy as the *only* viable path to economic development. It becomes the process or procedures of implementing structural adjustment related policies dealing with austerity measures, devaluation, trade liberalization, privatization and market oriented policies. Its ethical tool is a commitment to combat corruption, nepotism, bureaucracy and mismanagement while promoting transparency, accountability and proper procedures in the management of public affairs (Nanda, 2006: 271-2). The concept of governance seeks to obliterate the boundaries between politics and administration, and hold both to the same ethical standards. These standards are presented as universal and politically or ideologically neutral. In reality, this has not been so as 'good' only attaches to governance when social and economic development policies are conceived and implemented within the framework of SAP or the Washington Consensus.

## **GOOD GOVERNANCE AND CIVIL SERVICE REFORMS**

In Nigeria, tenure in the civil service, so critical to its autonomy and neutrality, is the first casualty of the regime of good governance. In 1988, the military government of General Ibrahim Babangida (1985-1993) embarked on a major reform of the Civil Service. These reforms were driven by two major factors: the socio-economic policies adopted under the push of the international financial institutions, and in the personal political agenda of General Babangida. Tenure, once the bulwark of the autonomy of the civil service, was seriously undermined through a massive purge that was carried out to create, supposedly, a leaner and more professional civil service, better equipped to implement the social and economic policies of the structural adjustment regime. Personnel recruitment, promotion, training and discipline were devolved to individual ministries. At the same time, all appointments were to be tied for the duration of one's career to the ministry into which appointments were first made. The autonomy of the service was further eroded with the abolition of the position of head of service. In fact, this effectively put the headship of the ministry or government department under the control of the minister and the director-general, the latter being the re-designation of the title of the erstwhile permanent secretary. In the name of aligning the reforms to military presidentialism, the tenure of the director-general was tied to the tenure of General Babangida, who had given himself the new title of 'President'. In effect, even the civil service which had retained



some measure of autonomy in spite of incessant military intrusions into the political arena was brought firmly under the control of the political regime.

The changes enabled the Babangida regime to embark on a massive mission of retrenchment which was well suited to the policy thrust of a minimalist state. However, this objective could not be achieved as a result of the contradictory effects of the twin drivers of the reform process. Thus, the supposed professionalization of the service based on the recruitment of competent professionals into appropriate ministries was undermined by the devolution of the powers of appointment, training, promotion and discipline in the hands of each ministry. In a situation where the political and administrative leadership of each ministry had become the personal appointee of the president, the latter also saw their offices essentially in highly personalized terms. The result was a recruitment spree, lateral movements, and the proliferation of parastatals that both undermined professionalism in the service and the fiscal objectives of a supposedly right-sizing state apparatus (Babura, 2003). With ministers and director-generals given unbridled powers of appointments, the process became personalised. As Ake points out, “once there is personal rule at the top, it bends the bureaucracy to all the means – which are antithetical to bureaucratic organization” (Ake, 2000: 500). Quite apart from the deliberate politicization that came with the reforms, director-generals and ministers began to run ministries as “personal properties”. The cost of running the civil service rose dramatically due to “proliferation of parastatals”, the sharp increase in personnel, and the “institutionalization of corruption” (Babura, 2003: 12-13). The civil service is restored to its bloated pre-reform condition.

The political pariah status into which Nigeria had descended under General Sanni Abacha created a gulf between Nigeria and the IFIs. The consequent slowing down of the push for market based reforms also resonated in a reduction in the reformist tone of the civil service. Indeed, if anything, the Abacha regime sought to reverse many of the features of the Babangida reforms. Thus, director-generals reverted to permanent secretaries while the office of the Head of Service was restored. However, as in the Babangida era reforms, the permanent secretary retained the role of accounting officer of the ministry while the head of service was now an office, a political appointment under the office of the head of state. In effect, the politicization as well as militarization witnessed earlier did not abate. The logic of political power and the necessity of holding on to it at all costs, including a fiscal regime that was antithetical to good governance meant that the Nigerian government was unable to meet the criteria of “selectivity” (Nanda, 2006: 274), which had supplanted the mere acceptance of conditionality in the international drive for market-based reforms. Highly personalised and with allegations of extreme sectionalism rife, the assurance of juridical security which the civil service is expected to confer on public administration became a distant dream.

This, as Babura maintains, translated to a democratic regime inheriting a civil service that was “highly regimented and militarized”, sycophantic, lacking

in the necessary tools and financial resources to perform its assigned roles, and generally “slow in responding to technological changes and modern organizational methods”. Poor work arrangements, negative work ethics in “unstreamlined organizational structures” and poor pay all combined to promote low morale, laxity and “general inertia” in the civil service (Babura, 2003: 15; Okonjo-Iweala and Osafo-Kwaso, 2007: 13). Corrupt in all its ramifications and “insecure in tenure and means of livelihood during and after service”, the civil service, for Babura became the epitome of disregard for “financial accountability, probity, and transparency”. The end product of all these was that the service declined in “efficiency, effectiveness and productivity” and along with this, lost the respect of virtually all segments of the Nigerian society (Babura, 2003: 15-16).

In 1999, one of the main tasks that confronted the Government of President Olusegun Obasanjo’s government was to demilitarize the civil service, recentralize the service by introducing the pool system and service-wide training programmes (both of which had earlier been abolished under general Babangida) and of course, reaffirm the position of the Head of Service under the civil government. As part of these efforts, the regulatory framework of the service defined in terms of the Constitution of the Federal Republic of Nigeria, the Public Service Rules, the Financial Regulations and periodic circulars, most of which had been deformed, overlooked, or even ignored under prolonged military rule were restored. In order words, bringing back constitutionalism and the rule of law as the cornerstone of public administration featured quite prominently in the efforts of the newly installed civil administration to retool the civil service for the delivery of the ‘dividends of democracy’.

## **THE CIVIL SERVICE AND PUBLIC SERVICE DELIVERY IN A DEMOCRACY**

The civil service in a democracy should be able to promote juridical security in public administration. This requires that public services are “delivered on the basis of equity and entitlements of individuals, as defined and recognised in legislation” (Cardona, 2004: 16). The civil service is expected to be the bastion of the rule of law in its internal operations as well as ensuring that constitutionalism is its guiding principle in service delivery. In the performance of its role, it is expected to promote the ‘publicness’ of the public service. That publicness is encapsulated in the maintenance of the distinction between the private and the public spheres, an extensive social reach and coverage of its service recipients, the scope and intensity of its socio-economic role, and the degree of its accountability to its public as well as the degree of trust which that public places on it (Haque, 2001: 66-7). The civil service is not a business enterprise and when business-like behaviour better suited to the private sector permeates it, it undermines its publicness. It should be able to respond to the needs of all its citizens rather than an affluent segment. As Haque opines, “business-like behaviour, limited social role,

and class-biased responsiveness, may eventually erode public trust in public service, and thus its publicness” (Haque, 2001:67).

To be able to maintain its publicness, the civil service must be erected on a platform of merit. Among other things, Cardona emphasised that a merit-based civil service should be able to ensure that

*civil servants are recruited and promoted by means of competitive examinations...;restrictions to arbitrary transfer, demotion or dismissal of civil servants are well established; the political neutrality and impartiality of civil servants constitute stringent obligations imposed upon them; civil service positions are established centrally and classified by grades or steps; salaries are determined in legislation and are paid according to grade and seniority rather than according to quality and quantity of work actually performed....(Cardona, 2004: 16-17).*

It is also expected that lateral entry into the service is discouraged while mechanisms such as an independent civil service commission or independent judicial review of the management of the civil service are put in place to monitor the system (Cardona, 2004: 17).

As pointed out earlier, there was an effort to return the Nigerian civil service to its pre-1988 platform when the country returned to civil rule in 1999. However the election of President Olusegun Obasanjo in 1999 saw a major revival in retooling the economy unabashedly in line with the Washinton Consensus principles (Aluko, 2007). This drive got added impetus when he was re-elected in 2003. The World Bank which provided the framework for the “renewal of the Civil Service” (Stevens, 2004) formulated the problem in terms of the need to create a civil service that will be aligned to the wider economic reform process. According to the World Bank, the “public service agencies in Nigeria have historically perceived their role as directly producing services, instead of enabling other private and civil society providers,” with government over the years spread over too many functions, creating Ministries, Departments and Agencies (MDAs) “mandates that have spawned a multiplicity of organisations”(World Bank, 2004: 1-2). There was also insufficient accountability in government which was apparent in the little or no attention paid to budget implementation and inappropriate staffing procedures and practices.

The main strategy of the ‘renewal project’ was first to select five ministries (later extended to nine MDAs) which were to constitute the prototype of the new civil service. A ‘rightsizing’ of the civil service through a massive downsizing of the work force was embarked upon in these pilot ministries, which incidentally, were also seen as the most critical for the implementation of the World Bank inspired economic reform programme of the government. The downsizing process took of 35,700 officials of these ministries. At the

same time, “1,000 high flying university graduates” were to be recruited as a way of staffing ministries with the proper skilled manpower (Okonjo-Iweala and Osafo-Kwaako, 2007: 13). This was followed by a new incentive policy based on higher pay and the monetization of benefits. The so-called high flier recruited from the universities were quite often complemented with lateral recruitment from the private sector, the latter sometimes coming in as ‘consultants’. The expectation was the development of the work ethic of the private sector in the public service. Along with this, the high-flier was also to be enticed with pay packages that would be competitive with the private sector.

The first problem with this was its rather arbitrary nature. The pay level enjoyed by those who were part of this pilot scheme was hardly backed by the existing civil or public service rules on wages and salaries. What it did therefore was to create a big gap in levels of remuneration between the new comers, often from the private sector, and the experienced hands in the public service. This policy privileged, and over-priced private sector experience. At the same time, it undervalued and underpriced the experience and seniority of those of similar qualifications who had spent much longer time in the service. The pay associated with the high flier smirks of the executive compensation practice which often creates a certain hype around intangible skills in private establishments, and then also create huge compensations around them. It leads to payments in the top echelons that bear no relationship to the immediate lower levels. The concept of the high flier (Okonjo-Iweala and Osafo-Kwaako, 2007: 13), which came in with the market ideology led to monumental pay disparity to people whose performance was gauged in terms of the activities that were carried out by external consultants for jobs which the civil service is equipped to carry out in-house. The use of consultants practically passed the job of implementation of even basic public service deliverables to private sector operators. In this regard, transparency and accountability, two critical aspects of the good governance ethical chain become essentially issues of how open the civil service had become in dealing with the private sector rather than matters that dealing with the quality of service delivery which had become more or less privatized. Of course, the rise in the cost of implementing public deliverables given the profit margins built in as well as the serious over-invoicing which goes to furnish the top echelon of the civil service with stupendous wealth is not taken into account. The end user has no say in matters of accountability. The mass media and the civil society may shout itself hoarse, but there is little or no accountability.

The second problem with this recruitment policy was the fact that it was implemented in a few ministries. Although it was defined as a pilot project, its effect was to segregate and create a hierarchy within the civil service that would be expected to have adverse consequences on inter-ministerial or inter-departmental co-operation in the entire service. Third, the pilot MDAs actually constituted the means through which the World Bank’s concept of good governance was to be implemented in Nigeria. Along with various

donor agencies, the World Bank ensured that the pilot project was well funded and run along lines it defined rather than based on extant civil service rule.

The distortions this process introduced into the service were of multiple proportions. It created a wide gulf in the funding of the entire service, projected the perception that government was only, and should be limited to activities involving fiscal regimes, fiscal discipline and budgetary matters, rather than public service rendered in the interest of the generality of citizens. Issues of education, health and infrastructures, the provision of which form the foundation of the welfare of citizens were, in tune with market fundamentalism, subordinated to the requirements of a very tight and narrow fiscal regime whose cardinal import was to ensure that public finances were shaped in ways to meet external debt servicing. Where service, with welfare implications was even contemplated, the pilot scheme emphasised project implementation through vendors, consultants, contractors and experts, external to the service. Thus, the World Bank inspired National Economic Empowerment and Development Strategy (NEEDS) which was adopted by the Federal Government in 2004 as its poverty reduction and economic development platform explicitly envisaged the critical role of the public service as that of “growing the private sector” (Nigeria, 2004).

Anchoring public policy on “growing the private sector” has increasingly created serious ambivalence in a civil service that was built on the platform of state control of ‘the commanding heights’ of the economy. The private sector driven economy is expected to be jump-started with the sale of public assets most of which constitute the commanding heights of the economy. Needless to say, this process has been hugely controversial. First, there is no national consensus on the advisability of privatization. The determined efforts to press ahead with it by successive governments since 1999 has sometimes met with failure, given the political interests involved and the fact that these interests are hardly ever mindful of transparency and accountability issues in the sale. The privatization policy has therefore suffered a forward and backward motion, sale and reversal of sale that has left a great deal of confusion as to the platform (public or private) for running these enterprises. The operation of electricity, water works, ports, pension schemes, health and educational institutions, among others, are suspended between market and state. Salaries and wages are still provided by the state. However, in many of them, especially in health and education, the provision of working tools and some capital projects are increasingly dependent on the abilities of these institutions to fundraise outside of government. This might be a deliberate strategy on the part of the state to breakdown opposition to its privatization programme. However, it has the effect of accelerating the decline in public service delivery. As public service delivery diminishes, individuals and groups resort to self-help in services ranging from provision of water to education, and electricity to security and health. At the same time, conscious of the fact that the confusion and backward-forward movement of the

privatization process is an indication of an uncertain future, some workers in these enterprises and their supervisory ministries, departments and agencies become increasingly tempted to undermine procedures by ‘privatising’ their offices. At the junior levels, office messengers may “conceal, burn or advance files for a token fee”, official drivers may “collude with petrol stations in over-invoicing”, officials will “sell forms that should be free to the public” (Ake, 2000: 501). Payroll is padded with ghost workers by accounting and audit staff. At the senior levels, collusion in over-invoicing and contract inflation, payment for work not done, and in fact not meant to be done, are rife. In spite of reforms, and in fact, riding the reforms, these practices have led to the widespread belief that some senior and well placed civil servants can be counted among the wealthiest people in Nigeria. It has to be pointed out that these practices are not new to the Nigerian civil service. However, the point needs to be made that as civil service reforms become market driven, the contradictions in that process have also increasingly led to the private appropriation of public office by those who occupy them. Ake explains this contradiction as follows.

*The price for resisting the abuse of office is very high, often prohibitively so. Those who hang on stubbornly to their integrity can expect that poverty and its indignities will be staring them in the face when they retire. Worse still, not many people including their relatives are likely to honour them for their virtue. In all probability, they will be chided for their naiveté and held in contempt (Ake, 2000: 501).*

The market-driven reforms have unleashed socio-economic dynamics which are fast shaping the civil service and the public sector in general into an amoral and even criminal arena, in which neither legal nor political will exist to confront. There is indeed no shortage of legal materials to deal with the transgressions that threaten to overwhelm the public sphere. Apart from relevant constitutional provisions and the Financial Regulations of the civil service, the Obasanjo civilian government did enact various laws to deal with the menace as an essential part of the reform process. These legal instruments include: Public Procurement Act, 2007; Fiscal Responsibility Act, 2007; finance [Control and Management] Act, 2004; Economic and Financial Crimes Commission [Establishment] Act, 2004; and the Corrupt Practices and Other Related Offences Act, 2003. These are complemented by existing anti-corruption laws such as Recovery of Public Property [Special Provisions] Act of 1984; and the Code of Conduct Bureau and Tribunal Act, 1989). However, the contradictions in the unfolding market regime threatens to overwhelm these institutions. To the extent that these have some successes, it has been more of a product of the uncommon enthusiasm and zeal deployed into the assignment by their leadership than any notion of institutional effectiveness.

## JURIDICAL SECURITY AND THE REFORM PROCESS

The reforms have either shifted juridical security or legal certainty in the management of the public realm by narrowing it, or actually promoted juridical insecurity in the public worker and the citizen. The shift or narrowing of legal certainty is apparent in the insistence that public service must be reoriented for delivery to the end user through the private sector, and via the market mechanism or businesslike means. In fact, the proper end user of public service is shifted to the private sector operator. Hence, accountability and transparency issues (associated with for example, public procurement and the disposal of public assets under the monetisation programmes), are confined to how the implementation conform to market driven processes or 'international best practices', a euphemism for World Bank and international donor-sanctioned behaviour. Public procurement has to go via bidding by private agents whose primary motive is to make a profit from the process, not deliver a service to the people. Direct procurement through purchasing and supply departments of the civil service becomes a practice against international best practices, although it could be more cost effective if properly implemented through the service. In monetising certain public sector allowances, a cardinal aspect of the reform of the civil service, there has been a deliberate refusal to sell houses to public workers who have occupied them for a long time, even when the rules guiding such sales clearly prioritised the occupant in the disposal of the asset.

The second dimension of this is at the level of the civil servant. Increasingly unsure of entitlements or tenure in the context of the reforms, he or she responds by appropriating the office occupied for private purposes. Public service is delivered based on meeting personal terms set by the official, not in accordance with civil service regulations. At the third level, the citizen, the supposed beneficiary of public service finds that a service that ought to be delivered as a matter of routine, can only be accessed by meeting the personal and unauthorised terms of the official. The criminal dimension operates largely at the second and third levels, but it has to be recognized that the dynamics unleashed at the first level is the foundation of the latter stages. The impact of the general economic crisis and the attendant reforms on the entire system have tended to worsen an already bad situation. The private sector in general does not offer any protection or tenure to its employees. The absence of this protection, as (Briggs, 2007) points out, puts pressure on recruitment in the public sector. It becomes the avenue to absorb those displaced from the private sector, or new entrants into the labour market. The resulting pressure create distortions in the recruitment process. Federal character comes in. While it could actually strengthen the staff base of the service if applied as a means of casting a wide net across the country "for the *best* and *most* competent, in practice, the principle may be subverted, especially if it is interpreted as a crude form of ethnic balancing" (emphasis in original) (Balogun, 2003: 11). The reactions to the recent policy change on the tenure of permanent secretary and directors' cadres points in this direction.



With effect from January 2010, Permanent Secretaries and directors who had spent eight years or more in the service were expected to disengage. This mandatory disengagement was not only sudden (being announced only in September 2009), but it was also in violation of the extant rule which makes retirement compulsory on the attainment of sixty years of age or having put in thirty-five years in service, whichever comes first. The rationale was to create room for mobility at the top of the service. Given the fact that all nine permanent secretaries and 160 out of the 223 directors that were immediately affected came from a section of the country, the interpretation the measure attracted was that the measure was meant to decimate the highest level of officers from that region in the federal civil service. The federal government in turn had to nip the tension in the bud by promising that the officers “affected will be replaced by equally qualified officers from their states of origin” (Bello, 2009). This had the desired effect of calming nerves, but it does point to how issues of political balance intrude into staff matters in the service.

It is precisely this conception of the service as a tool of ethnic balancing that opens the door for political interference in the recruitment and promotion processes in the service. Competence gives way as politicians, traditional rulers, top military brass, very senior clergy, etc, jostle for the recruitment of their wards, subjects or supporters into the service. This practice creates extra-service ties and loyalties that can undermine its impartiality and neutrality, while promoting indiscipline. This is further accentuated in rules that permit certain categories of staff to be recruited within each ministry, department or agency of government without recourse to the Civil Service Commission.

The delegation of recruitment of junior cadre by the Federal Civil Service Commission to the ministries and departments of government has provided another avenue for the political entrepreneurs to fill the civil service with their own people. One of the major problems associated with this is that the very transparency which is supposedly a core feature of governance is also one of the first casualties (Briggs, 2007: 143). These jobs are hardly advertised and various merit criteria such as qualification and possession of the requisite skills for the specified job do not receive the desired emphasis in the recruitment process. The process of delegation facilitates a deliberate narrowing of the search for the pool of available candidates and generally fail to attract the most suitable human resource for employment in the service, since it relies on “informal sources and connections” to recruit (Briggs, 2007: 148). Transfers and Secondment are two of the major means of appointment into the civil service. While transfer refers to the “permanent release of an officer from one scheduled service to another or within the same service”, secondment is “the temporary release of an officer to the service or another government Agency or International Organisation of which Nigeria is a member for a specified period (Federal Republic of Nigeria, 1998: 15 cited



in Babura, 2003: 7). These are recognized processes that are meant to ensure that the best available manpower are properly deployed at the higher levels of the civil service. However, the lateral employment (especially from the states) that these twin appointment procedures have made possible panders to the peculiar Nigerian political ecology. It becomes more of a tool for filling quotas than filling needed vacancies with specific job specifications. But even more significantly, it has tended to distort hierarchies while bringing in little by way of upgrade of the manpower pool in the service. A related practice has been the use of top civil service jobs to compensate ruling party members rejected at the polls. For such, the civil service becomes an avenue to accumulate in preparation for the next elections.

The inauguration of ‘Service Compact’ (SERVICOM) in 2004 was meant to address the poor quality of public service delivery due to “undue outside interference”, and files “which do not move without being pushed with inducements”, as President Olusegun Obasanjo put it when he decided that the advent of democracy had not translated into a democratic dividend by way of effective public service delivery.

*Our public offices have for too long been show-cases for the combined evils of inefficiency and corruption, whilst being impediments to effective implementation of government policies. Nigerians deserve better. And we will ensure they get what is better (Federal Road Safety Corps, n.d.).*

SERVICOM was designed as a compact between the government and the people to “provide quality service” to the latter, “set out the entitlements of citizens, ensure good leadership, educate the citizens on their rights, and empower public officers to be alert to their responsibilities in providing improved, efficient, timely and transparent service” (Federal Road Safety Corps, n.d.). To ensure that it’s underlying ethical and practical import drive governance and the service delivery process, SERVICOM was embedded in ministries, departments and agencies of the federal government.

These were laudable objectives, and showed a marked sensitivity to the fact that a democratic mandate entails a compact between government and the governed on service delivery. However, the logic of the political regime, erected on patronage, *godfatherism* and open looting of public resources, has undermined the rooting of SERVICOM. Recruitment into the civil service and the public service in general remains largely ‘privatized’ and controlled by godfathers, political and bureaucratic functionaries as well as those expected to oversee the working of the civil service. Some of these elements have been known to sell their recruitment quotas while others simply use them to oil their political machineries as patronage.

## CONCLUSION

In all these, there is a strong suggestion of the erosion of publicness in the civil service. While the retooling process since 1999 has laid emphasis on good governance, it is apparent that good governance has a particular ideological tinge that puts premium on how the state's service delivery is facilitated through market driven processes. The introduction of these businesslike methods has narrowed accountability, transparency and to a two-way process between the civil service and the private sector. Good governance as implemented in Nigerian civil service comes out as a management style that is essentially insensitive to the needs and demands of the generality of the people. While the World Bank claims to display a concern for the poor through poverty alleviation programmes, it is apparent that these interventions cannot really provide a viable basis for socio-economic management for a vast and highly populated country such as Nigeria. The NEEDS programme which the federal government generated as a way of tackling the poverty nexus in Nigeria panders to the logic of the Washington Consensus and basically reflects the approach of the World Bank to the implementation of poverty reduction programmes. It is a poverty reduction programme of the public sector but in reality, its implementation relies on the agency of the private sector, as projects expected to be carried out by the civil service are invariably contracted out by the latter to the former.

The reform process has also showed itself to be incapable of reigning in those factors associated with Nigerian political ecology which have adverse implications for professionalism and productivity in the service. If anything, these forces seem to be extending their grip on the service, promoting personalization of public resources and the systematic downgrading of public attention to the delivery of entitlements to the broad mass of people. In spite of efforts to retool it as an organ of efficient and ethical service delivery in a democratic set up, the civil service has essentially acted to deepen the erosion of juridical security and legal certainty in service delivery since the advent of the Fourth Republic in 1999.

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# **Competitiveness, Performance and Factors Behind the Low Foreign Direct Investment Inflow in Bangladesh**

**Md. Mohoshin Ali\***

*Graduate School of Public Administration, National Institute of  
Development Administration  
118, Serithai Road, Klong-Chan, Bangkapi, Bangkok ,Thailand 10240*

\*Corresponding author; email: mohoshin2005@gmail.com /  
mohoshin.ali@stu.nida.ac.th

## **ABSTRACT**

*The underlying purpose of the study is to find out the competitiveness and performance of Bangladesh in attracting FDI and the factors inhibiting FDI inflow in Bangladesh. It is well known that investment is crucial in attaining sound economic growth. The capital requirement can be met by the foreign investment. Unfortunately, Bangladesh is unable to generate sufficient domestic saving to fuel their aspirations for economic growth. Bangladesh has had low rate of GDP growth, savings and investment historically. This represents macro-economic weakness. But the situation is improving with the steady growth rate of more than 6% for last couple of years. Saving investment gap of Bangladesh could be fulfilled by the inflow of FDI to achieve the targeted economic growth rate. The recent performance of Asian region coincided with the enhanced investment activity particularly FDI. However, the performances of the South Asian countries especially Bangladesh has not been encouraging compare to countries in East and South East Asia. Bangladesh is giving an attractive package of incentives compare to the FDI receiving Asian countries but its success is little. The sectoral composition of FDI has been changing significantly from primary sector to manufacturing sector. The contribution of FDI in gross domestic capital formation also came last in Bangladesh among the Asian countries. Share of FDI-GDP ratio is also one of lowest in Bangladesh among the Asian countries. The causes responsible for the low FDI in Bangladesh has been identified as historical factors, socio-economic factors, governance factors, political factors and social and cultural factors.*

**Keywords:** *Determinants of FDI, Performance of FDI, Global Competitiveness, low Inflow of FDI, Bangladesh.*

## INTRODUCTION

Bangladesh is a developing country of South Asia, having 157.9 million populations with a remarkable annual population growth rate of 1.37 in an area of 147,570 sq. km having density of more 1142 people per square kilometer with a low middle income per capita US \$ 1314. Bangladesh is maintaining an outstanding performance of economic growth of more than 6% of last six years and advanced 14 steps from the 58<sup>th</sup> to 44<sup>th</sup> in the world economy in the last two years (World Bank, 2015). The economy of Bangladesh mainly hinges on agriculture about 47.30 % of workforces work in the agricultural sector, industrial sector accounts for about 17.64% and 35.06 % belongs to service sector. Domestic savings and national savings are 23.43% and 30.54% respectively. Total Investment is 28.59% and out of the investment 7.30 % and 21.39% are public and private investment respectively (Ministry of Finance, 2015). In order to mitigate poverty, it's necessary to accelerate the growth rate of GDP. Higher growth rate as a result of higher investment and greater productivity will generate additional revenue and wealth that can provide employment for everyone willing and able to work (Bhuiyan, A. R. 1995). To flourish this country, the contribution of all necessary sectors to GDP is essential because, if the growth of all necessary sectors can't be increased proportionally, the base of Bangladesh will be weak. Therefore, industrial sectors (such as agro industry, manufacturing and service), both large and small should be met by efficient and effective investment. It is well known that investment is crucial in attaining sound economic growth. Unfortunately, Bangladesh is unable to generate sufficient domestic saving to finance necessary investment for economic growth. In such a context, the capital requirement of the country can be met by raising foreign capital (Ahmed, Abu. 1993). After all the Asian newly industrial countries of today were once poor like Bangladesh and foreign capital have played a vital role in the early stage of their economic development (e.g.). Without such inflow, the prospect of initiating the economic growth, employment generation and development of Bangladesh would remain quite unpromising and the goals of changing the lot of the people remain beyond the reach of all concerned.

There are several sources of foreign capital but the widely used sources are namely, foreign debt, Official Development Assistant (ODA), Foreign Direct Investment (FDI), portfolio investment and wage earner's remittances. These are the sources through which developing countries can make their deficiency of domestic capital (Akkas, M. A. 1996). This study is confined only Foreign Direct Investment (FDI) in Bangladesh. The limited revenue base may be responsible for this low rate of savings and investment. The gross domestic savings in Bangladesh is by far one of lowest among the countries of the South Asia (World Bank, 2015). Because of low saving rate, the investment rate is also low, that is saving investment gap is high but improved a lot from the previous condition. The low investment ratio inhibits economic growth. The poverty of the country cannot be alleviated unless increase the required level of capital investment and to reach middle income country

with the targeted growth rate of 8%. However, the method for achieving the targeted growth rate is different. The World Bank approach uses the ICOR (incremental capital output ratio) concept. Assuming an ICOR of 3 implies that investment must be 24 % of GDP in order for GDP growth rate to be 8%. It is believed that the two-gap model is needed to explain why the developing countries like Bangladesh are needed foreign investment, loan and assistance that are the savings gap (domestic real resources) and the foreign exchange gap model. Bangladesh has received one of lowest amount of FDI among the Asian countries and failed to attract a sizable amount of FDI and it is clear that Bangladesh has to borrow heavily from the external sources to meet the resources gap. FDI has played a vital role in accelerating the economic development of the newly industrializing South East Asian countries. It is hope that foreign capital in the form of FDI will help increase countries export earnings, acquire new technologies, generation of employment and sustain high level of growth. In a study in the U.S. 70% of growth was owing to technological improvements during of 1950-1994. FDI can help expedite the process of technology transfer from the developed world to Bangladesh (Bhuiyan, A. R. 1995). Bangladesh should decide whether the country will depend on ODA or replace those ODA with FDI in the changing world. It is the question of thinking that Bangladesh should take ODA for the infrastructure development only and put emphasis on FDI that can generate employment opportunity for the people of Bangladesh.

Competitiveness, performance and factors behind the low FDI inflow in Bangladesh will be the main focusing point of this paper. The area of this study is very important for Bangladesh as FDI shows an important factor for development as it transfer technology, generate employment, improve trade balance, improve technical know how of the labor, use domestic resources, filling savings gap, improve managerial skills and many more that ultimately can bring economic growth and development of Bangladesh. The objective of the study is to examine the competitiveness and performance of Bangladesh in attracting FDI and to assess the factors hindering FDI inflow in Bangladesh and to suggests policy measures to improve the performance of attracting FDI in Bangladesh. The research question of the study is to what extent global competitiveness has and performances affecting foreign direct investment and what are the major causes of hindering low FDI inflow in Bangladesh?

## **LITERATURE REVIEW**

Krugman and Obstfeld (2000) define FDI as International capital flows in which a firm in one country creates or expand a subsidiary in another. They also say that distinct feature of FDI is that it involves not only the transfer of technology. Professor K. Ohno (2005) defined FDI as an international financial flow with the intention of controlling or participating in the management of an enterprise in a foreign country. The importance of location

in the theory of FDI was emphasized by Vernon (1996) in his analysis of the product life cycle theory and the potential for the firm to exploit a foreign market Cassidy, J. F. (1994). According to John H. Dunning (1994) firms invest abroad because they possess ownership advantages, locational factors and internalization factors. Ozawa (1992) noted that there was no FDI theory of economic development and thus developed a stage approach based on Rostow (1960), Chenery (1979), Balassa (1980) and Porter (1990). This is a variation of Vernon's product cycle (1966). Cassidy, J. F. (1994) referred that where FDI takes place it is geographically focused and has the capacity to provide linkages with the local economy. Marshal (1949) notes, one of the fundamental characteristics of enterprises are their tendency to agglomerate or congregate in a distinct geographical area. Capital accumulation is found to be the most important sources of economic growth in most of the least developed countries (Ahmed Abu, 1989). Further the process of economic growth and capital accumulation is clearly connected to the pattern of whether there is abundant labor or not (Cairncross, 1963). To accelerate economic growth in most of the Least Developed Countries, one important strategy is therefore to increase the rate of investment (Rostow 1960, Lewis 1955). It is a known fact that the overall development of LDCs like Bangladesh depend in foreign capital inflow. Without such inflow, the prospect of initiating the economic growth of Bangladesh would remain quite bleak and the goal of changing the lot of the people would remain beyond the reach of all concerned (Akkas, M. A. 1996).

Furthermore, FDI has some inherent advantages for development the transfer of technology, managerial expertise and other resources and access to markets. Recent trends show that FDI is an important and stable source of foreign private capital for developing economies, particularly to those that are able to create a hospitable environment for these investments (Singh, H., & Jun, K. W. 1996). Bangladesh received a meager amount of FDI. The reasons for this failure can be identified as government policy, bureaucratic dishonesty, low productivity of labor, deterioration of law and order situation, infrastructure and political instability (Reza & Rashid, 1993). In fact, Bangladesh has an image problem among foreign investors as most business people view the country as one of the world's least developed nations, plagued by political instability, labor unrest, natural disasters, disease, malnutrition and over population (Choudhuri, N. I. & Saha, S. R. 1993). Urata (1994) found that neither product differentiation nor technological superiority were the important determinants of Japanese FDI in East Asian economies but that trade in terms of export dependence and import penetration were positively associated with FDI. Cassidy, J. F. (1994) noted that with regard to locational determinants of FDI in China based on the literature, one can say that market size, cost of capital, political stability, levels of illiteracy, exports from foreign



invested enterprises in China, township and village enterprise growth rates, wages, exchange rates, economic integration, and cultural differences have been found to be determinants of FDI in China. Main reasons for increased Japanese FDI in China and East Asia was the loss of competitiveness of Japanese products in exports markets as a result of appreciating Japanese currency yen to reduce trade deficit with other developed countries and the high labor cost in Japan and low labor cost in China and East Asia.

John H. Dunning (1994) mentioned that there are four main types of FDI as follows 1) natural resource-seeking, 2) market seeking, 3) Efficiency seeking and 4) Strategic (created) asset seeking. The first two, resource-seeking and market-seeking investment represents the main motives for an initial foreign entry by a firm. The latter two embrace the main modes of expansion by established foreign investors. There are three sets of FDI determinants are often identified the first is set of locational factors, which lead to differences since the rate of return to capital in different locations such as: Economies of size, Economic growth, Wage rates, Interest rates, Tax rates and Exchange rates. The second is the set of factors related to the ability of multinationals to internalize transactions within the firm. The third is a set of organizational factors related to the firm specific assets multinationals may possess such as: production technology, marketing network, organizational advantage and entrepreneurship. Demirhan, E., & Masca, M. (2008) in their paper found that political risk has not been an important factor in attracting FDI in the mentioned period. When the host countries present high returns, firms may ignore political risk. As long as the foreign company is confident of being able to operate profitably without excessive risk to its capital and personnel, it may continue to invest. Buracom, P. (2014) in his recent study mentioned that foreign direct investment is considered to be one of the most important forces of economic growth and globalization. FDI is more likely to flow to countries with appropriate institutional environment. Effective government and better rule of law and property rights protection can reduce investment risk and cost of doing business. These institutional factors therefore, tend to promote the inflows of FDI. To wrap up, it is reasonable to mention that beyond the domestic economic performances some scholar studied on non-economic performances especially the effect of institutions and governances on the inflows of FDI and found them as determinants of FDI.

## **METHODOLOGY**

Gathering evidence for the study can be usefully divided into two broad arrays such as; document research and field research. In this study, it has been employed document search research technique to gather necessary evidences

and information from a wide variety of literatures including journal articles, books and dissertations, publications and reports, government publications and research documents, online resources and relevant policy documents. On the basis of secondary data and document research it has been analyzed the overall performance and competitiveness of Bangladesh in attracting FDI and to find out the underlying factors behind the low inflows of FDI in Bangladesh.

## **FDI POLICY IN BANGLADESH AND OTHER DEVELOPING COUNTRIES**

The government of Bangladesh has put in a place a comprehensive array of policies aimed at bringing about significant socio-economic improvement to the people of Bangladesh and, ultimately, self-reliance for the nation. The recognition of the private sectors ability to contribute towards achievement of these goals, the government has implemented a number of significant policy reforms. These are designed to create more open and competitive climate for foreign investment. The industrial policy simplified procedural obstacles to private investment. There are no investment sanctioning requirements and power, gas, telecommunication and air communication sectors are now open to private investment. The government has liberalized the trade regime. Measures to attract foreign private investment have been implemented. There is no ceiling on equity participation, no obligation to sell shares through public issue, no restriction on repatriation of invested capital, profit and dividends. Private investment from overseas sources is welcome in all areas of the economy with the exception of only few reserved industrial sectors namely arms, ammunition and other defense equipment and machinery. On other hand 100% foreign investments as well as joint venture with local private sponsor or with the public sector are allowed (Board of Investment, Bangladesh 2011).

## **COMPARATIVE ADVANTAGES FOR INVESTMENT IN BANGLADESH**

Bangladesh enjoys comparative advantage for foreign investment over other Asian countries. In January 2010, JETRO conducted a comparative survey of investment related costs in 29 major cities and regions in Asia and found that the following competitive cost advantage in Bangladesh. Bangladesh offers a truly low competitive cost base. Wages and salaries are still lowest in the region, a strong business advantage. Yet this is an increasingly well-educated, adaptive and peaceful population with many skilled workers. Dhaka's skilled labor cost base is still less than the other major cities. Dhaka's management grades are 2-3 times less than in Singapore, Shanghai, and Bangkok. Industrial estate rent in Dhaka is cost effective than Shanghai,

Jakarta, Bangkok. Office rents are also very competitive with other international cities. Dhaka's housing rent for foreigners are less expensive than Singapore, Mumbai, Karachi, and Hanoi. Cost of diesel in Dhaka is found to be more competitively priced than most other large cities. Vehicles increasingly use LPG as Dhaka gasoline costs are competitive with most other cities (Bangladesh, Board of Investment 2015). According to United Nations Statistics Division, Bangladesh offers a most liberal FDI regime in South Asia, with no prior approval requirements or limits on equity participation and repatriation of profits and income in most sectors (Bangladesh, Board of Investment 2015). Bangladesh has the following comparative advantages and incentives to foreign investors (Bangladesh, Board of Investment 2015): Bangladesh is one of the Asian countries who offer unconditional 100% foreign equity or ownership in industrial investments. There is no restriction on issuing work permit to a foreign national. Tax holiday allowed for new investment for 5 & 7 years in most of the areas of Bangladesh on some conditions and 10 years in Export Processing Zones (EPZs). Tax holiday for private power plants is 15 years. Foreign exchange regulation has been relaxed to the maximum limit by the introduction of free convertibility of Bangladeshi currency BDT. This has accelerated the free flow of international business transactions. Bangladesh introduced free-floating exchange rate of its currency. Repatriation of foreign capital investment along with profits and dividends has been made easy and simplified. Now no prior permission of any authority is required for their repatriation. Cost of land and energy prices are one of the lowest in the Asian region. There is a huge proven and recoverable deposit of natural gas in Bangladesh. Actually the cheapest and easily trainable labor is abundant and available in Bangladesh. Out of the total population of 157.9 million, the labor forces are about 50%. There are demographic advantages in Bangladesh as the population of young age structure about one third.

## **COMPETITIVENESS AND DOING BUSINESS IN BANGLADESH**

The government of Bangladesh has declared and offered the best incentives and investment opportunities in the written documents among the FDI recipient countries in the world. The investment incentives and cost of doing business are the important and indispensable factors in attracting FDI. According to World Bank Report (2015) on ease of doing business Bangladesh is degrading its position stands at 174 out of 189 countries. Bangladesh is in the lowest position among the South Asian countries. According to world economic forum (2015) the ranking of Bangladesh in the global competitiveness report is 109 among the 144 countries. The incentives are tax holiday, tariff reduction, legal protection, concessionary import duty on capital machinery etc. But why the investors are not coming in Bangladesh? Does Bangladesh have really a conducive environment for the foreign investors compare to the other FDI recipient countries? Have the foreign investors any other better place to invest their capital safely or the

Bangladesh is the only country to invest in the world? Why the investors will come to Bangladesh to invest their capital? These are the questions the policy maker and the people of Bangladesh really need to understand. The foreign investors have the alternative best and safe place to invest and make money.

## **COMPARATIVE BASIC FEATURES AND INDICATORS OF HIGH AND LOW FDI RECEIVING ASIAN COUNTRIES**

It is inevitable to discuss the investment climate or business operating condition proxied by a wide range of factors that includes political stability, attitudes towards foreign investors, balance of payment performance, economic growth, enforceability of law, infrastructure, social order and security, labor cost, skills and education of labor, market size, availability of raw materials, port facility and transaction or transport cost, local management, geographical location and economic indicators (Tu, J. H., & Schive, C. 1995). All the indicators are favorable in China, Malaysia, Singapore, South Korea, Thailand and Vietnam and they are offering conducive business environment for the foreign investors. So they are receiving more FDI than the Asian country like Bangladesh. The size of the market, typically proxied by the level of GDP, appears to be the important determinant of FDI flows that is also high in China, Korea, Malaysia, Singapore, India and Thailand as compare to Bangladesh. There is wide spread perception that open economy receives more FDI. Export plus import as % of GDP is the indicators of openness of a country.

## **GLOBAL TRENDS OF FDI**

The world economy witnessed a period of significant surge in the flow of FDI during 1980 when it grew at a rate of almost 30% per annum i.e. three times the rate of growth of world export and four times the rate of growth of world GDP. But now the situation has changed the global inflows of FDI declined by 16 % to \$ 1.23 trillion in 2014 mostly because of the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. New investments were also offset by some large divestments. Inward FDI flows to developing economies reached at the highest level at \$681 billion with a 2 per cent rise. Developing economies are leading in taking global inflows. China has become the world's largest recipient of FDI but in manufacturing sector the share declined and increases in the services sector as they open their retail market. The low level of inflows to developed countries and declined by 28 per cent to \$499 billion in 2014. Developing Asia are now investing abroad and their investment reached a record level. Over the last 10 years FDI has continued to shift to service sectors. In 2012 service sector accounts for 63% of global FDI stock more than more than twice the share of manufacturing and primary sector accounts for 10 % of the total. Greenfield investment declined by 2 per cent to \$696 billion but in

case of Bangladesh Greenfield investment increases. Global FDI inflows are projected to grow by 11 per cent to \$1.4 trillion in 2015, \$1.5 trillion in 2016 and to \$1.7 trillion in 2017. The Asia–Pacific region, being one of the most dynamic areas of the present world economy, obviously attracted bulk of the FDI inflow. China, the Asian NICs, ASEAN-4 and had been the fore most important host countries absorbing the major share of FDI at all flows to the developing countries (UNCTAD ,2015).

## EXTENT OF INFLOW OF FDI IN SELECTED ASIAN COUNTRIES

In the global context, FDI into some Asian countries has been increasing continuously though total global FDI flows continue to decreases. Within the Asian developing countries China has received the highest amount of FDI and Bangladesh is one of the low FDI receiving countries. The table 1 shows that Bangladesh has received a meagre FDI inflow of US\$ 1527 million in 2014. Hong Kong, India, Philippines, Singapore are the main recipients of FDI and India is the top one country among the South Asian countries. India has received a sizable amount of FDI in 2014 about US\$ 34417 million. South Asian countries have not traditionally been large recipients of FDI. Recently India's performance in attracting FDI is mentionable among the South Asian countries and the position of Bangladesh is almost even for every year but the trend tends to decrease in 2014. However, it is India who experienced a jump regarding inflow of FDI in the South Asian countries. Another country in Asia, Indonesia has shown a very good performance in attracting FDI in 2014 received US\$ 22580 million. Vietnam is also performing very well in attracting FDI.

**Table 1**

FDI Inflow in selected Asian countries (million US dollars)

Country	2009	2010	2011	2012	2013	2014
Bangladesh	700	913	1136	1293	1599	1527
Cambodia	928	1342	1372	1835	1872	1730
China	95000	114734	123985	121080	123911	128500
HongKong	55535	70541	96581	70180	74294	103254
India	35634	27417	36190	24196	28199	34417
Indonesia	4877	13771	19241	19138	18817	22580
Laos	190	279	301	294	427	721
Malaysia	1453	9060	12198	9239	12115	10799
Myanmar	27	6669	1118	497	584	946

(continued)

Country	2009	2010	2011	2012	2013	2014
Pakistan	2338	2022	1326	859	1333	1747
Philippines	1963	1298	1852	2033	3737	6201
Singapore	23821	55076	48002	56569	64793	67523
Sri Lanka	404	478	981	941	933	944
Thailand	4854	9147	1195	9168	14016	12566
Vietnam	7600	8000	7519	8368	8900	9200

Source: UNCTAD (2015)

## PERFORMANCE OF FDI IN BANGLADESH

The world has entered a new era, a time when significant changes are reshaping the world's trade, commerce and industrial relations. A changing environment, new and sophisticated technology, new products, new services and diverse customer needs have quickened the pace of growth in trade industry. Demand for better facilities and services are also increasing at an unprecedented rate. With the introduction of free trade policy in most parts of the world, partnership between the leading business groups of different countries has become virtually inevitable. The industrial and FDI policy Bangladesh reflects the commitment of a democratically elected government to the principle of market economy where in foreign investors have almost total freedom in choosing the field and also of investment. But we have seen that the gloomy performance of Bangladesh in attracting FDI. Although FDI flows have increased rapidly then decreased throughout the world, foreign investment in Bangladesh has more or less increased very slowly. In order to properly capture a country's performance, it is necessary to supplement the analysis of trends in absolute volume of FDI inflows by the analyzing on relative role played by inward FDI in gross domestic capital formation (GDCF). Gross domestic capital formation through mobilization of investment is one the principle objective of FDI in capital starved country like Bangladesh. In Bangladesh FDI GDCF ratio is one of lowest among the selected Asian countries.

Although the low-spirited performance of Bangladesh in attracting FDI it is contributing by and large well in creating new employment, transferring technology and managerial skills, expanding exports, modernizing the economy and access to the global market. Performance of EPZs in creating new employment opportunities for Bangladeshi national had been one of the compelling reasons for establishing EPZs in Bangladesh. Till June 2015, about 420101 people have been employed in the EPZs and US\$

3594.42 million have been invested (BEPZA, 2015). It has been observed that there was a significant amount of employment generated and most of the employees are the Bangladeshi nationals. It is a good performance in comparing the level of investment as some industry like garments are labor intensive. Most of the investments in the EPZs are foreign investment. On the other hand, one major attractions of EPZs for foreign exchange constrained economies like Bangladesh is the possible balance of payment that the country may derive from the exports earning by the EPZs units. The gross exports receipts from the EPZs are US\$ 46141.16 million and the trend is increasing every fiscal year which is encouraging for the future expansion of EPZs operation (BEPZA, 2015). The EPZs of Bangladesh are contributing a lot for employment generation and export earnings and it is significant for the economy of Bangladesh.

### COUNTRY WISE DISTRIBUTION OF FDI IN BANGLADESH

The distribution of FDI by home countries shows that remarkable change has also occurred in the country wise distribution of FDI inflow into Bangladesh as revealed. Developed market economy dominated foreign investment in Bangladesh. This pattern has substantially changed recently with USA and UK is the leading position now. But during 1997/1998 Malaysia was the leading position followed by Japan Singapore and Hong Kong. The source of foreign investment in Bangladesh has changed because of investment in gas and oil exploration sector by the USA and UK (Bank, Bangladesh 2015). The source of FDI in Bangladesh also appears that the Asian developing countries and developed countries are the main source of FDI in Bangladesh.

**Table: 2**

FDI Stock classified by Major Countries as on end of June, 2015 (In million US\$)

Country	Total
United States of America (USA)	2811.94
United Kingdom (UK)	1294.42
South Korea	1019.93
Australia	921.07
Netherlands	734.62
Hong Kong	617.06

(continued)

<b>Country</b>	<b>Total</b>
Malaysia	604.91
Malta	457.90
Singapore	445.66
Taiwan	328.90
India	311.68
Japan	297.59
Pakistan	287.43
Saudi Arabia	258.90
Sri Lanka	217.11
British Virgin Island	216.80
China	186.41
Norway	185.88
Thailand	163.24
United Arab Emirates (UAE)	142.66
Other Country	997.02
Total	12501.13

Source: Foreign Investment & External Debt (FIED) Division, Statistics Department, Bangladesh Bank.

## **SECTOR-WISE DISTRIBUTION OF FDI INFLOW IN BANGLADESH**

The distribution of FDI inflow among the various industrial sectors will make it clear that gas and petroleum, textile, banking, telecommunication, food cement, leather and power have been the prime choice of the foreign investors. This sectoral distribution has changed previously chemical and textile sector was the prime choice of the foreign investors. The industry mix is clearly indicative of some diversification in the industrial composition of FDI in Bangladesh. Foreign investors have been showing interest not only in traditional, import substitution but also in a number of export oriented production including ready made garments, chemicals and other food processing industries and gas and petroleum. The sectoral composition of FDI has been changing significantly from the primary sector to manufacturing and service sector. This change in sectoral emphasis of foreign investment is not difficult to explain. The industrial strategy of Pakistan regime was import substituting. After independence the government of Bangladesh



adopted export oriented trade strategy that created attraction of foreign investors. Readymade garments and other manufacturing goods had excellent export prospects in addition to a local market and hence FDI was attracted to these industries. South Korea, Australia, Netherlands, Malaysia, Hong Kong and Japan are the main sources of FDI who has invested in the manufacturing sector in Bangladesh. USA and European investments spread over manufacturing and service sectors like textile, Cement, agro chemical, leather goods, drugs and pharmaceuticals, telecommunication, LPG bottling, lubricants, power generation, industrial gas etc. Investments from South, East & South East Asian nations like China, Hong Kong, India, Malaysia, Pakistan, Singapore, Sri Lanka, Taiwan and Thailand are concentrated on manufacturing sectors (Bank, Bangladesh 2015).

**Table: 3**

FDI Stock classified by Sectors as on end of June, 2015 (In million US\$)

<b>Sector</b>	<b>Amount</b>
Gas & Petroleum	3974.42
Textile and Weaving	2518.94
Banking	1916.27
Telecommunication	1228.12
Power	501.14
Food	341.08
Cement	245.09
Leather and Leather Products	238.93
Trading	193.83
Chemicals and Pharmaceuticals	166.03
Agriculture and Fishing	148.79
Metal and Machinery Products	110.10
NBFI	103.67
Fertilizer	78.29
Construction	62.06
Others Sector	1175.51
<b>Total</b>	<b>12501.13</b>

Source: Foreign Investment & External Debt (FIED) Division, Statistics Department, Bangladesh Bank.

## **FACTORS BEHIND THE LOW INFLOW OF FDI IN BANGLADESH**

Bangladesh has so far, as seen from the analysis and figures mentioned above, not succeeded in attracting a sizable amount of FDI. So far, the private sector, which has the pivotal role in the market economy, has not shown dynamics and has moreover, been characterized by large-scale financial indiscipline. The FDI policy frame as currently obtaining in Bangladesh those are very similar with such policies in ASEAN and Asian NICs. The government has adopted an “Open door policy” to attract foreign investment. In spite of substantial changes in government policies, Bangladesh has failed to lure satisfactory levels of FDI. There are however, a number of reasons for this poor response from the foreign investors. Bangladesh does not meet most of the basic requirements for attracting FDI. The important factors inhibiting the inflow of FDI are 1) historical factors 2) socio-economic factors 3) governance and political factors 4) social and cultural factors and 5) others.

### ***Historical Factors***

Due to the discriminatory economic policy in Pakistan period, there was no recognizable investment in East Pakistan (Present Bangladesh). The investment that occurred that period is very negligible. Bangladesh came out of a union with Pakistan that pursued a mixed approach heavily characterized by public investment and regulations of the economy are to a continuously legitimated socialistic paradigm and also opened foreign investment with the equity participation with government (Ahmed, Abu. 1993).

### ***Socio-Economic Factors***

The global competitiveness score of World Economic Forum (2015) that is defined as the set of institutions, policies, and factors that determine the level of productivity of a country. The productivity of a country determines its ability to sustain a high level of income; it is also one of the central determinants of its return on investment, which is one of the key factors explaining an economy's growth potential. The score is 0-7 (7= most competitive and productive countries). Among the SAARC countries India (4.21) and Sri Lanka's (4.19) score is high that confirms the productivity of India is high and receiving a sizable amount of foreign direct investment. The position of Bangladesh is far behind only (3.72) score it implies that the productivity and return on investment is low in Bangladesh among the SAARC countries. The global competitiveness score comprises infrastructure, institutions, macroeconomic environment, market size, labor market efficiency, innovation, financial market development, technological readiness, health and primary education, higher education and training, business sophistication

and goods market efficiency. Infrastructure is one of the twelve pillars of the index. The infrastructure of Bangladesh is at all not developed. The road and air communication is poor among the Asian FDI receiving countries. Power and energy supply is yet insufficient. But these are very important for foreign investment. On the other hand, the social infrastructure is also not developed. There are limited human development institutions and quality health care institutions. Inadequate supply of physical infrastructure is the main problematic factors for doing business in Bangladesh (World Economic Forum, 2015). It reveals that inadequate supply of physical infrastructure is the number one cause of low investment in Bangladesh. The labor cost is low but their productivity is also low. The size of the market typically refer by the GDP appears to be important determinant factors of FDI inflows. The GDP of Bangladesh is only tk. 1716700 Crore (MOF, Bangladesh 2015). It is not particularly an attractive market for foreign investors because of low purchasing power of the people. There are indiscipline and lack of good governance prevails in financial sector with loan default and pilferage (MCCI, 2016). Much of the private foreign investment is to come through joint collaboration with the local investors, but the local investors failed miserably in this case. Local business class likes to import goods rather than set up industry to make money quickly.

### ***Governance and Political Factors***

The World Bank world governance indicators (2015) reveal facts about the world wide governance indicators that is also important non-economic and intuitional determinants of attracting foreign direct investment. The countries those have better value of index are receiving more foreign direct investment in Asian region. Singapore, Malaysia, Hong Kong, Taiwan, Thailand and China has better indices. It tends to have positive relation between higher the governance index and higher the attraction of foreign direct investment. The index shows the value between -2.5 to 2.5 and 0 is the average. Bangladesh belongs one of the lowest value of all the six indices of control of corruption (-0.91), government effectiveness (-0.77), political stability and violence (-0.88), rule of law (-0.94), regulatory quality (-0.72) and voice and accountability (-0.47). Bangladesh is far behind the international property right index of Property Rights Alliance (2015) and its score is only 2.6 out of 10 (128 ranking among 129 countries). The democracy index score of Economist Intelligence Unit (2015) is 5.73 out of 10 (ranking 86 among 167 countries). It is believed that foreign investors place a very high value on political stability while determining whether or not to invest in a particular developing country. Vested political and social group agitation and strikes are timely phenomenon in Bangladesh. So investors are not interested to invest in Bangladesh in this regard, the foreigner is more concerned about the maintenance of the law and order, rule of law and good quality of regulation. Labor unrest as a result of the activities of labor force backed

by political parties often restricted FDI inflows into Bangladesh. Corruption and inefficient government bureaucracy are the second and third problematic factors for doing business in Bangladesh (World Economic Forum, 2015). The administrative culture also has not proved yet that they are good for dealing with the foreign investors. As there are lots of safe destination of the MNCs so why do they come to invest in Bangladesh? Deteriorating law and order situation and killing of foreigners assailing the foreign investor sense of insecurity.

### ***Social and Cultural Factors***

Bangladesh has an image problem among the foreign investors as most business people view the country as one of the world's developing country afflicted by political instability, labor unrest, and natural disasters. The negative country image is one of hindrance for attracting the satisfactory level of FDI though things are improving day by day. Due to over population and lack of waste management, Bangladesh is one of the most environmentally polluted country in the world and Dhaka has become the second least liveable city in the world out of 140 cities (The Economist Intelligence Unit, 2015). The investors are concerned about environmental pollution. There is land acquisition problem for new industry outside EPZs as shortage of available land. The international language is literally absent in the government office and communication is a problem with foreigners. There are limited areas for amusement for the investors or foreigners used to western culture.

### ***Others***

Low natural resources and raw materials, inadequate technology level, poor level of e-government services, quality food security and non-availability of information are some of the impediments of FDI.

## **FUTURE PROSPECTS OF BANGLADESH IN ATTRACTING FDI**

Bangladesh is a low FDI receiving country among the FDI receiving countries in Asia. There are many reasons for not receiving a sizable amount of FDI. The determinants of high FDI is far away in Bangladesh in the context of institutional effectiveness proxies by the governance indicators of World Bank (2015) and there are many countries in East and South East Asia where the determining factors of FDI are prevailing and they are receiving major portion of the world FDI. Bangladesh can attract more FDI by improving the institutional effectiveness that seems to be the causes of low FDI. It is believed that the prospect of Bangladesh in attracting FDI is very bright in many aspect of world economic situation and trade relations among the nations. China has become the labor shortage country due to aging and

they are transforming into high-tech industry. Many manufacturers, long used to a cheap and mobile workforce, are leaving the country for alternate destinations like Thailand, Vietnam and Bangladesh (Morris, D. W. 2012). Time is coming to shift manufacturing company owned by foreign investors to other developing countries like India, Bangladesh, Vietnam and Myanmar. Japanese investors may shift their factory to these developing countries to produce and export to USA and other countries as they were shifted to China and East Asia in 1980's. Chinese and Japanese investors may shift their factory again to Asia and Africa due to the hollowing out phenomenon of currency and labor cost and shortage of labor supply. People's Republic of China, following in the footsteps of Japan and South Korea, is transforming itself with giant steps into a more mature and rapidly aging industrial society and many manufacturers of shoes and toys have already moved to cheaper countries, like Vietnam and Cambodia (Follath, E and Wagner, W. 2012). Now the time to think whether Bangladesh should remain a poor country or want to become a rich county. The political parties should come to consensus for not to call any strike and ensure institutional effectiveness especially control of corruption, political stability, government effectiveness and regulatory quality to attract more FDI. The size of market is increasing because of increasing the middle class in Bangladesh. The global trends show that India and Vietnam are the most potential countries for the foreign investors and Myanmar might become next potential country of the investors if political situation improve after the historic election in 2015 as the monthly wage rate is one of lowest as well as Bangladesh among the Asian countries (ESCAP, 2013). If Bangladesh cannot able to attract a sizable amount of FDI right at this moment it would need to wait for long days. By ensuring good governance which comprises control of corruption, government effectiveness, political stability and violence, rule of law, regulatory quality and voice and accountability (World Bank, 2015), adequate infrastructural facilities and power and energy supply Bangladesh can attract more investors who invested in China. It is found that FDI share of manufacturing sector in China is decreasing and China now started to invest in other developing countries (UNCTAD 2015). There are prospects of Chinese outward FDI as the labor cost is one of lowest in Bangladesh (ESCAP (2013).

## **POLICY RECOMMENDATIONS**

The short comings restrict the FDI inflows to a significant extent in Bangladesh in view of the inadequate capital formation and domestic savings, management capabilities, institutional effectiveness, insufficient infrastructure and inadequate technologies. Bangladesh has limited option other than to encourage and attract FDI inflows in a conducive investment atmosphere of non-discrimination between the local and the foreign investors. Bangladesh has developed a FDI strategy that is in harmony with the government's objectives and the country's natural endowment but it

needs to make sure that it is consistently implemented for attracting FDI. The first and perhaps most important preconditions are to establish political stability, governance, institutional effectiveness and provide security of investment. The priority should be given to eliminate the hassle of doing business. Rule of law and property rights must be ensured for attracting FDI. Huge public investment is required for physical infrastructure like roads, airport and power generation. The size of domestic market needs to increase by increasing economic growth rate and per capita income. The board of investment should be developed into an efficient and effective organization by imparting training to those of its officials and one stop services should be provided to the investors. People should be helpful to the tourist. Ecotourism can be a source of huge foreign exchange earnings for Bangladesh. Public services delivery as e-government by using information and communication technology should be expediting. It needs proper monitoring and oversight in the financial sector as huge indiscipline prevails. A sense of confidence on business operating condition can be generated among the multi national companies as the sense of insecurity and lack of confidence assailed them. Dependency on traditional items has to be reduced and dependency on non-traditional items has to be strengthened. Last of all good governance, human development, institutional effectiveness, competitiveness and adequate infrastructure are the key determinants of FDI in Bangladesh. It might be an area of future research with empirical studies on the determinants of FDI in Bangladesh.

## **CONCLUSION**

Bangladesh has so far seen from prevailing data not succeeded in attracting a significant amount of FDI. So far the private sector that has pivotal role in the market economy has not shown dynamism in joint investment collaboration in Bangladesh. The FDI policy of Bangladesh has been framed along with such policies in ASEAN and Asian Newly Industrialized Countries (NICs). The government has adopted open door policies to lure foreign investment. Despite of substantial changes in government policies, Bangladesh has failed to attract satisfactory level of FDI. Bangladesh does not meet most of the requirements for attracting FDI than the other developing countries in Asia. If Bangladesh want to attract the foreign investors, it should mitigate the hindrance of attracting foreign investment and the incentives and facilities should not be paper based rather it should be investment friendly and conducive to the investors for coming in Bangladesh. These study reveals that the main determinants of FDI in Bangladesh are the good governance which comprises control of corruption, government effectiveness, political stability and violence, rule of law, regulatory quality and voice and accountability (World Bank, 2015), adequate infrastructural facilities specially the roads,

power and energy, and investor's confidence on institutions, human capabilities, productivity or competitiveness and institutional effectiveness. Capital is no problem in these days, many multinational companies are really looking for better place to invest the investors have lot of safe place to invest and get return. Now it is the right time to think about the fate of the people of Bangladesh by the government, the citizen, the policy maker and the policy implementer.

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# **Transparency in Public Service Governance: A Case Study about Identification Card Service Transparency in Merjosari, Lowokwaru, Malang**

Lely Indah Mindarti\*

*Lecturer, Faculty of Administration Science, Brawijaya University- Malang  
Indonesia*

\*Corresponding author; email: lelyfia@ub.ac.id /  
lelyindahmindarti@gmail.com

## **ABSTRACT**

*Study entitled “Transparency in Public Service Governance: a Case Study about Identification Card Service Transparency” is categorized as a case study. The setting of a study is an area called “Merjosari” located in Lowokwaru region in Malang, East Java. The data collection methods are in-depth interview and documentary. The data analysis technique is descriptive qualitative. Based on the result of the data analysis, transparency in Identification card service in Malang, more particularly any service related to electronic Identification card, has run relatively well. However, there has yet been comprehensive, valid and up-to-date information about Identification card service. As an example, there is not any information about electronic Identification card and conflicting information about how long it takes for issuing new Identification card. Implementation of modern information technology (IT) especially the internet network in public service governance (Identification card service) is limited to storing information in the computers. As the consequence, the internet network and the modern devices as the facilities to aid the Identification card service are considered as waste of resources by the government or the public. In order to develop and maintain transparency, the use of internet network and modern IT devices/softwares should be encouraged in order to create centralized e-service for the sake of active citizen of change in public service governance. Therefore, active participation from the government officers and the public in making use of the modern technology for public service governance is urgently needed in the future.*

**Keywords:** *Transparency, Identification Card Service, Malang, East Java, modern information technology (IT), public service governance*

## INTRODUCTION

The purpose of the study is to analyze implementation of principles of good governance more specifically transparency in public service governance especially in terms of Identification card service. Identification card or Identification card is an official identification of an individual that also becomes the evidence that he/she is a citizen of certain country. Indonesian Identification card is issued by the Population and Civil Registration Agency and applies in all regions of Indonesia. Indonesian Identification card is a requirement for all Indonesian citizens or foreign citizens with permanent stay permit whose age is at least 17 years old or who have been married before the age. Senior citizens or those whose age is 60 (sixty) years old and above are not required to renew their Identification cards every five years; these people own lifetime Identification card.

There has yet been an integrated data base that stores the data of Indonesian citizens. As the consequence, one can have more than one conventional/national identification card. Having more than one identification card is violation against the 2006 Regulations number 23 about Population Administration that states that an individual should have only one Identification card and one identification number (*Nomor Induk Kependudukan*). The identification number (*Nomor Induk Kependudukan*) is sole identification of every citizen and should not be changed for any reason (works a lifetime). The identification number stated in one's electronic Identification card is the basis for issuing one's passport, driver's license, tax ID number, insurance and other documents. Therefore, it is imperative to develop a well-structured administration system for the electronic Identification card in order to improve national public service. Through the well-structured, integrated system for electronic ID service, it is expected that all Indonesian citizens register themselves so that they have electronic Identification card because. When the system runs smoothly, the government can give better public service and the public can take maximum advantage of the public service.

Implementation of electronic Identification card in Indonesia begins in 2009. There are 4 (four) cities selected as the pilot project for national electronic Identification card namely *Padang, Makassar, Yogyakarta* and *Denpasar*. The 471.13/3350/MD Decree of Directorate General of Population Administration of the Department of Home Affairs states implementation of national identification number-based electronic Identification card in the 4 (four) cities. Furthermore, national implementation of electronic Identification card starts in February 2012 involving 2, 348 regions (*kecamatan*) and 197 cities in 2011 as well as 3,886 regions (*kecamatan*) and 300 cities in 2012.

In East Java, based on the data from the East Java Population and Civil Registration Agency, the implementation of national electronic Identification card in East Java has yet been successful. As an example, out of 1.8 millions people in Surabaya who are required to participate in the program, only 1.5 millions of them have electronic Identification card. The number equals to 80% of the whole population in Surabaya. Referring to the fact that the registration process of electronic Identification card has yet been optimum, a study on implementation of principles of transparency in Identification card service is extremely urgent and relevant.

In line with the background of the study, statements of the problems in the study are elaborated as follow:

- (1) Has principles of transparency been implemented optimumly in electronic Identification card service as public administration service in Merjosari, Lowokwaru, Malang?
- (2) What is the relevant, strategic efforts taken in order to improve quality of implementation of principles of transparency in electronic Identification card service as public administration service in the future?

Main purposes of the study on the implementation of principles of transparency in electronic Identification card service as public administration service are:

- a. Describe the implementation of principles of transparency in electronic Identification card service as public administration service in Merjosari, Lowokwaru, Malang;
- b. Identify some problems and solutions for the implementation of principles of transparency in electronic Identification card service as public administration service in Merjosari, Lowokwaru, Malang.

As an addition, main significance of the study on the implementation of principles of transparency in electronic Identification card service as public administration service are:

- a. Provide academic information about the implementation of principles of transparency, especially one in electronic Identification card service as public administration service;
- b. Provide alternatives in an effort to improve the quality of the implementation of principles of transparency, especially one in electronic Identification card service as public administration service.

In line with the significance, the study is carried out not only for the sake of academic interest; it also gives some contributions to improve the quality of implementation of good governance principles, more specifically the implementation of principles of transparency in electronic Identification card service as public administration service.

## UNDERLYING CONCEPT OF IDENTIFICATION CARD AND ELECTRONIC IDENTIFICATION CARD

### *Identification Card and Electronic Identification Card Concept*

Identification card or (*Kartu Tanda Penduduk*) is official identity of an individual issued by the Population and Civil Registration Agency and applies in all regions of Indonesia. Indonesian Identification card is a requirement for all Indonesian citizens or foreign citizens with permanent stay permit whose age is at least 17 years old or who have been married before the age. Any 17-year-old children whose parents own the permanent stay permit should have an identification card. For Indonesian citizens, identification card lasts for 5 (year) and its due date depends on one's birthday. On the other hand, foreign citizen's identification card lasts based on his/her permanent stay permit. Senior citizens or those whose age is 60 (sixty) years old and above are not required to renew their identification cards every five years; these people own lifetime identification card.

An identification card, substantively, consist of the following information about an individual, namely:

- Personal Identification Number (*Nomor Induk Kependudukan*)
- Complete Name
- Place & Date of Birth
- Sex
- Religion
- Marital Status
- Blood Type
- Complete Address
- Occupation
- Picture
- Place and Date of Identification Card Issuance
- Identification Card Holder's Signature
- Name and Signature of the Authorized Officers

On the other hand, electronic identification card or *Kartu Tanda Penduduk Elektronik* or *e-KTP* in short is a document that consists of system of security/control from both administration and information technology perspectives using the national population database as the basis. The underlying reason of the issuance of electronic identification card is the fact that one can have more than one identification card using the conventional method. There has yet been an integrated database that consists of the data of all Indonesian citizens; it becomes the cause why an individual can have more than one identification card at the same time. Having more than one identification card allows a person to commit act of violations, for example:

1. Avoiding tax
2. Having more than one passports
3. Corruption or other criminal acts
4. Having a false identity (e.g. terrorists)
5. Having a fake or double identification card

As the impact of e-government and in order to improve quality of public service, the Ministry of Home Affairs apply an administrative information system using technology as the basis that is electronic identification card or *Kartu Tanda Penduduk Elektronik* or *e-KTP*. Juridically, the basis of the implementation of electronic identification card is the 2006 Regulations number 23 about Population Administration that states that an individual should have only one identification card and one identification number (*Nomor Induk Kependudukan*). The identification number stated in one's electronic Identification card is the basis for issuing one's passport, driver's license, tax ID number, insurance and other documents.

Furthermore, based on the 2009 Presidential Decree number 26 about the implementation of personal identification number-based identification card, the personal identification number-based identification card consists of the following information, namely:

- a. Security code and electronic record as means of data verification and validation of a citizen;
- b. The electronic record in the first verse refers to personal data, photograph and finger scan of the citizen;
- c. The finger scan is stored in the national administration database;
- d. Scanning the finger print in the third verse is carried out when a citizen applies for an electronic identification card with the following requirements, namely (1) for Indonesian citizens, finger scan is conducted in Regional Office or *Kantor Kecamatan*; and (2) for foreign citizens with permanent residency, the finger scan is conducted in the East Java Population and Civil Registration Agency;
- e. The finger scan stated in the second verse consist of the fingerscan of both index fingers of the citizen;
- f. The fingerscan of the whole fingers as stated in the third verse can be accessed by certain institutions/ parties based on the rules/ regulations;
- g. Further requirements about procedures of fingerscan are stated in the Ministerial Decree.

## FUNCTIONS AND STRUCTURAL FORMAT OF IDENTIFICATION CARD/ ELECTRONIC IDENTIFICATION CARD

Administration service in the form of identification card/ electronic identification card has some basic functions, namely:

1. Personal identification,
2. Applies nation-wide so that a person does not have to make local identification card for issuing permit, opening bank account and others;
3. Avoid fake or more than one identification card;
4. Create accurate national administration database to support development program.

More specifically, format or structure of electronic identification card consists of 9 (nine) layers in order to improve security so that it has better level of security compared to the conventional identification card. A chip is planted between the white, transparent plastic on the top two layers. The chip has an antenna inside it that will produce certain wave once it is swiped. Electronic identification card scanner is going to identify the wave so that it can be identified whether rightful person is holding the identification card or not. There are several steps to create a nine-layer electronic identification such as:

1. *Hole punching*, that is making a hole on the identification card to plant a chip;
2. *Pick and pressure*, that is to place the chip on the card;
3. *Implanter*, that is to plan the antenna (spiral-like repeated circular patterns);
4. *Printing*, that is to print the identification card;
5. *Spot welding*, that is to press the card using electric wave;
6. *Laminating*, that is to cover entire surface of the card using plastic lamination.

The electronic identification card is then protected by some printing security such as relief text, microtext, filter image, invisible ink and flourished under ultra violet light and anti copy design. Storing data in the chip meets the international standard of **NISTIR 7123** and Machine Readable Travel Documents ICAO 9303 as well as **EU Passport Specification 2006**. The size of the electronic identification card meets the standard of ISO 7810; the size is the same as a credit card that is 53.98 mm x 85.60 mm.

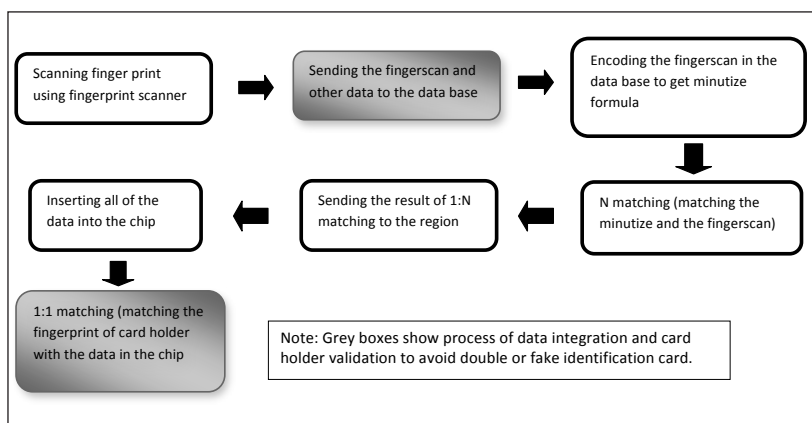


## REQUIREMENTS AND PROCEDURES OF IDENTIFICATION CARD/ ELECTRONIC IDENTIFICATION CARD SERVICE

Some general requirements to apply for identification card/ electronic identification card are:

1. At least 17 years old;
2. Has cover letter from the head of region;
3. Fill out F1.01 form (for an individual who has yet filled out the form of population administration information system) that is signed by the head of region;
4. Copy of family card.

**Chart 2.1**  
**Electronic Identification Card Application Procedures**



Referring to the chart, procedures of electronic identification card application begins when an applicant comes to the Regional Office or the Population and Civil Registration Agency with notification letter. The applicant then waits in line and comes to the counter. Officer conducts administrative data verification using the national administration database. The officer takes the applicant's photograph. The applicant put his/her signature on signature scanner. Fingerscan and retinal scan are the following steps. The officer signs and stamps the notification letter which also indicates that the applicants has been photographed, has signed and scanned his/her fingerprints. The applicant leave the institution and has to wait for 2 (two) weeks to get his/her electronic identification card.

Those innovations in the implementation of electronic identification card above are breakthrough. Electronic identification card has its benefits and shortfalls. The benefits of the electronic identification card compared to conventional identification card are:

1. Sole personal identification
2. Cannot be faked
3. Cannot be duplicated
4. Can be used to vote in the General Election or Regional Election (e-voting)

Besides that, in official site of electronic identification card the Minister of Home Affairs, Gamawan Fauzi, states that Indonesian electronic identification card has more advantages compared to one in the People's Republic of China and India. Indonesian electronic identification card is more comprehensive. The People's Republic of China's electronic identification card is not equipped with either biometric or fingerscan. The ID card in the country is only equipped with a chip that contains limited amount of personal data. India used Unique Identification Data to maintain the national administrative data. Meanwhile, Indonesia used the term *Nomor Induk Kependudukan* to refer to personal identification number. The Unique Identification Data is issued in 68 (sixty-eight) locations while Indonesian ID card is issued by more than 6,214 regions. In conclusion, Indonesian electronic identification card is the combination of the People's Republic of China's electronic identification card and Indian's Unique Identification Data (UID) since Indonesian electronic ID card is equipped with both biometric and chip.

Major weakness of the implementation of electronic identification card takes place in the beginning of the implementation. One is supposed to scan the fingerprints of all ten fingers, but only the fingerscan of the right thumb and index fingers being stored in the chip. Fingerprint is selected for authentication of electronic identification card due to some advantages it has, namely:

1. The least expensive method, less expensive compared to other biometrics,
2. Long lasting because one's fingerprints remain the same after he/she is scratched,
3. Unique, no finger scan is the same even though they are twins.

Furthermore, an electronic identification card without signature of the card holder has caused several issues for example when the card holder wants to have transaction in bank. There are cases where card holders cannot have bank transactions because they have not signed their electronic identification cards. There actually are the signatures of the card holders on the electronic

ID card, but card reader is unable to identify the signatures. The card holders should ask for recommendation from the Head of the Population and Civil Registration Agency to convince the banks. The Minister of Home Affairs, Gamawan Fauzi, has issued a notification that is the *No. 471.13/1826/SJ* regulation that states that electronic identification card is not supposed to be copied to avoid some failures when a card reader tries to identify the ID card.

## **CONCEPT OF GOVERNANCE AND GOOD GOVERNANCE**

Concept of governance is a fresh air in public sector management theories and practice where government needs to create not only efficiency but also accountability between government and the public. Citizen should not only be treated as consumer and customer. Instead, they should be considered as citizen who has rights to ask the government to be responsible for any actions it takes or failures in implementation of government policy. In addition, citizens also have rights to be protected, heard and appreciated for their value and preferences. At the same time, citizens have rights to evaluate, decline and ask whoever that politically is responsible for public service to resign when they fail to perform their tasks.

Growing issue of democratization in the middle of strong tendency of market mechanism in public sector management leads to need of current reorientation for the sake of reforming public sector. Giddens (1998) argues that the goal of public service governance reformation is developing governance instead of government (Sobari, 2001:90).

Concept of good governance emerges around 1991 in a resolution issued by The Council of the European Community that discusses Human Right, Democracy and Development. Through the resolution, it is stated that there 4 (four) requirements to create sustainable development namely respecting the human rights, promoting democracy, reducing military budget and realizing good governance. Currently, good governance has become topic of discussions and been accommodated in various conventions as well as become resolutions related to development in international institution like the UNDP, the Lome Convention, as well as multilateral and bilateral development assistance agencies.

Meaning of governance is different from that of government. The major difference lies in their styles of governing instead of their outputs. Sammy Finer (1970) defines governance as:

1. activity or process of authorization;
2. condition as the impact of established rules/ regulations;

3. people given rights to authorize or government;
4. procedure, methods or system where certain society is governed (Wiharso, 2004:4).

World Bank (1992) defines governance as the way state power is used in managing economic and social resources for development of society. Furthermore, the UNDP (1997) defines governance as the exercise of political, economy, and administratif authority to manage a nation's affair at all levels (LAN & BPKP, 2000).

There are three legs and three major domains in the concept of governance. The three legs of the concept of governance are political governance, economic governance dan administrative governance. Political governance refers to policy-making process. Economic governance refers to process of decision-making in economics with implication towards equality, eliminating poverty and increasing welfare. Meanwhile, administrative governance refers to policy implementation system.

Good governance is the best practice of governance. Similar to World Bank (1992)'s description, good governance is implementation of solid and responsible management for development that is in line with principles of democracy and efficient market, avoiding wrong investment location and preventing both political and administrative corruption as well as implementation of budger and creating legal and political framework for growth of business climate or activities (Mardiasmo, 2002:24).

UNDP formulates a number of principles to create good governance; they are as follow:

1. Participation, participation from the public in policy-making process both directly and indirectly through representative institution to deliver their aspirations. The participation is developep based on freedom of association and freedom of speech as well as freedom of participation constructively;
2. *Rule of Law*, fair framework of law that is established equally;
3. *Transperency*, transparency is built on freedom of gaining information. Any information related to public interest can be accessed by anyone without any delay;
4. *Responsiveness*, public institutions should give quick response for stakeholders;
5. *Consensus Orientation*, is oriented to general public need;
6. *Equity*, everyone has equal chance to welfare and justice;
7. *Efficiency and Effectiveness*, public resource management should be carried out in effective and efficient manner;

8. *Accountability*, accountability to the public for any activities/ program conducted;
9. *Strategy vision*, running government and the public with strategic vision for the future (Mardiasmo: 2002:24).

## **E-GOVERNANCE-BASED TRANSPARENT STRATEGY**

Effort to develop e-governance-based governance is conducted massively and extensively by the government. However, there is general tendency that most of the state governments have developed from the view point of the government. They are primarily focused on how the government department wants to put it forward (Chakravarti & Venugopal, 2008:3). When government institutions have dominant perspective and interests, some serious implications will appear where e-governance using the bureaucratic silo approach as the basis would not provide the result as expected from the computerization efforts used in the government (Chakravarti & Venugopal, 2008:3). The implication is frequently e-governance practices tend to be wasteful instead of creating improvement or radically more, for radical less (CST, 2010:2).

In the context, it is urgent to emphasize that implementation of e-governance determines and focuses strongly on citizen centricity or citizen centric approach where the practice of e-governance requires shifting the focus of government around or from the view point of the citizen and businesses. The portal should take care of the needs of the citizen and business rather than operational or other imperatives inside the government machine (Chakravarti & Venugopal, 2008:3). By fundamental shift towards the focus and centralized implementation, implementation of e-governance principles will encourage radical and transformative improvement in performance of governance.

**Chart 2.4**  
**Primary Objectives of Citizen Centric Solution**

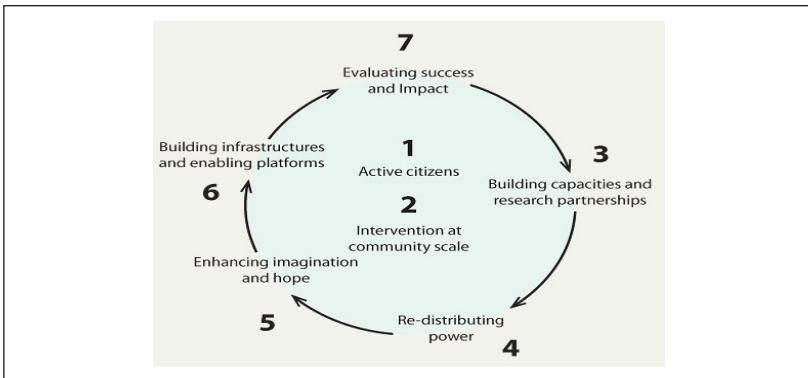


Source: Chakravarti & Venugopal (2008:4).

The radical and transformative change occurs in the form of the change in performing service more specifically involves (a) improved quality of service, (b) transparent, efficient, and secured delivery, and (c) anytime, anywhere availability of service (Chakravarti & Venugopal, 2008:4). The radical and transformative change governance that focuses and is based on citizen centricity; it is the fundamental method to make governance capable to function as integral part of citizen centric solution.

Sangiorgi (2011:9) furthermore identifies 7 (seven) key principles that seem to unify transformative practices in design. The 7 (seven) principles are summarized in the following chart.

**Chart 2.5**  
**Transformative Design Principles**



Source: Sangiorgi, 2011:9.

The chart above reminds us that new format of e-governance can be functional when it focuses on the role of active citizens as agent (Sangiorgi, 2011:9). Citizen has important role as agent of change because the citizens function as a key resource to fundamentally change the traditional hierarchical model of service delivery and the perception of citizens themselves (Sangiorgi, 2011:10). In order to create the role of active citizens as agent there are series of functional actions to take for instance intervention at community scale, building capacity and research partnerships, redistributing of power, enhancing and hope, building infrastructure and enabling platform, evaluating process and impact.

Actualization of independent capacity reinforcement of the active citizens as agent is closely related to collective created that is supposed to be created by all elements of government. In the context, the government is truly required to function as enabling platform for participation of all elements of the government to make contribution in actualization of productive role for active citizen as agent of change. Similar process takes place in citizen as evaluator and creator of information during entire process of electronic identification card service as public administration service.

## **METHODOLOGY**

### ***Research Method***

The study is categorized as a case study. It aims at describing and identifying phenomena in the implementation of principles of transparency in electronic identification card service as public administration service. The study involves the process and centralized issues found in the field more particularly one related to the use of information technology to improve extensive and fundamental quality of public service governance.

### ***Setting, Data and Source of Data***

The setting of the study is an area called *Merjosari* located in *Lowokwaru* region in Malang, East Java. There are two sources of data in the study, primary and secondary data. Primary source of data are the individuals getting involved in the earlier process of electronic identification card application and those with direct encounter to the applicants/ public. The individuals are (a) head of *Rukun Tetangga* and (b) head of *Rukun Warga*. On the other hand, the secondary source of data is official document related to application of the electronic identification card which is supported by the website of the government of Malang that provides information for the application about electronic identification card service.

### ***Focus of the Study***

The main focus of the study on electronic identification card service as public administration service involves:

- a. Process and procedures in applying for electronic identification card in Malang;
- b. Practices in electronic identification card service as public administration service in Merjosari, Lowokwaru, Malang especially ones with direct involvement with the public as applicants;
- c. Procedures the applicants have to fulfill in order to apply for electronic identification card;
- d. Match between the actual electronic identification card service and the established process and procedures in applying for the electronic identification card as well as perspective of transparency using citizen as an active agent of change as the basis.

Using the focus as the platform, it is expected that the study eventually is able to describe practices in the implementation of transparency principles and major issues taking place during electronic identification card service.

### ***Data Collection and Data Analysis***

There are 2 (two) techniques of data collection in order to obtain all of the data for the study; they are (a) in-depth interview and (b) documentation. The in-depth interview involves the head and secretary of *Rukun Tetangga* as well as the head of *Rukun Warga*. These people have direct interaction with the public as applicants of the electronic identification card. Meanwhile, documentation is used to obtain some information (data) that can be accessed using e-governance for example some information from the website of the government of Malang.

All data are then analyzed using descriptive qualitative technique of analysis, as the major technique.

## **FINDINGS AND DISCUSSIONS**

### ***Process and Procedures in Identification Card/ Electronic Identification Card Application***

According to the Secretary of RT 06 RW IX Merjosari, Lowokwaru, Malang, individuals who live in Malang and want to apply for conventional identification card should follow the following procedures:



First, the individual see secretary of *Rukun Tetangga* where he/she lives in order to get KP.1 or F-1.21 forms. The forms are the required documents to apply for identification card for Indonesian citizens. In addition, the individual should ask for a cover letter from the secretary of *Rukun Tetangga*. Then, the applicant fills out and signs the KP.1 or F-1.21 forms. The following step is to ask for signatures of head of *Rukun Tetangga* and *Rukun Warga* where he/she lives for validation. Some documents the applicant should attach to apply for identification card are copy of family card, copy of married certificate (for any married applicant who has yet been 17 years old), and copy of birth certificate. The last requirement is 4"x6" cm photograph of the applicant. Background of the photograph is red when the applicant was born in odd year while it is blue when he/she was born in even year. (the transcription from the in-depth interview with the Secretary of RT 06 RW IX, Merjosari).

Having completed all of the required documents, the following procedures are:

"The applicant comes to the Regional Office (*Kantor Kelurahan*) to submit F-1.21 form and all required documents. A registration officer is going to make record of the application in a document called "*Buku Harian Peristiwa Kependudukan dan Peristiwa Penting*." Then, the registration officer verifies and validates the application. Once the process has been completed, the registration officer asks for signature of the Head of the Region (*Lurah*) before the application is sent to "*Kecamatan*," a larger municipality after "*Kelurahan*." The registration officer in *Kecamatan* is going to verify and validate the application. Once the application has been verified and validated, the registration officer in *Kecamatan* prints an identification card for the applicants (the transcription from the in-depth interview with the Secretary of RT 06 RW IX, Merjosari).

During the interview, the Secretary of RT 06 RW IX, Merjosari also states how much an individual should spend to apply for the identification card. He states that applying for the identification card is free of charge. The secretary describes that "applicants of identification card can get all required documents for their applications for free. It is one of the services given by RT 06 RW IX, Merjosari; similar service is given in all areas in Indonesia. However, applicants can make some donations as contributions to the development of the area" (the transcription from the in-depth interview with the Secretary of RT 06 RW IX, Merjosari)

Related to the implementation of electronic identification card, the Secretary of RT 06 RW IX, Merjosari describes procedures an applicant should go through in order to get the electronic identification card. The procedures are as follow:

"Applicants of electronic identification card come to *Kantor Kecamatan* with their notification letter indication that they are eligible to apply for

electronic identification card. The applicants wait in line for their turn. They come to certain counter once they have got their turn. An officer verifies applicants' data and cross-check the data with the national administration database. Once the verification and cross-check are completed, the officer takes photograph of the applicants. The applicants put their signature in the scanner. The following step is fingerscan and retinal scan. The officer then signs and put some step in the notification letter indicating that the applicants have finished all procedures in electronic identification card application. The applicants wait for some time until their electronic identification cards are issued.” (the transcription from the in-depth interview with the Secretary of RT 06 RW IX, Merjosari)

*Transparency in Identification Card Service*

All process, requirements and procedures to apply for identification card in Malang, as stated in the previous section, can be accessed from the website of the government of Malang, more particularly in public administration service section of the website. From the website, stakeholders including the public as identification card applicants have access to all of the information about the identification card application, especially the conventional identification card. Information for electronic identification card application has yet been available in the website until the last week of June 2015.

Table 5.1 summarizes information about process, requirements and procedures to apply for new identification card for Indonesian citizens. The information is also available in the website of the government of Malang. Table 5.1 is as follow:

**Tabel 1**

Process, Requirements and Procedures to Apply for Identification Card in Malang

Process	Requirements	Duration
Applicants	Required documents for the applicants are: 1. Copy of family card, 2. Copy of marriage certificate (for applicants below 17 (seventeen) years old who have been married), 3. Copy of birth certificate, 4. Copy of a notification letter from certain institution indicating that an Indonesian citizen has just moved to Indonesia from foreign countries.	

(continued)

Process	Requirements	Duration
<i>Rukun Tetangga</i> <i>Rukun Warga</i>	<ol style="list-style-type: none"> <li>1. Head or secretary of <i>Rukun Tetangga</i> and <i>Rukun Warga</i> writes a cover letter indicating that an applicant is eligible to apply for identification card;</li> <li>2. Applicant fills out and signs the KP.1 or F-1.21 forms (the required documents to apply for identification card for Indonesian citizens);</li> <li>3. Head or secretary of <i>Rukun Tetangga</i> and <i>Rukun Warga</i> signs the KP.1 or F-1.21 forms for validation.</li> </ol>	
<i>Kelurahan</i>	<ol style="list-style-type: none"> <li>1. Applicant submits the F-1.21 form and all required documents;</li> <li>2. A registration officer is going to make record of the application in a document called “<i>Buku Harian Peristiwa Kependudukan dan Peristiwa Penting</i>;”</li> <li>3. The registration officer verifies and validates the application;</li> <li>4. <i>Lurah</i>, the Head of <i>Kelurahan</i>, puts his signature on the application;</li> <li>5. The registion officer submits the application to “<i>Kecamatan</i>,” a larger municipality after “<i>Kelurahan</i>.”</li> </ol>	
<i>Kecamatan</i>	<ol style="list-style-type: none"> <li>1. A registration officer in <i>Kecamatan</i> makes verification and validation of the application;</li> <li>2. A new identification card is issued.</li> </ol>	2 working days

Even though the process, requirements and procedures to apply for identification card in Malang have been specifically uploaded in the website, there is some conflicting information about the application, more specifically how long it takes to issue a new identification card. From Table 5.1, the duration for issuing a new identification card is 2 (two) working days. However, based on the website, 10 (days) is the amount of time needed to issue a new identification card.

## DISCUSSIONS

Identification card is essentially a vital public administration document for all stakeholders to define their position as members of community and the governments. Thus, to provide excellent service for identification card application is a pivotal public service the government should provide. In

line with the urgency of the identification card service, the policy stating that the application of new identification card is free-of-charge is a strategic and fundamental policy to create a solid and integrated public administration system.

Providing transparent information about the process, requirements and procedures to apply for identification card is another method to ensure implementation of a solid and integrated public administration system. Uploading the information on a website that can be accessed by the public is an effective attempt to spread the information to the public. Considering the importance of the information and easy access to the information, it is imperative that government website contains accurate, valid and up-to-date information including accurate, valid and up-to-date information for new identification card application. Therefore, conflicting information similar to different information about how long it takes for issuing a new identification card on government website should be avoided. In addition, some information about new electronic identification card application should be uploaded to the website of the government of Malang since currently there is not any information related to the matter in the website.

Besides, some issues in providing comprehensive and valid information on the website, another issue related to subjectivity arises in the use of IT devices for public administration service. Public service website should not be dominated by interest of the institutions that provide the service, especially public institutions that provide public administration service. The use of internet network that is heavily influenced and dominated by the interest of an institution that happens to provide particular service leads to wasteful resources. The internet network is currently used to store the data of new identification card applicants. There has yet been real effort to develop concept of e-governance where public service should create active interaction and active citizen of change in public service governance.

Inneffective use of internet network in identification card service tends to cause some disadvantages for both the government and the public. Ineffective use of the internet causes lost of budget, time and energy for the government and the public. The disadvantage does not support the target of the use of information technology for public service where the use of IT will increase efficiency for the implementation of public service.

## CONCLUSION

Based on the analysis of the theories and the findings of the study, some conclusions to draw are:

1. Requirements, process and procedures of new identification card application in Malang has applied principles of transparency. The evidence is information about the requirements, process and procedures of new identification card application in Malang is available on the website of the government and can be accessed by the public;
2. Even though the principles of transparency have been implemented, the information has yet been comprehensive and valid information. There is not any information about application of new electronic identification card. In addition, there is conflicting information about duration for issuing a new identification card;
3. The use of IT such as the internet network is heavily dominated by perspective and interest of institution that provides service. As the effect, IT and internet are used to computerize the process of identification card application only. The implication is ineffective use of internet network in identification card service tends to cause some disadvantages for both the government and the public. Public service governance especially one with active citizen of change as the basis should encourage implementation of good governance in public service.

## RECOMMENDATION

1. Comprehensive, valid and up-to-date information should be available on the website especially information about the application of new electronic identification card;
2. Internet network should be used optimally as an integral part to create e-service that uses active citizen of change as the basis. When the use of internet network is optimized, administrative activities in public service can be taken care of the smallest unit of government such as *Kelurahan*. As addition, the public as applicants of identification card can have active participation to input their data and check the database of the national administration;
3. The use of information technology and internet network in public service, especially public administration service should be improved so that the internet network can be used for various needs.

It is expected that the findings, conclusions and suggestions of the study can give academic and practical contributions towards public service governance in the future.

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# ICT and Democratic Parliament in Africa: State of the Matter

Aderonke Atinuke Oni\*

Samuel Oni

Jide Ibietan

*Department of Computer and Information Science College of Science & Technology, Covenant University, Nigeria*

\*Corresponding author; email: ronke.oni@covenantuniversity.edu.ng

## ABSTRACT

*Modern legislatures across the world are utilizing ICT to strengthen the hitherto weak citizens-representative interactions. For the legislative institutions of many African countries however, effective platforms for citizens-representative dialogical interaction for the purpose of making informed decisions and exercising influence on behalf of the represented are largely non-existence. The product of this is a disconnect between citizens and their representatives with its concomitant public distrust of political institutions and a decline in citizens' loyalties and attachment to the government. This research paper draws from case analysis and literature search to examine the extent of electronic parliament implementation for re-engaging the electorate in the democratic states of Africa. Findings also reveal that despite such challenges as inadequate infrastructural facilities and capacity building in most African States, the exponential growth of ICTs in the continent, has the potential for strengthening interactive deliberation between citizens and their representatives and thus reduce citizens- representatives' estrangement and make democratic processes more inclusive and transparent. This paper therefore argues that with effective ICT strategic planning and management and a mechanism for ICT skill training and development for all stakeholders, e-parliament presents a glimmer of hope for responsive and accountable governance in Africa.*

**Keywords:** *e-parliament, Political Representation, Governance, Democracy, Africa.*

## INTRODUCTION

Developed democracies all over the world are utilizing Information Communication Technologies to strengthen parliament engagement with

the citizens (Chadwick & May, 2003; UNDP, 2006; Leston-Bandeira; 2007). This is in recognition of the role of the legislature as citizens' representatives that allow for the representation in governance, the diverse interests and differences in a multicultural and subnational democratic polity (Cook, 2003). As an assemblage of the representatives of the people, the legislature serves as intermediary between citizen concerns and government policy (Fish, 2006, Gerber, 1996; Johnson, 2005; Heywood, 2007). In fact, the legislature is important to the extent that weakness in its representative capacity poses a significant threat to democratic advancement (NDI, 2001). As averred by Awah (2013), there can be no workable democracy without a vibrant legislature.

As citizen's representatives, the legislature requires access to information and a continuous communication, interaction and dialogue with the citizens. That is why developed democracies across world are utilizing ICT to strengthen the capacity of the legislature to engage the public in dialogical interactions (Leston-Bandera, 2012). Information and Communication Technology (ICT) has been identified as having the potential of enhancing parliament's engagement and collaboration with the citizens through the provision of new and multiple communication links in the political process, thus making democratic processes more inclusive and transparent (IPU, World e-parliament Report, 2008).

While legislative institutions around the world have embraced ICT to strengthen the hitherto weak citizens-representative interactions, its introduction and implementation are often a difficult process, particularly, in developing countries (Leston-Bandera, 2007). For the legislative institutions of many African countries, effective platforms for citizens-representative dialogical interaction for the purpose of making informed decisions and exercising influence on behalf of the represented are largely hitherto non-existence (Rosenthal 2009; Awah, 2013). The legislative institutions of many African countries lack the ability or effectiveness to inform and interact with their constituents (Pantoja and Segura, 2003; Edigheji, 2006; Oni, 2013). The product of this is a disconnect between citizens and their representatives with its concomitant public distrust of political institutions and decline in citizens' loyalties to the government (Azevedo-Harman, 2011; Mattes & Mozaffar, 2012; Oni, 2013).

Many scholarly research works have been conducted by researchers, academic institutions and regional/global organizations such as the United Nations Agencies on the potentials offered by ICT for democratic legislature, the geographical focus of these studies have always been mostly dominated by America and Europe (Scully & Farrell, 2001; Leston-Bandera,

2007). Moreover, the results of these research output have not adequately impacted on democratic governance in Africa as far as strengthening African parliaments for effective dialogical interaction with the citizens (Bwalya, Plessis, & Reinsleigh, 2012; Maphephe, Balkaran and Thakur, 2014; Oni, 2013). It is against this backdrop that this paper examines the potentials and challenges of engaging ICT for re-engaging the citizens in African democratic states. This is very important at this juncture in order to avert the crisis of democratic legitimacy and accountability pervading African states.

## **LITERATURE REVIEW**

Political representation is generally recognized as a necessary condition and a hallmark of democracy (Dahl, 1989; Mill, 1994; Brown, 2006; Rosenberg, 2007; Setälä, 2011). As the means through which democratic government is made possible, political representation is necessary for a pluralistic society (Weymans, 2005), and is indispensable for a functioning democratic practice (Dahl, 1971, Scully & Farrell, 2001).

The primary mechanism and institutional arrangement for political representation in governance, of the divergent interests in a plural society is the legislature (Heywood, 2007; Barkan, 2009). In this regards, the legislature is seen as a representative institution that exercises sovereignty on behalf of the people and the platform for the articulation and expression of the shared will of the people (Bernick & Bernick, 2008). It serves as a vital link between the government and the citizens (Jewell, 1997; Ooko-Simbine, 2010). The representative role of the legislature helps in bringing divergent views into the policy-making arena (Scully & Farrell, 2001 & Johnson, 2005). The legislature is responsible for ensuring good governance through citizens' representation in the decision making process particularly in heterogeneous societies (Johnson, 2005). The legislature thus, occupies pivotal place in democratic governance and performs the crucial role of citizen's representation for the promotion of public interests (Leston-Bandeira, 2007). It is in view of this that Bishin (2009) sees political representation embodied in the legislature as an important and indispensable principle of any democratic state. Effective governance therefore, requires legislatures effectiveness in performing the vital role of citizens' representation which is essential for democratic sustenance in complex and diverse societies.

The representative role of the legislature involves interacting with those represented and making decisions and exercising influence on their behalf (Goodin, 2004; Brown, 2006). Paradoxically however, the history of political representation in most independent States of Africa has been characterized by

absence of the institutions of vertical and horizontal accountability leading often to political instability (Edigheji, 2006; Azevedo-Harman, 2012).

An essential requisite of a democratic society is the freedom of citizens to engage with elected representatives to improve the quality of life. In most parts of Africa however, communication links between state and the citizens are weak and government policies and actions rarely reflect the high priority concerns of the citizens (Veit et al, 2008). The common positions and needs of the poor and the marginalized minorities are often not recognized or incorporated into government decisions and public policy (Azevedo-Harman, 2011).

Despite wide recognition of the representative role of the legislature, parliaments in many countries of Africa have been historically weak institutions and lack the capacity to meet their role of effectively representing constituents (Edigheji, 2006). The legislative institutions of many African countries lack the ability or effectiveness to engage their constituents in a dialogical interaction for the purpose of making informed decisions and exercising influence on behalf of the represented (Edigheji, 2006; Oni, 2013; Awah, 2013). Citizens in most African states have limited information about their parliaments. While they are committed voters, they are not able to demand political accountability from their representatives largely due to their unawareness of their political institutions thus resulting in serious citizens-representatives disengagement (Azevedo-Harman, 2011; Mattes, & Mozaffar, 2012; Oni, 2013).

With the exception of very few countries such as Ghana, Kenya and Uganda where parliaments have made significant efforts towards developing their capacity for representation, African legislatures have not been able to fulfill its role as a representative body for the diverse states of the continents (Mattes & Mozaffar, 2012). They have limited skills and knowledge on setting implementable goals and interacting with constituencies and citizens to promote sustainable development (Oni, 2013). For the legislators to effectively fulfill their representational role, they require regular communication and easy access to their constituents in order to exchange views (Rehfeld, 2005). In African countries, inadequate, inaccessible meeting facilities and insufficient time for legislators to regularly interact meaningfully with constituent serve as hindrances to legislature-constituent relations. For instance, while in many western democracies, legislative buildings are accessible and parliamentary proceedings, and parliamentary debates open to the public, in Africa, it is not uncommon for legislative buildings to be barred by blockade and armed securities, making it difficult for the ordinary citizens to access (Gberevbie, 2014).

Parliaments are the branch of government closest to the citizens hence, it is required that they are aware of the needs and aspirations of their constituents and respond accordingly. Their representation role involves dialogical interactions with those they represent and making decisions and exercising influence that reflect the will of the people. Moreover, the practice of electing members of the legislature from single member districts, prevalent in most African countries, means spending considerable time in their districts with their constituents (Mattes, et al., 2012). Most African countries are however, faced with dysfunctional constituents with the larger population with limited understanding of the workings of the legislature (Nwanolue, & Ojukwu, 2012). Moreover, many African legislators do not operate constituency offices (Edigheji, 2006; Oni, 2013). The rare citizens-representatives interaction, thus resulting in a deep gulf between legislators and the people they represent (Okoosi-Simbine, 2010; Oni, 2013). This pervasive contemporary estrangement is manifested in public mistrust of political institutions and a decline in citizens' loyalty and attachment to the government and its institutions (Pantoja and Segura, 2003; Rosenthal, 2009). When opportunities for citizens-representatives engagement are ineffective in affecting government policy or when citizens feel that public institutions do not represent them, support for democracy is eroded and such society could risk individuals or groups resorting to extra-legal mechanisms to ventilate their views. New strategies for re-engaging the electorate by interacting with citizens, informing them and providing multiple channels for receiving and disseminating information is, therefore, imperative in order to avert the crisis of democratic legitimacy and accountability in African states.

## **METHODOLOGY**

This exploratory study employed case analysis, web content analysis and systematic literature search to collect and analyze data on the potentials and challenges of ICT for strengthening parliament-citizens dialogical interaction in the democratic states of Africa. The sample is made of seventeen (17) democratic states of Africa carefully selected to have a complete view of the extent of e-parliament implementation across Africa. These countries include Nigeria, Ethiopia, South Africa, Tanzania, Kenya, Morocco, Ghana, Angola, Madagascar, Burkina Faso, Malawi, Zambia, Sengal, Zimbabwe, Rwanda, Somali, Lesotho. Case study approach is considered appropriate for this type of exploratory research because it enables in-depth study of a small number of samples and help to generate findings of relevance beyond the individual cases (Fidel, 1984; Burnham, 2008). The parliamentary websites of these countries were analyzed for information content and interactive tools in order to determine their usefulness in achieving dialogical

interaction with members of the public. According to OECD (2001) and IPU (2009), parliamentary website is useful to the extent to which it can provide basic information about the legislature and as well provide platforms that encourage interaction between members and the public such that will enable the citizens to share their views and engage them in the policy process. The web analysis was conducted in March, 2015.

## **ICT AND DEMOCRATIC REPRESENTATION IN AFRICAN STATES**

Electronic parliament, otherwise known as e-parliament, refers to the use of Information and Communication Technology (ICT) to support legislature's fundamental roles of representation, legislation and oversight more efficiently and thus, be empowered for transparency, accessibility and accountability (United Nations, 2008; Global Centre for ICT in Parliament, 2008; Bwalya *et al*, 2012). Leveraging on the capability of ICTs, e-parliament can increase and strengthen deliberative and interactive dialogue between citizens and their representatives (Loukis, 2011). ICTs create new forms of engagement and collaboration through the provision of new and multiple communication links in the democratic processes to make it more inclusive and transparent (Ferber, Foltz, & Pugliese, 2005; Dai & Philip, 2007). As observed by Loukis (2011), ICTs have been found to strengthen the parliament to be more representative, transparent, accessible, accountable and effective. It empowers the people in all their diverse forms to be more involved in political life by providing greater access to quality information and parliamentary documents and activities (United Nations & Inter-parliamentary Union, 2014). Strategic utilization of information communication technologies (ICTs) has been identified to enhance parliament's roles in democracies by strengthening linkages among legislators, their constituents, and civil society (UNDP, 2006). E-parliament therefore has the potential to reduce citizens-representatives estrangement (Lusoli, Ward and Gibson, 2006; Oni, 2013).

According to the Global Centre for ICT in Parliament (2012), the growth and penetration of ICT has continued unabated with total mobile-cellular subscriptions reaching almost 6 billion by end of 2011, corresponding to a global penetration of 86 per cent. The report revealed that developing countries particularly, African countries accounted for more than 80 per cent of the recent subscriptions. Most countries around the world, particularly the western industrialized countries, have leveraged on the exponential growth of ICTs to foster new relationships between citizens and their representatives (Dai & Philip, 2007). The growth and penetration of ICTs has considerably transformed the environment in which parliament operates (Loukis, 2011).

In developing countries such as Sub-Saharan Africa (SSA) countries however, e-parliament implementation is still at the introductory stage (Leston-Bandeira, 2012; Global Centre for ICT in Parliament, 2012; Oni, 2013). It is important to note that e-parliament is not just about whether parliaments are using the Internet or not, but in the way this is happening and its impact on parliamentary activities (Leston-Bandeira, 2007). This is because the implementation of ICT in parliament is not just about deploying ICT tools, it is also a comprehensive understanding of the way in which parliaments operate and about using the tools in changing the procedures and culture of parliaments (Leston-Bandeira, 2007).

Like the developed countries, most African nations have established e-government implementation strategy and have given their legislative bodies online presence (Global Centre for ICT in Parliament, 2012 & Leston-Bandeira, 2012). Most of these countries are however, currently using the Internet as a medium to provide information on legislatures' activities to the citizens. Our investigation shows that the parliaments of Nigeria, Ghana, Kenya, Cameroon, South Africa, Rwanda, Zambia, Zimbabwe, Angola, Botswana, Ethiopia, Tanzania, Morocco,

Madagascar, Burkina Faso, Malawi, Senegal, Somali and Lesotho have their Websites populated with information on parliamentary functions such as members of parliaments, Acts, Bills, Order papers, Hansards, Votes and Proceedings. The parliaments of South Africa, Zambia, Rwanda and Zimbabwe provide information on access to their parliamentary buildings, educational visits and access to plenary sessions. Many of the sampled countries provided information on the history and role of committees and commissions of their parliaments. Somalia and Lesotho however have no information on the composition of the committee members.

The parliamentary websites of Nigeria, Angola and Lesotho provided relevant information on the various themes on their websites. Angola and Lesotho however, provide only text of constitution on their parliamentary websites. Documents on these parliamentary businesses are available for download in Portable Document Format (PDF) on their Web sites. With respect to parliamentary administration, only Tanzania, Zimbabwe and Malawi provide information on this theme. Information on electoral procedures and previous parliamentary election results by seats could only be found on the parliamentary websites of Angola, Malawi and Senegal. Inter-parliamentary Union (2009) recommends that information on parliamentary websites should include legislation, budget and oversight. The web content analysis revealed that only parliaments of South Africa and Tanzania have information relating to budget on their websites while South Africa, Tanzania, Ghana, Malawi,

and Zambia provide oversight information. The studied cases except Nigeria, Ethiopia, Kenya, Morocco, Malawi, Rwanda and Lesotho however, provide information on legislation.

It is important to reiterate the fact that e-parliament implementation goes beyond information provisioning. Equally if not more important is its usefulness for a two-way relationship where citizens interact with their elected parliaments and have opportunity to give feedback on issues (OECD, 2001). The implementation of e-parliament for citizen's engagement purposes in our studied cases showed that online interaction between citizens and parliaments in Africa is low. In fact, only the parliaments of Angola, Zambia Tanzania provided online submissions platforms such as petitions and questions or comments to the speaker. While the Angola Parliament has a fully implemented online petition submission, Zambia Parliament merely generalized its electronic submission platform. The constitutional provision for petitioning the National Assembly and the National Council of Province is made available on the South African parliament. This also includes Information on the types and procedures for writing, presenting and submitting petition to either of the legislative bodies is available. The process of submission is however, completely manual. For the parliamentary websites of Nigeria and Kenya searching, viewing and downloading PDF version of published petitions can be done but submission is offline and its process is not available on their websites. In South Africa and Rwanda, consultation process can be initiated electronically and adequate information on submission and petition are provided. The two participatory outlets however, cannot be concluded electronically. The Parliament calls for public consultation online while submission can only be made to a designated office or via email or fax. The website of Ethiopia's Parliament provides online forum on topics which can only be created by the administrator. The parliaments of Ethiopia, South Africa and Senegal also made Real Simple Syndication (RSS) feed available.

It is obvious from this analysis that adequate provision has not been made for members of the public to have easy access to or communication with their representatives in our case studies. Very few of the parliament Websites visited have means for electronic interaction with the legislatures including the Federal Republic of Ethiopia House of Federation web site which has a functional online forum and Real Simple Syndication (RSS) feeds and provision for chatting. Kenyan parliament web site also allows searching and viewing of petitions but the process of submission is manual. Phone numbers and emails address of the parliamentarians cannot be obtained from the websites except for South African which gives the official emails of the parliamentarians alongside their names. Kenya, Zambia and South Africa



give details of committee activities including their sitting time. Zambia however goes a step further to include details of time, venue and accessibility status to the public.

The foregoing analysis shows that online interaction between citizens and legislative institutions in Africa is still at the information provision stage. This analysis supports the works of Leston-Bandeira (2012) and World e-parliament Report (2012) which revealed that in developing countries such as Sub-Saharan Africa (SSA), e-parliament implementation is still at its introductory stage. It also validates the findings of the Global Centre for ICT in parliament report (2012) that most African countries falls into the category that least use variety of ICT tools for citizens-representative communication and interaction. Parliaments in Africa need to do more, in order to promote accessibility and interaction with citizens by taking advantage of the Internet. Using Web 3.0 for instance, parliament can provide online streaming of parliamentary session, advance search parliamentary business documents, extraction of all debates on specific bill, online submission of petition/document upload from citizens, online discussion and many more. According to the e-parliament report (2012), most African countries belongs to the least group in the use of document repositories, mobile communication devices, mobile communication application for citizens, speech -to-text dictation software, TV broadcasting of plenary sessions, open standards such as XML and webcasting and ranked second to the last in e-parliament score. It is evident that African parliaments have not adequately employed the Internet as a medium to give voice to the people and making them to be part of their decision making process.

## **CHALLENGES OF E-PARLIAMENT IMPLEMENTATION IN AFRICA**

Most African nations like the developed countries have given their legislative bodies online presence. The implementation of ICT in parliament however, is not just about introducing electronic tools and using emails, it is also about changes in procedures and culture which should include communication and engagement with citizens (Leston-Bandeira, 2007). It is about openness, transparency, accountability, technology services for members, management of parliamentary documents, and others. There are hindrances to deriving the full potential and benefits of e-parliament in African states. Prominent among these challenges include poor vision and lack of strategic plan for, and access to best practices in ICT. Orchestrated largely by poor governance and corruption, most African States lack the capability to provide necessary infrastructural facilities for e-parliament implementation. Inadequate

infrastructure occurs in two ways; citizens limited access to ICT tools needed to take advantage of multiple channels of political participation that e-parliament offers and government incapacity to drive full-fledged e-parliament implementation by not giving enough resource allocation to full implementation of e-parliament (Bwalya *et al*, 2012).

According to World e-parliament Report (2012), mobile broadband has become the single most dynamic ICT service, recording more than 1 billion subscriptions worldwide. Developing countries however continued to witness dismal penetration in terms of 3G coverage accounting for paltry 8% of the world's total subscriptions. Similarly, the report shows that despite the growth in fixed (wired) broadband subscriptions in developing countries, the penetration remains low in the region of Africa. Furthermore, while the rate of individual's usage of the Internet continues to grow worldwide including African countries, report shows that, with exceptions of few countries like Lebanon and Malaysia with 62 per cent and 61 per cent of households with Internet respectively, over 70% of households in developing countries do not have Internet access (World e-parliament Report, 2012; Global Centre for ICT in Parliament, 2012). This dilemma of digital divide continues to pose great challenges for successful e-parliament in Africa. According to the World e-Parliament Report (2008), the level of a country's income determines the extent to which ICTs can be adopted in that country's parliaments. The developing countries are at the top in inadequate financial resource. According to the economic classification of Global Centre for ICT in Parliament (2012), most African countries except South Africa and Libya are within the low middle income and low income category. Inadequate financial resources thus, constitute a big challenge for some parliaments in Africa.

To a large extent however, finance is not the "real" issue but a consequence of lack of "vision" and strategic planning and implementation (Sobaci, 2012). While some African countries are financially incapable of driving full implementation of e-parliament, some are suffering from lack of vision and strategic planning to adequately finance projects that will bring about sustainable development. Successful implementation of e-parliament dependent not on resources alone, it also requires strong political leadership, a continued commitment to the strategic e-parliament planning and implementation and a vigorous commitment of Members of Parliament to engaging ICT in its legislative process Leston-Bandeira (2012). Most political leaders in Africa do not actually appreciate the strategic role of ICT in parliament, thus ICT is seen as for publishing and not for interaction with the citizens (Vitali & Zeni, 2006).

According to the Global Centre for ICT in Parliament (2012), one of the challenges to e-parliament implementation not just in Africa but the world, is inadequate staff capacity. E-parliament requires skilled secretariat and well-trained ICT technical staff. Most African parliaments lack quality and adequate ICT knowledge and skills which make them resist the adoption of ICT in their legislative setting (Bwalya *et al*, 2012). These aforementioned factors pose great challenges to successful realization of e-parliament potentials in African states.

## CONCLUSION

For African democratic states, ICT can help parliaments be more responsive to the concerns of their constituents and improve their representative capacity to take into account, the variety of views of the people. ICT enhances transparent and accountable legislature and citizens' engagement in parliamentary work which are recognized as cornerstones of healthy democratic representation. With most African states among the poorest countries however, there is the need for more effective ICT strategic planning and management so as to judiciously utilize available resources to address the inadequate infrastructural facilities in the continent. Political leaders in African states must be committed to addressing the issue of corruption and misappropriation of fund if the goal of democratic representation is to be realized. African parliaments must also be seen to be genuinely committed to the adoption of ICTs in their mandated representative responsibilities. Importantly also, since capacity building is indispensable to successful e-parliament implementation, it is imperative that African parliaments embrace personal ICT skill acquisition while government should put in place programmes for ICT skill training and development for the administrative staff.

As observed by Leston-Bandeira (2007), the Internet opens up the possibilities of interactive communication with citizens, with pressure groups, between parliamentarians, and with governmental bodies. Capitalizing on the benefits of ICTs, Parliaments can enhance their interaction with the public and collaborate with other parliament. As documented by Leston-Bandeira (2012), the Internet provides more opportunities for direct channel of communication to exist between parliament and citizens, effectively bypassing traditional party machines with the effect of creating a level playing field in terms of opening up access to parliament. In this regards, e-parliament has the potential of boosting citizens' participation in the democratic governance in African states. With Africa's governance challenges and massive corruption in public institutions, e-parliament serves as catalyst for facilitating openness, efficient

public service delivery, social inclusiveness, transparency, accountability and citizens' participation in public decision process (Bwalya, et al., 2012; Leston-Bandeira, 2012; United Nations and the Inter-Parliamentary Union, 2014). With appropriate measures aimed at addressing the factors hindering the full realization of the potentials of the application of ICTs to parliamentary democracy in Africa, e-parliament presents a glimmer of hope for enhancing citizens-representative dialogical interaction and deliberation and other forms of inclusion for the purpose of exercising influence on behalf of the represented in Africa. This will reduce the present citizens' apathetic political involvement, public distrust and aversion towards their elected representatives. This will ultimately avert the crisis of democratic legitimacy and accountability for the African states.

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# **An Analysis Of Audience Perception Of Peoples Democratic Party's (Pdp) Propaganda Campaign In The 2015 Nigerian General Election**

Abdulgaaffar Olawale Arikewuyo\*

Aishat Abdulrauf-Salau

*Department of Mass Communication Faculty of Communication and  
Information Sciences  
University of Ilorin*

\*Corresponding author; email: olawale7@yahoo.com

## **ABSTRACT**

*The 2015 Nigerian general elections have come and gone. Though the election was scored high by local and international observers, it was not without flaws. The pre-election period witnessed one of the highest level of propaganda in the country. During this period, propaganda was at its peak as the PDP took advantage of its opportunities as the ruling party to spread negative messages about the opposition. However, while this large and well-orchestrated propaganda have been found successful in the past, the dominance of the PDP in the propagandistic war of the last election failed to produce the desired result. This study therefore sought to ascertain audience perception of the use of propaganda by PDP in the just concluded 2015 presidential election by examining the effectiveness of propaganda in political campaigns. Thus, premised on the theory of propaganda, this study surveyed 324 randomly selected respondents from the University of Ilorin. Data were analyzed using the Statistical Packages for Social Science (SPSS) and results were reported descriptively. Findings were discussed in details and suggestions for further studies were recommended.*

**Keywords:** *propaganda, campaign, audience perception, general elections, Nigeria.*

## **INTRODUCTION**

The most studied communication form is that of election campaign, with research going back at least until 1940, when Lazarsfeld et al. (1944 cited in McQuail 2005) made a detailed inquiry into the presidential election of that year. Since then thousands of democratic elections have been an object of research forming the premise for this present study. In a democratic

election, political parties' campaign effectively to mobilize and disseminate information that allows voters to make more informed choices (Huber & Arceneaux, 2007). During such period, campaign propaganda is used effectively or ineffectively as the case maybe.

Campaign propaganda is a form of advertising in which case the product being sold to the people is the political candidate (DBQ Project, 2012). According to Agu (2007), one of the first definitions of propaganda was offered by Walter Lippman in his book "Public Opinion" in 1922 where he described propaganda as "an effort to alter the picture to which men respond and to substitute one social pattern for another." Also, electioneering activities was commonly referred to as an exercise in "propaganda"-a word which did not have the pejorative connotations it has since acquired (Rallings, Broughton & Farrell, 1995). Essentially, the term "propaganda is of particular use in describing the one directional flow of communication from political elites to the electorate prior to the growth of widespread public opinion research". In Matthew's (1987) observations, politics began to be more packaged for consumption by the readership of the newspaper (cited by Rallings et al, 1995).

Furthermore, propaganda as defined by McQuail (2006) is the process and product of deliberate attempts to influence collective behavior and opinion by the use of multiple means of communication in ways that are systematic and one-sided. Propaganda is carried out in the interest of the source or sender, not recipient. It is almost certain to be in some respects misleading or not fully truth and can be entirely untrue, as with certain kinds of disinformation. It can be psychologically aggressive and distorted in its representation of reality. Its effectiveness is varied, depending on the context and dispositions of the target audience more than on message characteristics.

Accordingly, Saunders (2013) talks about propaganda and distortion as a way by which individuals, politicians and organizations manipulate information by presenting only one side of a story, and then suppress and ignore the other information, and also by giving too much attention to viewpoints from experts. Similarly, Jowett and O'Donnell (1999, p. 6) define propaganda as "the deliberate, systematic attempt to shape perceptions, manipulate cognitions, and direct behavior to achieve a response that furthers the desired intent of the propagandist". There is always an element of manipulation which is negative that is attached to propagandized messages.

Additionally, McNair (2011) says that propaganda involves an element of spin. Spin is often used with reference to the manipulation of political information". Thus, spinning is one of the ways in which advertising is used for bad purposes. Although, a spin refers to a concept which is given

a positive or negative connotation. It signifies a heavily biased portrayal in specific favor of an event or situation. Also, Bennett (2003, p.130) notes that, “a “spin” is a generic term for strategic political communication that attempts to frame or re-frame an event or a statement in a way that is politically profitable for one side and detrimental to another, though at its core it may simply be a red herring.” It is a term closely related to smear campaign, rumor bombs and ‘flak’. Spinning often, though not always, implies deceptive and/or manipulative tactics. It has to do with giving public biased information or to present information in a way meant to influence public opinion.

Several scholars have worked on propaganda, among them Jacques Ellul (1965), who focused on propaganda as a “technique itself” as cited in Jowett and O’Donnell (2005, p. 34). He described propaganda as a psychological phenomenon rather than something that people manufacture. He also highlighted the importance of propaganda making people to participate in important events such as elections, celebrations, and memorials, notwithstanding the several other ills of propaganda, such as making people lose their sense of history and ability to reflect critically which he also pointed out. An extensive study of Jowett and O’Donnell, (2005) shows an almost chronological discourse of scholars who have worked on propaganda. It is noteworthy that it is not just enough to apply propaganda techniques, the propagandist has certain objectives to achieve by dishing out propagandized messages. Harold Lasswell, (1927) one of the pioneers of scholarly works on propaganda, discussed four major objectives of propaganda, (as cited by Severin and Tankard, Jr. 2010, p. 108) and they include; to mobilize hatred against the enemy, to preserve the friendship of allies, to preserve the friendship and if possible, to procure the cooperation of neutrals, and to demoralize the enemy. However, as aptly pointed out by Severin and Tankard (2010), these objectives are obviously wartime objectives that would not apply in other peacetime types of persuasion. Nevertheless, in relation to this research, these objectives acceptably tally. This is so because propaganda in political communication is somewhat the same as is obtained in wartime.

Therefore, this study sought to:

- i. Determine audience perception of PDP propaganda campaigns in the 2015 Nigerian general elections.
- ii. Ascertain audience perceived ineffectiveness of PDP propaganda in the 2015 general elections political campaigns

## **POLITICAL ADVERTISING**

Elections into any political office are always characterized with numerous activities. There are various political strategies that contestants employ to

emerge as winners in a general election. These political strategies include lobbying, personal contacts, political rallies and campaign. However, these strategies have now become less effective for mobilizing support and woo voters for election (Opeibi, 2006 cited in Olujide, Adeyemi and Gbadeyan, 2010). Political advertising is now seen as the most suitable tool to gain the attention and support of electorates.

One factor that has aided the introduction of political advertising is the nature of modern states which has made it impossible for direct democracy as practiced in the ancient Greek City States of Athens to be practiced. Representational democracy, where citizens elected delegates who will act on their behalf in the government has become the order of the day. Consequently, it became necessary for those interested in elective posts to seek endorsement from the electorates. With this came the issue of persuasion of the electorate by politicians. The main weapon used for the job is advertising. Osunbiyi (1999:1) explains, "...advertising in this modern age of highly competitive market-economy, has become a push-button work with a powerful communication force and a vital marketing tool helping to sell goods, services, images and ideas through channels of information and persuasion. Hardly exists anything that advertising has not been equated with the ability to sell.

Consequently, in the political sphere, Osunbiyi (2002 :28) viewed political advertising as "... a form of communication that is geared towards persuading individuals and groups to take certain course of action favourable to a political party, its programmes and candidates by emphasizing the benefits accruable to the target audience through a medium that is paid for. Thus, political advertising is simply defined by, Olujide, Adeyemi and Gbadeyan (2010) as the use of media by political candidates to increase their exposure to the public

Accordingly, McNair (2007:87 cited in Foster, 2010) in his study of political communication, places advertising alongside public relations as the two most important means of delivering political messages. However, whilst this is undoubtedly true, it does not necessarily mean that advertising is particularly effective in influencing political opinion. This statement notwithstanding, it is evident that advertising performs a very significant role in politics. Outlining the roles of political advertising Okpoko (2008), encapsulates them thus: to sell and market a colorful candidate, to sell and market a vibrant and dynamic political party, to serve as an instrument of political education and mobilization, to inform and convey the people's needs, aspirations and yearnings to the government and to sell and market government party programmes or manifestoes to the people.

## **ANTECEDENTS TO POLITICAL CAMPAIGN PROPAGANDA IN NIGERIA**

The turbulent nature of Nigeria's political scene has imposed on the voters the task of having to sieve through an army of candidate who have battled through different levels of primaries. There is no continuing association with the various factions, no continuing core of supporters and typically, the appeals that dominate one campaign are unlike those emphasized in the previous campaign. All these constitute a great burden on the voters. It is the realization of this fact that gave birth to the science of packaging political candidates, parties and manifestoes for sale to the electorate in form of political advertising.

Political advertising has in recent time become popular in Nigeria in contrast to the past when political strategies such as political rallies, speeches and personal contacts were used. One important thing about political advertising is that it is interesting and sometimes offers the electorates reliable information about the candidates. Nigerian electorates are now being exposed to more political adverts than ever before and this has consequently made them conscious about the kind of political decisions they would want to make in the choice of their candidates for elective post. Political advertising started in Nigeria in 1963, when the late Chief Obafemi Awolowo of the Action Group (AG) used skywriting advertising during rallies to send campaign messages prelude to the 1964 General elections (Tejumaie, 2008). At that time political advertising was a unique attempt at promoting politics and politicians.

However, the negative usage of political advertising in the form of propaganda in Nigeria did not begin until during the second republic when the leading party, National Party of Nigeria (NPN) and the opposition Party, the Unity Party of Nigeria (UPN) engaged in various forms of negative/ attack advertising at national and state levels.

Conversely, Osunbiyi (2002) argues that the negative use of political advertising in Nigeria was not evident until in the third republic when the National Republican Convention (NRC) and Social Democratic Party (SDP) extensively used negative adverts during their campaigns. Despite the fact that the two parties used some elements of the Nigerian national symbols (i.e. the eagle and horse) they went ahead to use them negatively. In December 1990, the SDP published an advertisement with the caption "Enough is enough. Don't allow the Nation's wealth to be flown away again". The advertisement has the word 'flown' dressed with wings on either side, giving the word the image of an eagle which is the symbol of the NRC and part of the Nigerian coat of arms. The NRC retaliated in 1991 with one of its advertisement in

which , it showed a horse, the like of SDP's symbol lying down lifeless with a man attempting to whip it into standing up then it say 'Dem horse don Kaput'. This sort of negative adverts continued throughout the campaign and stopped after the election.

Subsequently, political advert wars in the media continued in the Fourth Republic (Olujide, Adeyemi & Gbadeyan, 2010). In Lagos State for example, there were such wars between Alliance for Democracy (AD) and the Progressive Action Congress (PAC). AD informed the electorates that the Opposition Party, PAC want to finish Lagos and the electorate should not "gree". The PAC replied with "Let's do what?" and urges the Electorates to vote for their party and candidates. Also as Tejumaiye (2008:79) observed, "...during the 1999 election, political advertising emerged as a veritable means of contemporary politics in Nigeria. Yet, some of the characteristics of the 1999 political advertising in Nigeria included ... attack political advertisements".

Unfortunately, these political propaganda adverts did not end with the 1999 elections, they continued into the 2003 electioneering campaign. In Kwara State for example, the All Nigerian's People Party (ANPP) and the Opposition Party, People's Democratic Party (PDP) engaged in various forms of attack advertising. The advert for ANPP urged the Electorate not to "serve the son" because they have "served the father". The PDP gave its own bombshell by reminding the electorates of failed promises by the ANPP. Apparently, the statement of the ANPP was in respect of the fact that the governorship candidate of Kwara state at the time was the son of a prominent politician in the state.

Accordingly, election in the year 2007 was also not devoid of negative political advertising. In fact, election campaign in Nigeria witnessed the most intense form of political advertising as candidates used not only advocacy and issue based messages, but also attack political advertising messages extensively. The major political parties PDP, Action Congress (AC), and ANPP used messages that were as critical of candidates as they were thought provoking. The PDP, the incumbent political party at the time, used attack political advertising messages a great deal against the presidential candidate of ANPP, General Muhammadu Buhari. Some of the political advert used against General Buhari included series of articulated, planned and well circulated attack messages based on General Buhari's past military dictatorial and despotic deeds when he was the Head of State and Commander in Chief of Nigerian Armed forces. These messages were hard sell aimed at destroying whatever remained of the credibility of General Buhari.

This trend continued even as the 2011 electioneering campaign was approaching. As such Maduabuchi (2010) noted how political advertising in the past two decades has assumed a new dimension with the increasing use of propaganda during election campaigns. For example a particular political aspirant was in fact said to have gone as far as setting up a think-tank group, made up of seasoned and influential journalists, whose briefs was to unearth negative stories on his opponent, which would be used in campaigns and adverts against them. The irony is that the much of it will get into the media as political adverts and jingles in the 2011 general elections.

Prior to introducing propaganda into politics in Nigeria, political candidates concentrated more on selling themselves and their programmes. However, the manner of political advertisement displayed during the 2011 election was more of mudslinging and character assassination than any before it. It is instructive to note that there was a high level of bad blood between candidates of the major political parties; especially the Congress for Progressive Change (CPC) and the People's Democratic Party (PDP) candidates.

Unfortunately, this propagandist attitude continued during the 2015 general elections as the pre-election period especially was full of campaigns of calumny, hate, deceit and war. Specifically, the 2015 election campaigns period was full of propaganda, especially between the two major parties Peoples' Democratic Party (PDP) and All Progressives Congress (APC). Due to the cost-effective nature of the internet when compared to traditional media like television or direct mail, candidates use websites to convey their qualifications personal and professional achievements and policy positions and link to external sites carefully selected by the campaign (Mosier, 2013) as well as propagate propagandist messages. Political parties streamed pictures and features against opposition candidates to voters. Adding to the appeal of online messaging in the 2015 election campaign was the fact that internet access was no longer confined to a desktop computer rather people were able to access information about their political candidates on their laptops, e-books, tablets, androids and smart phones. Thus, social media platforms like Twitter and Facebook were used extensively during this period (Bloomberg, Mosier, Chartrand & Engelman, 2012).

## **PROPAGANDA AND ITS IMPACT ON THE NIGERIAN AUDIENCE**

Propaganda is an essential part of political communication. Political communication as a whole is simply communicating about politics purposefully. As such, there are three components that make up political communication; political organizations, the media, and the audience. These three have to be functional and present for there to be an established political

communication (McNair, 2011). The mass media is in the middle of both the political parties and the audience. This gives an accurate picture of what exists in real life where the mass media is used by government to pass all forms of persuasive information including propagandized information to the audience, and in the rare cases where public opinion polls are examined also through ‘citizen journalism’, the government likewise get to know what is in the minds of the people.

The audience is however not a passive audience that is susceptible to the magic bullet information gotten from the politicians through the mass media, and can selectively choose what information to believe and emulate based on certain reasons one of which could be that the information is anchored on some belief or schema of the receiver. This is replicated in the Nigerian political scene as was obtained by the results of the 2015 general elections. Despite the torrents of propagandized and persuasive information that the political parties dished out through the media, the voters made their choice of candidates and voted in APC, the party that was mostly rubbed in the muddy waters of propaganda. This reinforces McNair’s position that ‘the citizen’s right to choose presupposed the availability of alternatives from which a meaningful selection could be made, and a rational, knowledgeable electorate capable of exercising its rights. Thus, democracy is real only when it involves the participation of an informed, rational electorate’ (McNair, 2011, p. 16).

Additionally, apart from the initial position of the mind of the receiver of a message, the audience, source credibility is another thing that determines how much of information that is disseminated is believed. In the context of the Nigerian presidential elections and the release of propaganda laced documentaries, one factor that may have reduced the believability and therefore limited a change in the perception of the electorate is the media source through which the documentaries were released. The documentaries were majorly played by African Independent Television (AIT) and the Nigerian Television Authority (NTA) which were major and obvious PDP supporters, this may have made the propagandized intentions of the documentary obvious, thereby limiting the effect on the electorate, particularly because NTA has always been seen as government mouthpiece.

Consequently, the opinions of individuals pertaining to propaganda are in negative terms. David Broder, a Dean of Political Journalists, claims that “trivial is too kind a word” for the content of today’s campaigns, arguing that “the ads people are seeing are relentlessly negative loaded words and nasty implications about the opposition candidates. Geer (2006), argues that negativity poisons the political debate by presenting arguments that are “ridiculous, irrelevant, and irresponsible,” dragging down the discussion “to



the level of tabloid scandal.” In the same vein, Geer (2006) observes, there is an unusually strong association between negativity and deception. Consider the fact that we rarely label negativity as “tough, competitive politics” or “heated exchanges” between combatants. Instead, it is almost always equated with being “dirty”.

The public also share this distaste for negative advertising. The ordinary citizen’s perception of the electoral process is marked by cynicism and dissatisfaction with the nature and tone of the contemporary campaign discourse. According to Geer (2006) data in poll after poll in the United States of America, confirm in July 2000, that nearly 60% of the public, according to a Gallup Poll, are dissatisfied with how candidates conduct their campaigns. A major part of the public’s unhappiness with elections was tied to negativity. Only 19% of the public felt that negative advertisements even had “a place in campaigns.” The vast majority do not even think you can learn anything of value from negative advertisements. In the 2000 Vanishing Voter survey, 75% of the public thought that candidates [were] more concerned with fighting each other than solving the nation’s problem. Observations from the 2015 Nigerian general elections have also indicated the situation in Nigeria is not too different.

Accordingly, some scholars are of the opinion that negativity has detrimental effects on the political process. Agreeing to this argument, Geer (2006) wrote that negative advertising disenfranchises voters by turning them off from the political process. Similarly, Baran (2001) confirms that politicians can attack an opponent on whatever ground of weakness presents itself, and this negativity can ‘demotivate’ voters generally. There is a consensus among policy-makers and political elites that attack advertising in campaigns, is dangerous to the well-being of society. Hardly a day goes by during an election season without some discussion of “negativity” and its adverse impact on our electoral process. We are, in effect, awash in a sea of negativity about negativity.

Surprisingly, another group of scholars believe there are some positive sides to negative advertisement. They state that despite the fact that studies have shown that the use of “attack advertising” by politicians can result in negative perceptions of both candidates, in fact the opposite should be expected where attack adverts will give a positive perception of both candidates. The problem is that the public are all too quick to criticize the system and wring their hands over the ill-effects of negativity. It is necessary to pause, reconsider starting assumptions, and marshal systematic data that will allow us to assess more fully these fears and concerns. At one level, everyone understands that conflict is part and parcel of politics. But at another level, there is a desire to sweep such disagreements under the rug and talk instead about “points of

agreement.” It may be more civil and even understandable to downplay these core disagreements. The problem with this approach, however, is that public often fail to appreciate the important role negativity can play in democratic government. Certainly the advocates of responsible party government understood the role of criticism and attack in a competitive party system.

## **WHY PROPAGANDA FAILS**

Propaganda is believed to be so powerful and likened to such theories as the hypodermic needle, and the magic bullet theory of the all-powerful media paradigm. This is in part because initial studies on propaganda first began when the powerful media paradigm was dominant. Eventually, such scholars as Lasswell (1927), in his war study, began to discuss the manipulations behind every propaganda work and McGuire (1964) investigated factors that induced resistance to persuasion, producing work that changed the focus of persuasion research.

Furthermore, haven established that propaganda is aimed for persuasion, and going by Petty and Caccioppo’s (2004) postulates of persuasion, it is safe to say that the first limitation to propaganda, the major reason why propaganda would fail, lies in the “active-ness” of the audience. The audience is an active audience capable of making choices and rejecting some ideas. Persuasion theorists always take this fact into consideration. They recognize people’s choice to being persuaded based on logic or sentiments, as with the theory of social judgement that says people receive messages on latitudes and only accept messages that fall on their latitude of acceptance.

Consequently, McGuire (1964) introduced the concept of resistance to persuasion by examining how people create defenses against persuasion messages (Jowett and O’Donnell, 2012). McGuire’s theory of inoculation, like the social judgement theory and elaboration likelihood model all point to the fact that people’s ability to resist strong persuasive messages lies in stronger innate values, beliefs or ‘cultural truisms’. In this point lies why propaganda fails, which is the basis for this research. As with the Nigerian political pre-election scene, most people already had a mindset that wasn’t compatible with the propaganda dished out by incumbent party and candidates, and so the propaganda messages kept being rejected and resisted till it would be assumed that it didn’t work. This assumption is drawn from the fact that despite the propaganda messages from PDP, the results of the election was still not in their favor.

## **THEORY OF POLITICAL PROPAGANDA**

This theory was propounded by Harold Lasswell in the 1930s. Although some scholars argue that the theory has being in existence since 1928. It is the first systematic theory of mass communication which focuses attention on why media might have powerful effects. It identifies personal, social, and cultural factors that can enhance media's power to have effects and focuses attention on the use of campaigns to cultivate symbols. Accordingly, Lasswell opined that propaganda is successful based on the use and manipulation of symbols. He defined propaganda as the management of collective attitudes by the manipulation of significant symbols. The word attitude is taken to mean a tendency to act according to certain patterns of valuation. The existence of an attitude is not a direct datum of experience, but an inference from signs which have a conventionalized significance.

He further added that the patterns upon which this inference is founded may be primitive gestures of the face and body, or more sophisticated gestures of the pen and voice. Taken together, these objects which have a standard meaning in a group are called significant symbols. The elevated eyebrow, the clenched fist, the sharp voice, the pungent phrase, have their references established within the web of a particular culture. Such significant symbols are paraphernalia employed in expressing the attitudes, and they are also capable of being employed to reaffirm or redefine attitudes. Thus, significant symbols have both an expressive and a propagandist function in public life. By examining the propaganda symbols used by PDP during the last elections, and the extent of effect and impact that it had on the electorate, this paper therefore hinges on Laswell's political propaganda theory.

## **METHODOLOGY**

The survey method was used to collect data from 324 randomly selected academic staff of University of Ilorin. The data collection was done in two weeks with the help of questionnaires. The distribution spanned through departments and faculties in the University. Subsequently, data collected was analyzed descriptively using Statistical Packages for Social Sciences (SPSS).

## **RESULTS**

The demographic data of respondents were first analyzed before the main study variables. As can be seen in Table 1, the demographic distributions of respondents ranged from their age, level of education, religion and region.

**Table 1***Demographic Characteristics of Respondents*

<b>Demographic Characteristics</b>	<b>Frequency</b>	<b>Percentage %</b>
<b>Age</b>		
18 – 32	24	7.4
33 – 47	180	55.6
48 – 62	84	25.9
62 and above	36	11.1
<b>Level of Education</b>		
OND/NCE/DIPLOMA	0	0
HND/B.Sc.	93	28.7
PGD/M.Sc./Ph.D.	231	71.3
<b>Religion</b>		
Islam	240	74.1
Christianity	84	25.9
<b>Region</b>		
North	156	48.1
South	54	16.7
East	30	9.3
West	84	25.9

Table 1 shows the highest number of respondents were between the age group of 34 to 47 with 180 representing 55.6%. This was followed by those in age group 48 to 62 with 84 accounting for 25.9% of respondents, while 36 respondents representing 11.1% were 63 years and above, and the least number of respondents were within the age group of 18 to 32 accounting for 7.4%. Additionally, most respondent had PGD/M.Sc./Ph.D qualifications representing 231 (71.3%), while the rest had B.Sc degrees accounting for 93 respondents' representing 28.7%, and no respondent had NCE/OND/ diploma. Additionally, most respondents were from the Northern part of the country accounting for 156(48.1%), while the rest were from the Western, Southern and Eastern parts of the country representing 84 (25.9%), 64 (16.7%) and 30 (9.3%) respectively.

**Table 2**

*Respondents who voted in the 2015 General Elections*

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	234	72.2
No	90	27.8

Results from the survey shows 234 representing 72.2% of respondents voted, while 90 respondents representing 27.8% did not vote. This indicates that majority of respondents voted in the 2015 general election. This result is particularly significant to the research because the more respondents that voted, the more the researcher was able to determine audience perception of why PDP propaganda failed in the last general elections

**Table 3**

*Respondents Media Use*

<b>Media Use</b>	<b>Yes</b>		<b>No</b>	
	<b>Frequency</b>	<b>Percentage</b>	<b>Frequency</b>	<b>Percentage</b>
Television	294	90.7	30	9.3
Radio	288	88.9	36	11.1
Newspaper	222	68.5	102	31.5
Magazine	138	42.6	186	57.4
Facebook	186	57.4	138	42.6
Twitter	210	64.8	114	35.2
WhatsApp	270	83.3	54	16.7
Instagram	144	44.4	180	55.6
Blogs	234	72.2	90	27.8
BBM	225	69.4	99	30.6

Table 3 shows the proportion of respondents who make use of the various media platforms as a medium of information. It indicates that most of the respondents representing 90.7% used television. This was followed by those who use radio accounting for 88.9%, while 88.3% of respondents use WhatsApp. Furthermore, 68.4% of the respondents use Twitter, and 57.4% use Facebook, while 44.4% and 42.6% make use Instagram and magazines respectively. Additionally, 72.2% of respondents use blogs, while 69.4% use BBM.

**Table 4**

*Audience Perception of /and ineffectiveness of PDP propaganda campaign*

<b>Response</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
The PDP campaigns failed because they were too direct	5.6	44.4	35.2	14.8
The PDP campaigns failed because people had made up their minds against the party.	11.1	24.1	53.7	11.1
The PDP campaigns failed because the people knew they were ill motivated	13.0	31.5	44.4	11.1
Using propaganda had negative effects on the PDP campaigns	9.3	37.0	37.0	16.7
The propaganda campaigns worked against the PDP because they are lacking in substance.	18.5	44.4	24.1	13.0
The propaganda campaigns were not well articulated and strategized	18.5	33.3	40.7	7.1
PDP propaganda failed because it is not in tune with reality.	11.1	33.3	35.2	20.4
The campaigns were used to cover up for Jonathan's deficiencies	3.7	25.9	59.3	11.1
The campaigns for Jonathan were personality based	3.7	38.9	53.7	3.7
The campaigns were aimed at destroying the APC	11.1	42.6	38.9	7.4
The PDP campaigns lied about political reality	18.5	38.9	46.3	7.4
The campaigns were insensitive to people's plight	7.4	38.9	50.0	3.7

(continued)

<b>Response</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
The campaigns in the 2015 election were filled with lies	7.4	35.2	50.0	7.4
PDP failed in the 2015 general election because the election was free and fair	22.2	25.9	51.9	0
PDP failed because they failed to mobilize their electorates for the elections	3.7	57.4	35.2	3.7
PDP failed because Nigerians were tired of the party	22.2	35.2	35.2	9.3
PDP failed because their campaigns were appealing to the people's emotions	14.8	44.4	27.8	13.0
PDP failed because people were yearning for a change	9.3	35.2	35.2	20.4
PDP was insincere to Nigerians	3.7	42.6	46.3	7.4
PDP lacked good governance attributes	7.4	42.6	40.7	9.3
PDP misguided Nigerians	11.1	38.9	42.6	7.4
PDP was too corrupt	14.8	27.8	29.6	27.8
PDP was ethnocentric	13.0	33.3	42.6	11.1
PDP was disorganized	11.1	25.9	46.3	16.7
PDP had too many distractions	3.7	25.9	48.1	22.2

Results in Table 4 indicates 44.4% and 5.6% of the respondents disagree and strongly disagree respectively that the PDP campaigns failed because they were too direct, as such the failure of the party might not be fully attributed at the direct attack the party had on the opposition. Also majority of the respondent with 53.7% agree that the PDP campaigns failed because the people had already made up their minds against the party. Results also show that 44.4% and 11.1% of the respondents agree to the fact that the PDP campaigns failed because the people believed they were ill motivated, they also agreed that the propaganda mechanisms used in the campaigns of the PDP had some negative effects on the outcome with 37.0% and 16.7% agreeing and strongly agreeing.

Additionally, respondents disagree with the fact that the propaganda campaigns worked against the PDP because they lack substance. Therefore, even though the campaign did not lack substance it failed due to other

reasons. However, 40.7% of the respondents agree that the campaigns were not well articulated and strategized while a substantial number of the respondents agree that the propaganda used by the PDP failed because it was not in tune with reality.

Furthermore, 59.3% of the respondents agreed that the campaigns were used to cover up for former President Goodluck Jonathan's deficiencies while 53.7% agree that the campaigns were personality based and as such 43.6% and 11.1% disagree that the campaigns were aimed at destroying the APC. Also 46.3% agreed that the PDP campaigns lied about political reality, 50.0% also agree that the campaigns were not sensitive to the people's plight. The campaigns in the 2015 general elections were filled with lies according to 50% of the respondent. Majority of the respondents, believed that the failure of the PDP in the 2015 general elections was because the election was free and fair and also disagreed that the PDP failed to mobilize, as such the findings of this study states that the failure was not because the PDP did not mobilize. Also a total of 57.4% of the respondents disagree that the PDP failed because Nigerians were tired of the party. Also 59.2% of respondents disagreed that the failure of PDP was as a result of their campaigns which were appealing to the people's emotions but majority agree that the failure was because the people were yearning for a change.

Moreover, 53.7% of respondents agreed that the PDP was not sincere with Nigerians, 50% agreed that the PDP lacked good governance attributes while others do not agree. Also, 42.6% and 7.4% agree and strongly agree respectively to the fact that PDP misguided Nigerians and also 29.6% and 14.8% also concur that the PDP was too corrupt. 42.6%, 46.4% and 48.1% of the respondents agree to the statement that the PDP was ethnocentric, disorganized and had too many distractions respectively.

## **DISCUSSIONS**

This study has been able to establish the fact that the PDP campaign failed at the 2015 general elections due to certain factors. One of which is based on the fact that audience had already made up their minds, as a result they had already lost confidence in the PDP. Another factor which could have led to the loss of the PDP is as a result of the fact that people had believed that the campaigns were geared towards the success of the party and as such propaganda was not effectively used in the campaigns. The campaigns were also not in-tune with the realities of time because of the perception the people already had for the PDP. It can also be said that the agitation for change, and because the people did not want the party in power again, are some of the major factors that contributed to the failure of the PDP at the general



elections as such the directness of the campaigns are not serious factors that contributed to the failure of the party. Also the use of propaganda contributed to the failure of the party and also because the party failed to be in-tune to the realities in the society. The study has also been able to help discover that the campaigns were used to cover up the deficiencies of the Goodluck Jonathan administration while advancing that the propaganda campaigns were not well articulated. This study also helped to establish the fact that the campaigns of propaganda that characterized the electoral period were not in tune with reality. As such the attitude and perceptions of people were not studied to help understand if it was achieving its desired aims and objectives. This study has also been able to help understand that the campaigns PDP in the 2015 general elections were used to cover up for the deficiencies of former president Goodluck Jonathan and were more of personality based campaigns which were highlighting the bad sides of the opposition. Findings from this study also indicate that PDP campaigns lied about a number of political realities while establishing the fact that the campaigns were not sensitive to the people's plight. Findings in this study also indicate that the failure of PDP in the 2015 general elections was not really as a result of the free and fair elections or failure to mobilize electorates. It was not also due to the fact that their campaigns were appealing to the emotions of the people but basically because the Nigerian people were yearning for a change.

Also the study was able to find out some of the perceived causes of the failure of the PDP campaign at the 2015 general election as such findings revealed that the PDP was insincere to Nigerians and as well lacked good governance attributes. It also revealed that the PDP was somewhat misguided, corrupt, ethnocentric, disorganized and had many distractions.

## **CONCLUSION**

The propaganda messages used by the ruling party in the last Nigerian General elections failed because they went overboard with the use of it, they focused on spilling dirt about their opposition rather than seeking how to show themselves in good light. They focused on exposing the weakness of their opponent APC, rather than building on their own strength, these were strong contributors. Above all, as seen by this research, their propaganda failed because most people had made up their mind against the party despite their powerful propaganda messages.

To this end, this paper recommends that more research could be done on this area of research, with an increased population and sample size as it will allow for more opinions which may well buttress this conclusion, or may create new dimensions on why propaganda could fail, especially on the Nigerian

political scene. The paper also recommend that political parties should carry out audience studies and opinion polls before beginning campaign operations, in order to have a good direction on where and how to carry out proper campaign that will serve their interest rather than be of disservice to them in the long run.

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## **Biodata**

**Abdulgaffar Olawale Arikewuyo** is a lecturer at Department of Mass Communication, University of Ilorin, Nigeria. He holds a Diploma in Mass communication from the Bayero University, Kano, Nigeria, Bachelor and Master's degree in Mass Communication from University of Ilorin, Ilorin, Nigeria. His research interests are Broadcast Journalism and political communication.

**Aishat Abdulrauf-Salau** is a lecturer at Department of Mass Communication, University of Ilorin, Nigeria. She holds a Bachelor and Master's degree in Mass Communication from Ahmadu Bello University Zaria, Nigeria. Her research interests are development communication, political communication and new media.

# Measuring the Socio-economic Empowerment of Rural Households in Pakistan

Muhammad Abrar-ul-haq\*  
Mohd Razani Mohd Jali  
Gazi Md. Nurul Islam  
*School of Economics, Finance and Banking  
Universiti Utara Malaysia*

\*Corresponding author; email: abrarchudhary@hotmail.com

## ABSTRACT

*This paper is developing a socio-economic empowerment index, aimed at obtaining a first snapshot of the state of socio-economic empowerment as measured by the rural household survey. Instead it is meant to foster the debate on the determinants of socio-economic empowerment and also highlights the dimensions of socio-economic empowerment. The most important section of this study is to develop an index for the measurement of socio-economic empowerment of rural households in Pakistan by using primary data of rural households which was collected through multi stage random sampling of rural households from Bahawalpur division and 600 household were interviewed for sample size. Weights of the indicator variables have been computed by using Principal Component Analysis. Socio-economic empowerment index gathers together mainly two factors, social and economic empowerment which twenty six indicators (items) grouped in eight sub-pillars and in two main pillars. Current study might be helpful for government to formulate and implement effective poverty reduction policies for rural households by enhancing socio-economic empowerment.*

**Keywords:** *Principal Component analysis, Social empowerment, Economic empowerment, Composite index, Bahawalpur Division*

## INTRODUCTION

Poverty reduction is the important agenda for the less developed countries. Rural poverty is one of the major issues in Pakistan. In spite of modest economic growth, rural poverty has not been reduced due to various reasons. Poverty is complex and it can be articulated in 'non-income' and 'income' components (World Bank, 2003). The non-income component of poverty is made up of peoples' participation, vulnerabilities, capabilities and empowerment. The non-income poverty is viewed as a condition of powerlessness, lack of voice, vulnerability, lack political participation, limited access to education and health. While the income poverty is viewed as lack of employment, land,

other assets, credit, services and infrastructure. The non-economic approach of poverty such as social, political and psychological disempowerment has been emphasized in the poverty reduction strategy.

It is quite evident, that empowerment can enhance the capability of the poor people to overcome poverty. The empowerment approach places the emphasis on autonomy in community decision making, local self-reliance, direct democracy and social learning. There is debate on the notion of 'socio-economic empowerment' has been rapidly increasing during the last decades. A sense of self-possession and autonomy has been developed through a process that may call social empowerment. Poor institutional arrangements and weak relationships among the rural community tend to acting collectively and individually that exclude poor people. Thus, the poor section becomes marginalized due to lack of social empowerment. Individual's assets (i.e. livestock, saving, land, housing, etc.) and capabilities: psychological (i.e. aspire to a better future, the ability to imagine, confidence and self-esteem), human (i.e. good health, education and employment) and social (i.e. leadership relations, social belonging and a sense of identity, etc.) are significantly affected the poor people's ability and its empowerment to hold others to account. Moreover, collective assets of peoples along with their capabilities (i.e. identity, representation, organization and voice) are essential.

Economic empowerment has considered to exercise greater control over both their life choice and resources furthermore, to allow poor people to think away from immediate daily survival. Economic empowerment allows households to take their decisions about investment in various economic activities in order to boost their level of income. Economic empowerment can also enhance access to various social activities that improve status of poor and vulnerable households.

Several studies highlighted the importance of households' economic empowerment. Most studies focused four extensive areas of household's empowerment: a) transformative forms of social protection, b) the encouragement of the assets of poor people, c) skill training and d) microfinance. Economic empowerment is known as to permit poor people to think how to handle their own living choices and wealth. It enables households to make their personal choices about making investments in education and medical insurance, and captivating risks to be able to boost their income. There are evidences that economic empowerment could create stronger susceptible groups' involvement on the decision-making. Better decision making and good social position is normally just due to economic power.

The Federal Bureau of Statistics (2012) stated that nearly 38 percent population of rural areas in southern Punjab in Pakistan is poor and placed second highest position after rural areas of North-West Frontier Province

(NWFP). Poverty is more chronic and severe in rural areas of Balochistan, NWFP and Southern Punjab (IFAD, 2001)<sup>1</sup>. However, southern Punjab has received little attention to include poor people in the development programs which create serious policy issues. The severity of the poverty problem is observed in Bahawalpur division from Southern Punjab, Pakistan. Information is not sufficient to understand the social dimensions of poverty in southern Punjab.

A large number of studies are available in Pakistan who used socio-economic empowerment as an explanatory variable for measuring poverty in rural households. Most studies used different proxy variables for measuring socioeconomic empowerment. These studies conclude that the empowerment has a strong impact on household welfare<sup>2</sup>. However none of the studies measured socio-economic empowerment for the households. This study aims to develop an index, to measure socio-economic empowerment of rural households. The study will contribute a debate on the determinants of socio-economic empowerment and also highlights the spatial dimensions of socio-economic empowerment. The main contribution of this study is to develop an index for the measurement of socio-economic empowerment of rural households in Pakistan.

Empowerment is a process through which community become strong enough to participate and share in the control of and influence and institutions affecting their lives. Eyben et al. (2008) suggested a framework where they explored conceptually and operationally for understanding empowerment of poor households. The study also examined the different facets of political, economic and social empowerment. Kabeer and Tasneem (2011) explored the impact of women empowerment by using a combination of qualitative interviews and survey data. Study also analyzed how the paid women workers can participate in their intra-household decision making processes that contribute women empowerment. Bertini (2011) analyzed the relationship among rural economy and adolescent girls. The study estimated that how agents contribute to both social and economic growth. The study also highlighted the ways in which bilateral donors and government can provide effective professional and personal support to rural girls' for empowerment.

## METHODOLOGY

The data used in this paper is obtained from household survey. A total 600 households were selected through multi-stage random sampling. The sample households were selected through applying four steps. At first, District Bahawalpur and District Bahawalnagar were randomly selected from division

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1 The international fund for agriculture development (2001)

2 Malik (1996), Amjad and Kemal (1997) Rehman and Chaudhry (2009), Chudhary et al. (2009): Qureshi and Arif (2000): Arif et al. (2000), Ali and Tahir (1999)

Bahawalpur. In the second step, two Tehsils (sub district) from each district were selected randomly, Tehsil Hasilpur and Kherpur-Tamywale was chosen from Bahawalpur District and Tehsil Chishtian and Haroonabad were chosen from Bahawalnagar District. In the third step, two union councils selected from each tehsil and then two villages from each union council were selected as sample. In the last step, number of households was selected in each village to obtain information. Total sixteen villages were selected from eight union council of Bahawalpur (two from each Hasilpur and Kherpur-Tamywale) and Bahawalnagar (two from each Chishtian and Haroonabad). The information was collected from the head of household. Structured questionnaire was used to obtain the data which covered household demographic characteristics, community characteristics and other social development of rural households.

### ***Selection and Measurement of Variables***

Socio-economic empowerment comprises various social and economic conditions which are measured by a set of variables as defined in Table 1. Several variables were identified to measure household's socio-economic empowerment which includes household assets and factors that affect household's socio-economic empowerment.

The variables for economic empowerment and social empowerment were used to construct household's socioeconomic empowerment. An index was constructed based on eight sub-factors; namely: shelter, education, assets and property, livestock, health of household members, gender of household head, household accessories, and groups and networks. These eight variables comprise thirty six items presented in Table 1.

**Table 1**

Framework of Socio-economic Empowerment Index

<b>Factor</b>	<b>Sub-Factor</b>	<b>Items</b>
<b>Social Empowerment</b>	<b>Education</b>	Access to school
	(Khan, et al. 2015; Chaudhry and Rahman, 2009; Hashmi, 2006)	Average education of the household
		Education of head of household
	<b>Gender of household head</b>	Gender of household head (male or female)
	(Khan, et al. 2015; Chaudhry and Rahman, 2009)	Membership in formal or informal organizations or associations

(continued)



Factor	Sub-Factor	Items
		Ability to get support from other than family members and relatives in case of hardship
		Ability to get loan from family and friends in case of hardship
		Participation in Community Issues
	<b>Shelter</b>	Area of the house
		House own or rented
		Sanitation system (latrines)
	(Arif, 2000)	The availability of electricity
		Building types (Material)
	<b>Assets and Property</b>	Land owned
		Land leased
		Tractor
	(Khan et al. 2015; Chaudhry, et al., 2009)	Farm equipment
		Tube well
		Sheep/Goat
	<b>Livestock</b>	Buffalo/Cow
		Serious disease (T.B, hepatitis, etc.)
	(Chudhary, 2009; Hashmi, 2006;)	Availability of health care services
	<b>Health within Household</b>	
	(Khan et al. 2015; Chaudhry, et al., 2009)	
		Separate kitchen
		Motor-cycle
	<b>Household Accessories</b>	Sewing machine
		Car / jeep
		Personal computer or laptop
	(Khan et al. 2015; Chaudhry, et al., 2009)	Water pump
		Washing machine
		Air-conditioner
		Room-cooler
		Refrigerator
		Cell phone
		Television
		Radio
		Gold / Silver / Bonds
<b>Construction of Socio-economic Empowerment Index (EMPI)</b>		

Most of the existing work on empowerment emphasized the different ways of mobilizing social relationship from within civil society to engage with other factors. Empowerment of poor people can be measured through their access and participation in making decisions in community and social affairs. The severity of poverty due to disempowerment is responsive to the local situation, capacity building and access to information. This can be measured by constructing an empowerment index. Weights of Indicator variables are assigned in numerous ways. Ad hoc weights like as assign 5/6 for asset and property, 2/6 for health and 3/6 for education, effort to a definite extent but there are chance with regard to canvasser and are difficult to assign when socio-economic empowerment ordering is not clearly visible. For this entity the current study recommended The Principle Components Analysis (PCA) is to allocate the weights of indicator variables. The Principal Component Analysis (PCA) allows the reduction of a number of variables into one or fewer variables. The PCA is used to measure socio-economic empowerment which analyze the multiple correlation principle and can explain the variance of the dependent variables. The principal component analysis selects factors with eigenvalues greater than one and they are considered significant. The PCA is used to measure empowerment based on the construction of indices using the formula:

$$(1)$$

Where,  $I$  = the weighted index;  $W$  = percentage contribution of each selected variable as the weight;  $X$  = the value of each variable; and  $\Sigma$  = the summation sign.

The factor loadings of components of socio-economic empowerment are calculated by using principle component analysis. This process first standardizes the variables and then computes the eigenvalues which is recognized as the variance of the factor of element and hence it can be used to evaluate the significance of any factor or component. If the manifest variables are homogeneous then its mean is zero and the variance is equal to one for each. If we have  $N$  identical manifest variables in our analysis, the summation of their variances is  $N$ . Principal component analysis (PCA) transforms the data such as the total variance components  $N$  distributed at random between the components. The first eigenvalue is higher than the second and next to persevere with the  $n^{\text{th}}$  lowest eigenvalue. Currently the factor coefficient ratings or factor loadings usually are calculated by block and sum of all eigenvectors. The value which usually we acquire is regarded communalities or extraction value”.

**Table 2:**

## Description of Variables

<b>Education of head of household</b>	<b>If yes Assigned value 1, otherwise 0</b>
Average education of the household	Assign value 0 if no-education; assign value 5 if the education is at middle level assign value 10 if the education is at college or university level
Access to school	If yes Assigned value 1, otherwise 0
Household head is male or female	Household head is male then assign value 1, otherwise 0.
Membership in formal or informal organizations or associations	If yes Assigned value 1, otherwise 0
Ability to get support from other than family members and relatives in case of hardship	If yes Assigned value 1, otherwise 0
Ability to get loan from family and friends in case of hardship	If yes Assigned value 1, otherwise 0
Participation in Community Issues	If yes Assigned value 1, otherwise 0
Building types (Material)	If house is bricked assign value 1, otherwise 0
The availability of electricity	If yes Assigned value 1, otherwise 0
Sanitation system (latrines)	If yes Assigned value 1, otherwise 0
Personal house or rented	If yes Assigned value 1, otherwise 0
Size of the house	Assign value 0 if house is less the 3 (Marla), assign value 1 if house is up to 7 (Marla), otherwise 2
Land owned	If yes Assigned value 1, otherwise 0
Land leased	If yes Assigned value 1, otherwise 0
Tractor	If yes Assigned value 1, otherwise 0
Farm equipment	If yes Assigned value 1, otherwise 0
Tube well	If yes Assigned value 1, otherwise 0
Sheep/Goat	Assign value 1 for one sheep or Goat
Buffalo/Cow	Assign value 5 for one Buffalo or cow
Serious disease (T.B, hepatitis, etc)	If yes Assigned value 0, otherwise 1
Availability of health care services	If yes Assigned value 1, otherwise 0
Separate kitchen	If yes Assigned value 1, otherwise 0
Motor-cycle	If yes Assigned value 1, otherwise 0
Sewing machine	If yes Assigned value 1, otherwise 0
Car / jeep	If yes Assigned value 1, otherwise 0
Personal computer or laptop	If yes Assigned value 1, otherwise 0

(continued)

<b>Education of head of household</b>	<b>If yes Assigned value 1, otherwise 0</b>
Water pump	If yes Assigned value 1, otherwise 0
Washing machine	If yes Assigned value 1, otherwise 0
Air-conditioner	If yes Assigned value 1, otherwise 0
Room-cooler	If yes Assigned value 1, otherwise 0
Refrigerator	If yes Assigned value 1, otherwise 0
Cell phone	If yes Assigned value 1, otherwise 0
Television	If yes Assigned value 1, otherwise 0
Radio	If yes Assigned value 1, otherwise 0
Gold / silver / bonds	If yes Assigned value 1, otherwise 0

## RESULTS AND DISCUSSION

There are several steps to construct socio-economic empowerment index: assign values, determinations of indicator variables, measurement of indicator weights and calculation of index value. Factor analysis is done to generate a socio-economic empowerment index and factors are extracted from the correlation matrix through principle component analysis.

This method ensures that every factor is independent. These extraction values or factor loadings are used to construct socio-economic empowerment index. Each indicator is given an equal weight within the index. Krishna and Uphoff (1999) stated that normalizing the range of each indicator to be between 0 and 1 by dividing each indicator by its range and then summing across the indicators. It can be seen that the dominant factor (Table 3) led to enhance the socio-economic empowerment with higher value of loading factor or extraction value.

**Table 3:**

Results of the Factor Analysis

<b>Factor</b>	<b>Sub-Factor</b>	<b>Indicators</b>	<b>Factor loading</b>	<b>Percentage</b>
<b>Social Empowerment</b> <b>(42.90%)</b>	Education	Education of head of household	0.507	3.75
	(7.53%)	Average education of the household	0.511	3.78
	Gender of Household Head	Household head is male or female	0.513	3.80
	(3.80%)			

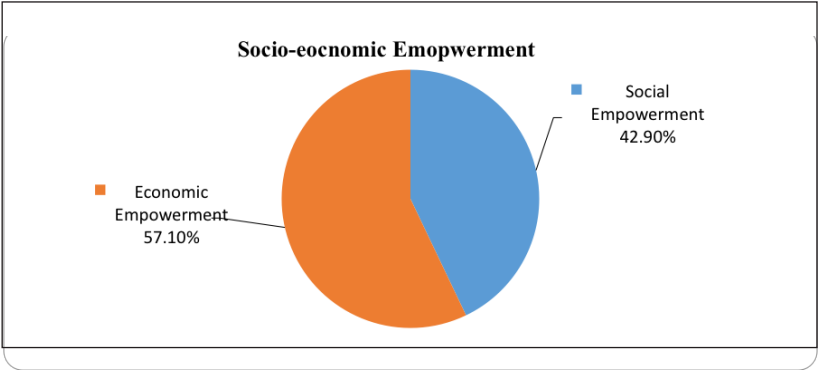
(continued)

Factor	Sub-Factor	Indicators	Factor loading	Percentage
<b>Social Empowerment</b> (42.90%)	Groups and Networks (18.54%)	Membership in formal or informal organizations or associations	0.642	4.75
		Ability to get support from other than family members and relatives in case of hardship	0.526	3.89
		Ability to get loan from family and friends in case of hardship	0.570	4.22
		Participation in Community Issues	0.768	5.68
	Shelter (13.02%)	Building types (Material)	0.675	4.99
		availability of electricity	0.564	4.17
		Sanitation (latrines)	0.521	3.86
	Assets and Property (17.77%)	Land owned	0.614	4.54
		Tractor	0.566	4.19
		Farm equipment	0.655	4.85
	Live stock (4.04%)	Tube well	0.567	4.20
		Sheep/Goat	0.544	4.03
		Health within Household		
<b>Economic Empowerment</b> (57.10%)	Household (5.25%)	Availability of health care services	0.710	5.25
		Gold / silver / bonds	0.504	3.73
	House Accessories (30.05%)	Television	0.559	4.14
		Cell phone	0.632	4.68
		Refrigerator	0.542	4.01
		Air-conditioner	0.576	4.26
		Personal computer or laptop	0.676	5.00
		Car / jeep	0.572	4.23

The results of the factor analysis are presented in Table 3. The results show that participation in community Issues (loading value 0.768) and membership in formal or informal organizations or associations (loading value 0.642) are the most significant factors that constitute social empowerment. They

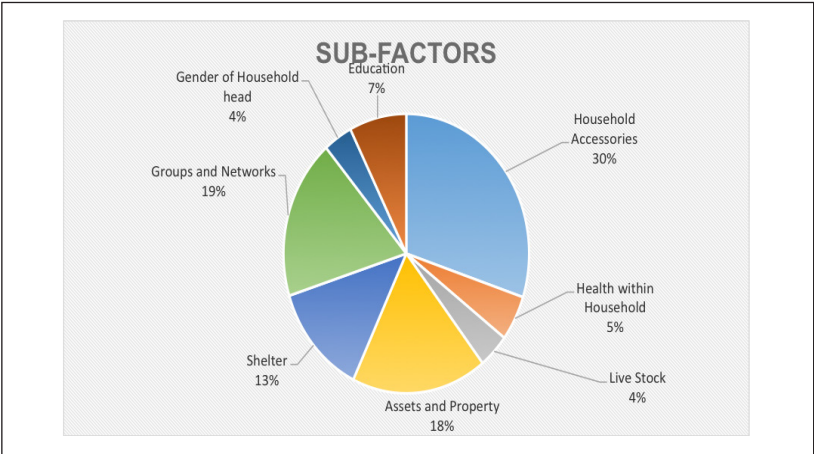
can argue against any wrong decisions and in addition, they are actively participating in local and social decision making. All of the thirty six reveal factors are associated to the collective components; the cheapest extraction value is 0.504 (Gold / silver / bonds).

Figure 1 shows that economic empowerment contributed higher (57.1 percent) to the socio-economic empowerment compared to the social empowerment that represents 42.90 percent. -



**Figure 1:** *Percentage Value of Socio-eonomic Empowerment*

Figure 2, illustrates the percentage of socio-economic empowerment in sub-factors. The diagram shows that household accessories contributed a large portion (30.05 percent) to socio-economic empowerment. Groups and networks contributed 18.54 percent, assets and property contributed 17.77 percent and shelter (home) contributed 13.02 (Figure 2).



**Figure 2:** *Percentage value of Sub Factors*

## SOCIAL EMPOWERMENT

The results of the study show that Social empowerment consists of four sub-factors namely; gender of household head, education of household, groups and networks, shelter and these four indicators further consist on thirteen indicators. This study found ten indicators significant from social empowerment whose extraction value is greater than 0.5 that represent 42.90 percent contributes in socio-economic empowerment as shown in figure 1 and remaining three indicators are dropped. Now, we check further its distribution in sub-factors, how much contribution each sub- factors and then how much percentage of each indicator within the sub-factors represents in socioeconomic empowerment. The percentage share of each of the significant factors contributed to social empowerment is discussed.

***Gender of Household Head:*** Households participation in social and political matters in rural areas is determined by gender of head of household. Rural poverty is strongly influenced by gender of household head<sup>□</sup> and it represents 4 percent socio-economic empowerment as shown above in figure 2.

***Education:*** Employment opportunities have been set better as a result of high educational ability, especially the rural competition a best knowledge of growing crops with new agricultural technologies as well as associated practices. The results show that two indicators are significant namely: education of head of household and average education of the household with factor value 0.507 (3.75 percent) and 0.511 (3.78 percent) respectively. Education represents 7.53 percent socio-economic empowerment as shown above in figure 2.

***Groups and Networks:*** This study used four variables to measure groups and networks, namely: membership in formal or informal organizations or associations, ability to get support from other than family members and relatives in case of hardship, ability to get loan from family and friends in case of hardship and participation in community issues and its factor loading is 0.642 (4.75 percent), 0.526 (3.89 percent), 0.570 (4.22 percent) and 0.768 (5.68 percent) respectively. Groups and networks contribute 18.56 percent in socio-economic empowerment which shown in figure 2.

***Shelter:*** Socio-economic empowerment has been affected through quality of shelter house and type of shelter. The poor household also live in more risk and uncertain condition, poor sanitary facilities that affect directly to their health and that may influence less productivity of household members.

On the other side, good housing atmosphere leads to good health and provide the base for enhancing economic productivity within the household and enhance social empowerment. Five components were taken to explain shelter in current study namely; service indicators focused on the availability of electricity, types of building (type of house martial and size), own

house/rented, and the size of house. Environmental indicator is concerned the level of sanitation system (latrine) but only three indicator has found significant namely; type of building with loading value 0.675 (4.99 percent), the availability of electricity with loading value 0.564 (4.17 percent) and sanitation system (latrine) with extraction value 0.521 (3.86 percent). Shelter represents 13.02 percent contributed to socio-economic empowerment of the rural household and enhance social & economic empowerment.

## **ECONOMIC EMPOWERMENT**

Economic empowerment comprise four sub-factors namely; assets and property, livestock, household health, and household accessories. Out of total twenty three indicators, thirteen indicators were significant in economic empowerment whose extraction value is greater than 0.5 that represent 57.10 percent contributes in socio-economic empowerment as shown in figure 1 and remaining ten indicators whose extraction value is lesser than 0.5 were therefore dropped. The percentage shares of these sub-factors are discussed below.

**Assets and Property:** Households possess various productive assets that may generate income level and affect social values. Five indicators were used to measure the current level of assets and property of household, namely; land rented, land owned; tube well, farming equipment and tractor. The results of the study show that only four indicators were significant namely; land owned, tractor, farm equipment and tube well with loading value 0.614 (4.54 percent), 0.566 (4.19 percent), 0.65(4.85 percent) and 0.567(4.20 percent) respectively (Table 3). Assets and property represent 17.77 percent of socio-economic empowerment of household.

**Livestock:** Rural households generally rear livestock as important productive assets in the rural economy of Pakistan that positively enhances the income of rural households. The study utilized two indicators to computing live stock of their household, namely; cow/buffalo and sheep/goat<sup>□</sup> but found only one indicator significant namely; sheep/goat with loading value 0.544 that represent 4.03 of socio-economic empowerment of the rural household.

**Health Status of Households:** The study used two variables to analyze health of household, namely: disease status and availability of health care services (See also; Chudhary, et al., 2009). The results of the study show that the availability of health care services was significant with loading value 0.710 that represent 5.25 percent socio-economic empowerment of household.

**House Accessories:** This study used fourteen indicators to measure household accessories. Household accessories contain material goods which enhance economic empowerment of household, namely: separate kitchen, motor-cycle, sewing machine, car/jeep, personal computer, water pump, washing machine, air conditioner, room color, refrigerator, cell phone,



television, radio and gold/silver/bonds. The results of the study show that seven indicators were significant-namely; gold/silver/bonds, television, cell phone, refrigerator, air-conditioner, personal computer/laptop and car/jeep with extraction values 0.504 (3.73 percent), 0.559 (4.14 percent), 0.632 (4.68 percent), 0.542 (4.01 percent), 0.576 (4.26 percent), 0.676 (5 percent) and 0.572 (4.23 percent) respectively. Household accessories represent 30.05 percent socio-economic empowerment of the rural household.

## CONCLUSION

Socio-economic empowerment index was constructed for the first time for measuring household poverty of Pakistan by using two main variables economic empowerment and social empowerment. Eight sub-factors were identified namely; education, gender of household head, groups and networks and shelter from social empowerment and assets and property, livestock, health condition of households and household accessories from economic empowerment. Sub-factors further consist on twenty six indicators namely; Education of head of household, Average education of the household, gender of household head, membership in formal or informal organizations or associations, ability to get support from other than family members and relatives in case of hardship, ability to get loan from family and friends in case of hardship and participation in community issues, Building types (size and type of martial), The availability of electricity, Sanitation system (latrines), Land owned, Tractor, Farm equipment, Tube well, Sheep/Goat, Availability of health care services, Gold / silver / bonds, Television, Cell phone, Refrigerator, Air-conditioner, Personal computer or laptop and Car / jeep. Principal Component Analysis (PCA) is used for deriving weights for the policy variables. In current study shows that 42.90 percent socio-economic empowerment represent by social empowerment and 57.10 percent represents by economic empowerment. Social empowerment has further four Sub-factors; education, gender of household head, groups and networks and shelter that represents 7.53 percent, 3.80 percent, 18.54 percent and 13.02 percent socio-economic empowerment respectively.

Economic empowerment also depends further four sub-factors namely; assets and property, livestock, health within household and household accessories that represent socio-economic empowerment 17.77 percent, 4.04 percent, 5.25 percent and 30.05 percent respectively. The study concluded that the above stated variables are significantly contributed to socio-economic empowerment of rural households. Current study might be helpful for government to formulate and implement effective poverty reduction policies for rural households by enhancing socio-economic empowerment. EMPI computed in this study can be used in further research to evaluate the impact of Socio-economic empowerment on different economic indicator at micro and macro level in Pakistan. This will help to determine whether socio-economic empowerment is affecting other economic indicator significantly or not.

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# Threats to the Conservation of Asian Elephants: A review study

Lee Ee Ling\*

Mariani Ariffin

Latifah Abd Manaf

*Department of Environmental Management, Faculty of Environmental  
Studies, Universiti Putra Malaysia, 43400 UPM Serdang, Selangor,  
Malaysia*

\*Corresponding author; email: lee\_eeling@yahoo.com

## ABSTRACT

*The paper aims to examine the main threats to the conservation of the Asian elephants and identify the factors associated to these threats and their implications for the Asian elephants. We compiled and reviewed journal articles published between 2004 and 2014. We carried out a search using Science Direct, Springer Link, and Gajah. The information obtained was interpreted using thematic content analysis. According to the findings, the main threats to Asian elephants were habitat loss and fragmentation, human-elephant conflict (HEC), poaching and accidents. The rapid conversion of forests into plantations and human-dominated areas, including infrastructure developments, had reduced and fragmented elephants' habitat and home range. As a result, elephants caused conflicts in the forms of crop raidings, property damages, human or elephants' injuries or deaths. The high demand and monetary return from elephant body parts trafficking, particularly ivory, are the main reasons that threatened elephant population. The fragmentation of elephants' habitat due to conversion of forests into plantations, human-dominated areas and infrastructures developments also increased poachers' accessibility. Furthermore, the study found that poverty and corruption also contributes to elephant poaching. Besides that, literature also shows that snare injuries, HEC, abandoned mining areas and train movements were causes to accidents that threatened elephants.*

**Keywords:** Asian elephants, endangered species, habitat loss and fragmentation, human-elephant conflict (HEC), poaching.

## INTRODUCTION

Asian elephants are geographically distributed in thirteen Asian elephant range states namely India, Bangladesh, Nepal, Sri Lanka, Thailand, Cambodia, Vietnam, Malaysia, Indonesia, China, Myanmar, Laos, and Bhutan. According to the most recent statistics, it is estimated that the current population of Asian elephants lies between 35,791 and 49,626; India holds the largest number of wild Asian elephants with approximately 22,800 to 32,400 Asian elephants (Santiapillai & Sukumar, 2006). According to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), Asian elephants are an endangered species since the 1970s (“Status of elephant populations,” 2011). Indeed, the population of Asian elephants living in the wild has reduced to at least 50 percent within the last three generations (Choudhury et al., 2015; IUCN, 2012).

The main subspecies of Asian elephants include elephants from Asia mainland (*Elephas maximus indicus*), Sri Lankan elephants (*Elephas maximus maximus*), Sumatran elephants (*Elephas maximus sumatranus*), Borneo Pygmy elephants (*Elephas maximus borneensis*) and the Indian elephants (*Elephas maximus indicus*) (Choudhury et al., 2015; Santiapillai & Sukumar, 2006; World Wide Fund for Nature (WWF), n.d.). However, some have considered Borneo Pygmy elephants to be a different species because according to mitochondrial DNA (mtDNA) analysis, the Borneo Pygmy elephants samples collected from Borneo are different from the rest of the elephant samples collected from the Asian elephant range states (Fernando et al., 2003). Furthermore, although Borneo Pygmy elephants are native to Borneo Malaysia and Indonesia, the microsatellite loci analysis indicated that Borneo Pygmy elephants are unlikely to be the same species as the Asian elephants and are different from the Asian elephants living in Peninsular Malaysia (Fernando et al., 2003). Therefore, the present study focuses on Asian elephant species which inhabited on the mainland of Asia and excludes Borneo Pygmy elephants from the review.

Considering that Asian elephants consume high amount of vegetation ranging from grass, shrubs, herbs, climbers to trees; they forage about 17-19 hours in a day. Asian elephants are the largest land herbivore and keystone species and play a significant role as environment gardener which are important to a forest ecosystem (Baskaran et al., 2010; Samansiri & Weerakoon, 2007; Vancuylenberg, 1977). Elephants are excellent seeds disperser too (Vancuylenberg, 1977). The gut passing time of the eaten

seeds also influenced the viability and germination of seeds (Sukumar, 2003; Campos-arceiz & Blake, 2011). For example, experiments conducted by Diana Lieberman showed that the process of ingestion has increased the rate of seeds germination of two types among 11 types of seeds in Ghana's moist forests (Sukumar, 2003). Thus, various types of fruit and plant seeds are being dispersed. Examples of commonly dispersed general plant families by elephants are Fabaceae, Malvaceae, Saporaceas, Poaceae, Moraceae and Euphorbiaseae with over 20 species being dispersed from each family (Campos-arceiz & Blake, 2011). Since elephants only digest slightly over 50 percent of vegetation they consume, their defecation often resulted in incomplete digested dung samples and the partially digested organic matters contained in elephant dung provide alternative habitat resources to organisms with similar function as leaf litter (Campos-Arceiz, 2009; Samansiri & Weerakoon, 2007). That is, elephant dung is an ideal microhabitat for insects, vertebrates and amphibians. Therefore, elephants also contribute to the spatial diversity, population dynamics, and seedling germination of various plant taxa in the forests. Yet, research on the causes and implications of the threats to Asian elephant remained scarce as compared to African elephants. Hence, this review paper aims to examine main threats to the conservation of the Asian elephants and identify the factors associated to these threats and their implications to the Asian elephants.

## METHODS

The reviewed published academic journal articles were obtained from Science Direct, Springer Link, and *Gajah* that were published between 2004 and 2014. Science Direct and Springer Link were selected because Universiti Putra Malaysia (UPM) subscribes to two of these high quality publications. Furthermore, *Gajah* was selected because it is a bi-annual journal of the Asian Elephant Specialist Group (AsESG) from Species Survival Commission (SSC) in The World Conservation Union (IUCN); it focuses on the conservation related issues of Asian elephant from all Asian elephant range states. Although the time criteria was between 2004 and 2014, other related academic journal articles published not within the time criteria and a book on *The Fate of The Elephant*, as well as web pages were included as supplementary to discussion section based on their relevance to this paper.

Primarily, the keyword use for the title search was "Elephant" and the period of publication was 2004 to 2014. Then, the search results were filtered with

keywords “Asian Elephant” and “*Elephas maximus*”. After obtaining the search results, the articles that focus on biological aspects of Asian elephants; elephant’s epistemology; social organization; mahout and veterinary related workshop or training; historical geography; African elephant; and other wildlife such as Elephant seals, Elephant fish, and Elephant grass were excluded. Book reviews, short communications, editorials, epilogues, and correspondences throughout the search were also excluded from this study. Within the first search results and initial selection of publications, a second search was carried out to limit the results to articles carried out within Asia only. A total of 76 out of 576 journal articles were selected. The selected journal articles were analyzed using thematic content analysis assisted by the qualitative analysis software NVivo 10.

## **MAIN THREATS AND ITS CAUSES AND IMPLICATIONS TO ASIAN ELEPHANTS**

The results from the thematic content analysis indicated that the most common threats to Asian elephants cited in the literature are habitat loss and fragmentation; human-elephant conflict (HEC); poaching; and accident. The large conversion of land use from forests into plantations and human-dominated areas, including infrastructure developments, has significantly reduced and fragmented elephant habitats and caused HEC. The loss and fragmentation of habitats can cause inbreeding depression which, in turn, may affect the reproduction of Asian elephants. Elephant poaching was associated with the high demand and monetary return from ivory trades. Societal problems were also associated with poaching in the literature. The accidental killing of elephant was described in the literature as caused by snare injuries, abandoned mine pits and train collision. Accidental electrocution and translocation related accidents resulted from poor management and maintenance of HEC mitigations can threaten the species likewise. These 4 main threats are described in detail in this section.

### ***Habitat loss and fragmentation***

Habitat loss and fragmentation is defined as the disappearance and segmentation of forests into patches due to the rapid conversion of forested areas into plantations and human-dominated areas resulted from human developments (Blake & Hedges, 2004; Hedges et al., 2005). As a direct result of such large conversion of forests into plantations for food and cash crops



(eg. rubber, oil palm etc), the most rapidly expanding agricultural sectors have swept the forested areas in the last 4 decades, particularly in Southeast Asia countries (Azmi & Gunaryadi, 2011; Mukherjee & Sovacool, 2014; Santiapillai & Wijeyamohan, 2003). The constructions of infrastructure have also lead to loss of elephants' habitat in elephant range states to support the perpetual growth of human population. Furthermore, the rise of rubber price in the market resulted from the increasing demand of rubber latex products (e.g. tires, gloves, etc.) and rubber wood furniture, has much increased the forests conversion into rubber plantations in Southeast Asia. For example, the rubber wood export of Malaysia constituted as much as 26 percent in 1998 and rise up to 35 percent in 2007, stemmed from the increased of rubber wood furniture demand (Shigematsu et al., 2011). Therefore, Southeast Asia's rubber plantations shared an average of 83 percent out of the total planted area of rubber in the world between 1985 to 2005 (Shigematsu et al., 2011). Worse still, the introduction of Latex Timber Clone (LTC) rubber tree also further diminishes the elephant habitat, because LTC rubber trees have increased the production of latex in addition to a shorter production period as compared to the ordinary rubber tree species. Subsequently, large forested areas in Malaysia were replaced with LTC rubber tree plantations (Clements et al., 2010). Similarly, less than 0.02 hectare (ha) per capita of forest has remained in Bangladesh due to massive conversion into plantations (Islam et al., 2011). Thus, the increased of rubber price due to increasing demand to rubber latex products and rubber wood furniture, as well as the introduction of LTC rubber trees has caused the massive conversion of forests into rubber plantations.

Palm oil plantations have also contributed towards the deterioration of elephants' habitat. The high demand of crude palm oil (CPO), palm kernel oil, and biofuel have encouraged forest clearance for oil palm plantations. This is because CPO and palm kernel oil is widely used as one of the sources of edibles oils and fats for human consumption while biofuel is highly needed to achieve sustainable feedstock for biodiesel production as an alternative renewable fuel for future (Mba et al., 2015). With the perpetual growth of human population, the production of CPO in Malaysia has increased from 2.6 million tonnes in 1980 to 15.8 million tonnes in 2007 (Lam et al., 2009). Besides the production of CPO and others from oil palm seeds, oil palm trees are also being burned to produce biofuel such as biodiesel and bio-jet fuel. In Indonesia, for instance, the biodiesel export has accelerated to 1.2 billion liters, which eventually caused the loss of 20 million ha of forest to oil palm plantations (Leimgruber et al., 2011). As a result, more forests are being converted into oil palm plantations.

In addition, utilities and infrastructure developments such as roads, highways, railways, human settlements have reduced and fragmented the elephants' habitat. Consequently, the loss and fragmentation of forests or elephants' habitat are reducing the available food sources and home ranges to the elephants. Moreover, the migratory routes of elephant located within forests might also be disrupted, because the infrastructures are being built on the routes. With the limited home range to forage and move, elephant herds might be trapped within already limited forest patches and formed into several isolated populations or pocketed herds (Chadwick, 1992; Matsubayashi et al., 2006). Such herds can also suffer from inbreeding depression which refers to a genetic disturbance on the genetic traits of Asian elephants caused by close breeding with members in the same herd. This is because the formation of pocket herd or isolated population of elephants due to herds displacements into remaining patches of forest has reduced the social communication and interaction between elephants and subsequently increased the possibility of inbreeding depression (Ahlering et al., 2011; Debata et al., 2013; Santiapillai & Sukumar, 2006; Sitompul et al., 2008; Sukumar & Santiapillai, 2006). As a result, the good genes might be depleted if the situation became adverse.

Asia elephant range states have implemented the system of protected areas (PAs) to tackle the impacts from habitat loss and fragmentation. For example, 3 national parks have been established solely for the protection of elephants in Sri Lanka, namely Lunugamvehera, Minneriya and Kaudulla (Santiapillai et al., 2006). It can be argued that the establishment of PAs is able to protect the remaining elephants' habitat, yet, the existing ranges in PAs might not be adequate to host the entire huge population of Asian elephant, such as in Sri Lanka (Santiapillai et al., 2006). Likewise, inadequate funding and incapacity to manage and maintain PAs can be the possible hindrance to the better management of PAs (Islam et al., 2011). Nevertheless, the conservation of areas outside PAs is also important for better conservation of Asian elephants (Fernando et al., 2008). This is because elephants tend to forage in secondary forests, given that secondary forests allows more varieties of vegetation to grow, especially on the forest floor, and creates water reservoirs (Baskaran et al., 2010; Perera, 2009; Santiapillai et al., 2006). Although PAs have been established to conserve elephants' habitat, more researches on the foraging behavior of elephants shall be funded to assist and improve the existing system of PAs considering the importance of secondary forests.

## **HUMAN-ELEPHANT CONFLICT (HEC)**

In the study, human-elephant conflict (HEC) is defined as the negative interactions of humans and elephants when they coexist in a same landscape. These negative interactions often result in destruction of crops and properties as well as in human or elephants' injuries and deaths. For example, between June 2000 and September 2002 HEC has caused a total of 771 crop losses; 21 house damages; 3 human deaths; and 1 human injury in Bukit Barisan Selatan National Park (BBSNP) and Way Kambas National Park (WKNP) in Indonesia (Hedges et al., 2005; Perera, 2009). The habitat loss and fragmentation resulted from massive conversion of forests have reduced the available food sources to elephants. Subsequently, elephants are being pushed to forage at plantations or human settlements for food, water and minerals and face retaliation from farmers.

Cultivation practices such as slash and burn has also increased HEC. When the farmers burn the forested areas to clear the land for cultivation, they indirectly destroy the elephant habitat. That is because slashing and burning clear out the soil completely and faster than other deforestation methods. For example, it was reported that between 1995 and 2004, 250 hectares (ha) of forested areas located between the boundaries of Deramakot Forest Reserve was burnt for agricultural cultivations, contributing towards the devastating habitat loss and it resulted in a closer contact between elephant and humans (Bal et al., 2011). The disruption of elephants' migratory routes by human developments have also blocked elephants path to their seasonal forage areas, forcing the elephant herds to intrude into nearby plantations or human settlements to search for food, water and mineral sources or cross to another area. As a result, the disruption of elephants' migratory routes increases crop raiding and therefore exacerbate the HEC (Haturusinghe & Weerakoon, 2012; Joshi & Singh, 2007; Saaban et al., 2011). On the other hand, the concentration of elephants' favorite crops such as banana, oil palm and sugarcane attracts more crop raiding and increases HEC (Campos-arceiz et al., 2009; Debata et al., 2013; Sahu & Das, 2012). Consequently, banana and oil palm plantations located near Mekong and Yunnan, are frequently intruded by elephant herds, especially during harvesting period (Luo, 2007).

Crop raiding and HEC incidences can result in monetary losses and in human and elephant injuries and fatalities, as well as financial and emotional stress to farmers and villagers. Although wildlife officers take all the necessarily measures to protect the elephants, elephants are legally killed when they

caused immediate danger to people around. Farmers will go to any extent to protect their crops and properties from damages caused by elephant raiding. As humans attempt to stop or push away the ‘trespassing’ elephants, they drive the elephants into rampage which at the end will result in crop and property damages and human and elephant injuries and fatalities. Worse still, since rampant elephants will not back away easily from plantations or houses, they often end up being punished through intentional shooting, poisoning and electrocution, for instance, at least 200 raiding elephants were condemned in India within 2006 to 2011 (Baskaran et al., 2011; Doyle et al., 2010). That is why villagers are not supportive of any conservation initiatives.

Legal culling, being one of the HEC mitigations also can decrease elephant population (Azmi & Gunaryadi, 2011; Saaban et al., 2011). With the rapid occurrence of HEC caused by habitat loss and fragmentation, elephant deaths might increase due to growth of legal culling of conflicted elephants. After all, the main purpose of legal culling is to protect human lives and properties at any cost, rather than protecting the elephant population. It can be argued that other HEC mitigations have been implemented to tackle HEC instead of legal culling, however, HEC cases seem to remain stable. For example, approximately 828 HEC complaints were reported on average to the Department of Wildlife and National Parks (DWNP) Peninsular Malaysia between 1998 and 2010 (Saaban et al., 2011). Although fire crackers burning, drums beating, engine oil burning have been substituted by translocation and electric fencing, as the main HEC mitigations, inadequate funding reimbursement and maintenance can be one of the possible reasons that deterred effective HEC mitigations (Jigme & Williams, 2011; Leimgruber et al., 2011; Maltby & Bouchier, 2011; Santra et al., 2007; Sukumar & Easa, 2006).

Apart from that, literature shows that electric fencing is a non-lethal alternative that is able to prevent elephants from entering into plantations and into human settlements, but electric fences are expensive to install and maintain (Perera, 2009; Sukumar & Santiapillai, 2006). In addition, the lack of monitoring of these electric fences has contribute to frequent ‘fence breakers’ and the lack of maintenance from authorities or private owners has deterred the efficiency of electric fences (Joshi & Singh, 2007; Perera, 2009). Worse still, fence equipment is being stolen and causes the electric fences to malfunction (Pradhan et al., 2011). For instance, villagers often steal wooded posts of electric fencing for firewood burning (Santra et al., 2007). Additionally, it is also very difficult to maintain and monitor the effectiveness

of electric fencing consistently without the cooperation from the plantations owners or workers in the plantations, thus, geographical factors and strong knowledge on Asian elephant's social behaviour shall be considered when erecting the electric fences (Gunaratne & Premarathne, 2006; He et al., 2011; Joshi & Singh, 2007; Santra et al., 2007). Hence, poor governance in terms of management and maintenance of erected electric fences can deter HEC mitigations. It can be argued that electrocution incidents of elephants due to such installation can be simply caused by the strong wind and fallen trees which exposed elephants to the power lines (Choudhury & Vivek, 2006; Santiapillai et al., 2006). Literature also shows that some electrocution cases were caused by illegal tampering of high tension wires by farmers to curb crop raiding (Doyle et al., 2010; Gubbi et al., 2014; Haturusinghe & Weerakoon, 2012; Joshi & Singh, 2007; Perera, 2009; Pradhan et al., 2011). Notwithstanding that, the installation of electric fences is still needed to protect elephants from intrusion into plantations or human-dominated areas considering issues related to poor management and maintenance of electric fences and electrocution.

Besides that, translocation is another main HEC mitigation to alleviate HEC in elephant range states; it refers to the relocation of elephant from the conflicted areas to another area. In Peninsular Malaysia, over 600 elephants were translocated to Taman Negara National Parks, Royal Belum State Park, Endau Rompin National Park since 1970's (Saaban et al., 2011). However, it can be argued that translocation only moves the problems to a new location instead of solving the problem (Perera, 2009; Roy et al., 2010; Sukumar & Santiapillai, 2006). Some elephants may also go back to the initial location, as elephant believed to have high fidelity towards their habitats and spatial temporal memory to guide them back to their initial habitat (Fernando et al., 2012). Although other HEC mitigations have been implemented across Asian elephant range states to curb HEC, yet, the installation of electric fences and translocation remained crucial regardless of their weaknesses in poor maintenance and management. This is because the combination of several HEC mitigations might be the key to better mitigation given that the nature of HEC cases can be very different within or between range states (Khounboline, 2007; Perera, 2009; Zimmermann et al., 2009). Thus, research tackling the effectiveness of HEC mitigations shall be encouraged.

### ***Poaching***

Poaching is defined as hunting of elephants or its derivatives to be traded for profit. Elephants are being poached for ivory, meat, tail hair, hide, trunk

and foot trafficking (Choudhury & Vivek, 2006; Sukumar & Santiapillai, 2006). Poaching elephant for body parts trafficking is banned by the 1973 CITES ivory trade ban in Africa and Asia. However because ivory has a high commodity value and persist illegal ivory trade to support the ivory demand, the ivory price remained stable or decreased (Lavigne, 2010; Stiles, 2004). Subsequently, trade ban has not effectively reduced ivory trade and it might have increased the poaching of Asian elephants, such as in Myanmar, Thailand and China (Stiles, 2004). In addition, massive conversion of forested lands into plantations and infrastructure developments had forced elephants into living in a smaller area and increased poachers' accessibility (Naylor, 2005). As a result, elephants become more visible and easy targets for poachers (Lavigne, 2010; Mohd Azlan, 2006). Therefore, high demand and monetary return from ivory trade and habitat loss are much likely the reasons to the increment of illegal poaching and decrement of elephant population. People can argue that poverty in the rural areas of the Asian elephant range states and corruption among local state authorities have also contributed towards the increment of elephant poaching (Hedges et al., 2005). Even though they are aware of the risk to be killed during elephant poaching, they have no choice due to poverty. Thus, poor governance in societal problems can become another major threat for the remaining elephant populations if proper solutions were not taken to curb societal problems.

### ***Accidents***

The accidents induced by the poaching of other animals and HEC are also a threat to the elephants, for example, accidental killing of elephants from snare injuries, collision with train, abandoned mine pits and electrocution (Perera, 2009; Santiapillai et al., 2006). Snares to poach other smaller mammals might injure elephant trunk and foot when they accidentally touch and step on it. Worse still, the snare gets entangled around elephant's trunk or foot which will further restrict elephants' movement to forage and socialise (Alfred et al., 2011). As a result, elephants may die from malnutrition. Some elephants were killed because of falling into abandoned gem pits or mining areas (Maltby & Bouchier, 2011). Consequently, injured elephant will die, because they might not able to walk to search for food or water and to eat or drink (Becker et al., 2013; Saaban et al., 2011). Arguably, the occurrences of such accidents might not be significant enough to decrease the existing population of elephants given that the size of elephant is huge. Nevertheless, the increased train movements can possibly hit the elephants and caused deaths during crossing (Roy et al., 2009). Worse still, the high speed moving

trains can cause immediate death of crossing elephants (Roy et al., 2010). For example, in Odisha, India, 16 elephants were killed due to collision with trains between 2000 to 2013 (Palei et al., 2013). Hence, cases of elephants being killed in accidents can be possibly increased since massive conversion of forests to plantations, human-dominated areas and utilities is rapid.

## **CONCLUSION**

The major conversion of forested lands into plantations and human-dominated areas including infrastructure developments such as construction of roads, highways, railways, human settlements and others, have led to the massive reduction and fragmentation of elephant habitats in recent decades. The plantations are often planted with crops of rice, wheat, banana, sugarcane, and oil palm for extraction of palm oil and rubber which dominate forests conversion in Southeast Asia. In addition, the continuous reductions and fragmentations of habitats and available food sources have driven elephants to intrude into plantations; raid crops; damage properties; and injured and killed people. The grouping of all high quality and elephants' favorite crops in a particular area rather than naturally scattered around as in the forests has also lead elephants to forage in the plantations instead of the forests. Furthermore, cultivation practices have also resulted in severe habitat loss and fragmentation as forest is being burned by the farmers to clear for cultivation. The loss and fragmentation of habitats also disrupts the migratory routes of elephants; force the formation of pocket herds or isolated populations, which may indirectly bring into inbreeding depression. Moreover, poaching and accidents also threatens the elephant population. Thus, the results of this study indicate that habitat loss and fragmentation; HEC; poaching; and accident are the current main threats to Asian elephants in elephant range states.

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# Big Data and ICT Readiness Index for ASEAN Economic Community

Muhammad Anshari<sup>1</sup>

Syamimi Ariff Lim<sup>2</sup>

Yabit Alas<sup>3</sup>

1. *E-Government Innovation Centre & Continuing Education Centre, Universiti Brunei Darussalam*
2. *E-Government Innovation Centre & School of Business and Economics, Universiti Brunei Darussalam*
3. *Institute of Asian Studies & Continuing Education Centre, Universiti Brunei Darussalam*

<sup>1</sup>Corresponding author; email: anshari.ali@ubd.edu.bn

## ABSTRACT

*ASEAN is undergoing a paradigm shift from Government-to-Government (G2G) to Community-to-Community (C2C) relationships with the emphasis on integration and collaboration. The relatively recent developments of Information and Communication Technology (ICT), especially Social Networks, Web 2.0, mobile technology, big data and its related technologies have become the main drivers of this paradigm shift. Big data optimizes capabilities process, high growth and diversified data that create value and knowledge for community within ASEAN in facing ASEAN Economic Community. This study assesses the ICT readiness of each of the ASEAN members to take advantage of the ICT development to build C2C integration and collaboration in facing big data era. The study reveals the score value of each country member to portray ICT readiness for the components of infrastructure development, human capital, people empowerment, innovation, and economic transformation. The paper shows the stages in ICT initiatives in the context of ASEAN and recommend ICT development for each country to eliminate the digital gap between members. It also proposes model of big data for ASEAN member country in supporting economic transformation.*

**Keywords:** ASEAN, Information and Communication Technology (ICT), Community-to-Community, Economic Transformation, ASEAN Economic Community (AEC), Big Data

## INTRODUCTION

The advancement of Information and Communication Technology (ICT) and the widespread adoption of mobile technology continue in all regions including the Association of Southeast Asian Nation (ASEAN) countries. Traditionally the paradigm of ASEAN ICT initiatives is solely conducted through Government-to-Government (G2G) interaction. This implies there is minimal or no participation from citizens or community. The aim of C2C collaboration and integration is to empower ASEAN's communities to take an active role in the economic transformation of their regions. The challenge of C2C for integration and collaboration is to minimize the digital gap between ASEAN members. To realize the importance and the potential high returns that ICT can offer in transforming a progressive ASEAN economy requires accessing ICT readiness to ensure the sharing and efficient use of resources through ICT. In 2010, 78% of people in ASEAN were using ICT in various aspects of living (ITU, 2014). ICT penetration uses indicators such as the number of mobile phone subscriptions, individuals using the Internet, households with a personal computer (PC) and Internet access, mobile broadband subscriptions, the use of social networks, and big data application.

Big data is a new generation of managing strategies, technologies and architectures, designed to economically extract value from very large volumes of a wide variety of data by enabling high-velocity capture, discovery, and/or analysis (Anshari & Alas, 2012). There are three main characteristics of big data: the data itself, the analytics of the data, and the presentation of the results of the analytics (Gantz & Reinsel, 2012). Big data is defined as an extremely large volume of data that are analyzed with technology to show the patterns of human development or anything related to the society since big data leads to more precise analysis thus helps to bring more accurate decision making and more efficient work. The massive of data is growing quickly, it is expected that by 2020 there will be more than 16 zettabytes of useful data (16 Trillion GB), which implies growth of 236% per year from 2013 to 2020 (Turner et al, 2014). Big data in ASEAN can contribute to economic transformation in adopting a pervasive knowledge-based economy. A knowledge-based economy depends on community literacy, community empowerment and collaboration, integration systems, and knowledge sharing as competitive advantages (Low & Anshari, 2013). Therefore, big data application can contribute in the concept of Community-to-Community (C2C) collaboration and integration in ASEAN.

This study assesses the components of ICT readiness for each ASEAN country. The components comprise ICT infrastructure development,



human capital development, people empowerment and engagement, innovation, and economic transformation. We use the Network Readiness Index (NRI) to assess infrastructure development, Human Capital Index (CHI), e-government index for people empowerment and engagement, the number of H index publications to measure innovation, and GDP for economic performance. The analysis reveals a score index showing the relative position of ICT readiness for each ASEAN country. The study also proposes a framework of ICT initiatives and development and big data's model to provide direction in measuring ICT readiness and assisting ASEAN member countries to focus of components in big data application. In the next section, we present a literature review on related work and Section 3 contains the methodology of our study. Section 4 discusses the issues, and big data and ICT readiness are in Section 5. Finally Section 6 presents the conclusions.

## **LITERATURE REVIEW**

Goods and services are expected to move more easily across borders because of the reduction in transaction time, costs and technical barriers to trade, benefiting business to business (B2B) activities, enhancing trade facilitation and removing tariffs within ASEAN through commitment to a Common Effective Preferential Tariff (CEPT) (ASEAN, 2014). Community to Community (C2C) is closely related to the participation level of individuals in a community, which, in turn, is affected by the level of literacy. Thus, the foundation of C2C integration and collaboration for ASEAN ICT initiatives is driven by many factors such as ICT literacy, infrastructure availability, and affordability. ICT literacy is defined as the degree to which an individual has the capacity to obtain, process, and understand basic information processing to make appropriate decisions.

ASEAN ICT initiatives should encourage the skills of citizens seeking information and services. Citizens are expected to understand the new roles in seeking information, understanding basic information, and making decisions for themselves. Citizens with appropriate information literacy levels have abilities that range from reading instructions for public services and administration, interpreting instructions, public promotion brochures, or public alerts. In addition, information literacy indicates the ability to read information, and is a learning process, which will improve as citizens become familiar with it. It requires reading, listening, analytical and decision-making skills, and the ability to act on instructions (Nutbeam, 2008). Poor information literacy is common among racial and ethnic minorities, and elderly persons, particularly in public-sector settings, because of limited access to the service, facilities, and information (Schillinger et al., 2002).

Literacy involves a complex set of abilities to comprehend and use the dominant symbol system of a culture for personal and community development. The need and demand for these abilities vary in different societies. In a technological society, the concept is expanding to include the media and electronic text, in addition to alphabets and numbers. Individuals must be given life-long learning opportunities to move along a continuum that includes reading, writing, critical understanding and the decision-making abilities they need in their communities. People with low literacy skills are most likely to incur higher costs (CHCS, 2011). Traditional citizen education relies heavily on writing material, management, and instructions (Williams et al., 1995). Despite the availability of extensive education materials with relatively consistent content, many are written at a high level so that citizens with low literacy have difficulty in comprehending essential points. Thus, citizens with inadequate literacy may not benefit from such educational efforts.

### ***Brunei Darussalam***

Brunei is a small country of 5769 square kilometres located on the northwest end of the island of Borneo. The population of Brunei is 415,717, with 76% in urban and 24% in rural areas, with an average growth of 2.2% per year. The population of Brunei Darussalam is 53% male and 47% female and is 73.8% Malay, 14.8% Chinese, and 11.4% other (AITI, 2010; Anshari & Alas, 2015a). The statistics on Brunei Internet users from 2006 to 2009 show an increase in the penetration of Internet usage to 78.5% according to the report on Brunei by the Oxford Business Group in 2010 (AITI, 2010). In the near future Brunei's network infrastructure will be upgraded to an ultra-broadband service connection through fibre optics (Almunawar & Anshari, 2014). The high-speed broadband will have a maximum data transfer rate of 150 Mbps, a more stable and better network coverage, and consistent Internet experience (Abubakar, 2011). Internet Literacy in Brunei is high (Anshari, Alas & Guan, 2015a), with more than two thirds of the population gaining access to the Internet, there is a very narrow digital divide in Brunei (AITI, 2010; Anshari & Alas, 2015b). With the increasing presence of smartphones in Brunei, agencies (government and NGO) have initiatives to improve ICT to support it (Anshari, Alas & Guan, 2015b). In 2000, the government expressed a wish to see Brunei implementing e-government and e-business initiatives through global information technology as a way to encourage economic development, which includes the use of smartphones (Kifle & Cheng, 2009).

### ***Cambodia***

The number of mobile subscriptions in Cambodia currently exceeds the population. In 2012, Internet usage increased by almost 60%, jumping from 1.7 million to 2.7 million users. The increase in mobile and Internet users

in Cambodia means there is enormous potential for business growth and employment opportunities in the technology sector (Todd, 2013). In 2014, the population of 15,205,539 was 20% urban and 80% rural. There was 5% Internet penetration with 8% active Facebook users, and 126% mobile subscriptions. Ninety-five percent of mobile subscriptions were pre-paid, and 5% were post-paid. Eleven percent of mobile subscriptions were 3G connections (GSMA Intelligence, 2014).

### ***Indonesia***

Internet penetration is expected to rise significantly in the years to come as technology becomes more affordable. Social media are normally used for sharing and bonding (Thia, 2011). Indonesia has the 4th-highest number of Twitter users worldwide. As of January 2011, there were more than 4 million Twitter accounts established by Indonesian users. Almost 20.8% of online users visited Twitter.com in June 2010 (Comscore, 2010). Currently, there are 44 million Facebook users, which makes it number 4 in the ranking of all Facebook statistics by country. Facebook penetration was 18.21% of the population and 147.45% of Internet users (Socialbakers, 2012). In 2014, the population of 251,160,124 was 51% in urban and 49% rural. There was 29% Internet penetration with 25% active Facebook users, and 112% mobile subscription penetration. The average time users spent on the Internet each day through a desktop or laptop was 5 hours 27 minutes. There was 14% mobile internet penetration and the average time users spent on the Internet daily was 2 hours 30 minutes (GlobalWebIndex; 2014). Social media penetration was 15% of the population, with 2 hours 54 minutes per day on average spent on social media. Seventy-four per cent of mobile users used social media apps on their phone and 32% used location based facilities (GlobalWebIndex, 2014).

### ***Lao PDR***

In 2014, the population of 6,695,166 was 34% urban and 66% rural. Internet penetration of 1% included 6% active Facebook users, and 97% mobile subscriptions. Ninety eight percent of mobile subscriptions were pre-paid, and 2% post-paid, and 11% were 3G connections (GSMA Intelligence, 2014). There were 54,000 active mobile broadband subscriptions, or 0.8% of the total population. The 360,000 active social media users accessing social media on mobile devices were a 5.4% penetration of the mobile social sector (US Census Bureau, 2014; InternetWorldStats, 2014; Facebook, 2014; ITU, 2014).

### ***Malaysia***

Malaysia is stable and the highest ranked economy in developing Asia. Business usage is strong, as firms invest to adopt new technologies and strive

to become increasingly innovative. In 2014, the population of 29,628,392 was 73% urban and 27% rural. There was 65% Internet penetration with 53% active Facebook users, and 139% mobile subscriptions. Internet users spent on average 5 hours 36 minutes using the Internet each day through a desktop or laptop. Mobile Internet penetration was 58% and mobile Internet users spent on average 3 hours 3 minutes per day using mobile Internet (GlobalWebIndex; 2014). Social media penetration was 64% of the population and users spent on average 3 hours and 17 minutes on social media. Fifty eight per cent of mobile users used social media apps on their phone and 28% location based facilities (GlobalWebIndex, 2014).

### ***Myanmar***

In 2014, the population of 55,167,330 was 33% urban and 67% rural. Internet penetration was 1% with 2% active Facebook users, and a 10% mobile subscription penetration. Ninety-nine percent of mobile subscriptions were pre-paid, 1% post-paid, and 14% were 3G connections (GSMA Intelligence, 2014). There was no information on the number of active mobile broadband users. There were 1.1M active social media users accessing social media on mobile devices or a 2.0% penetration of the mobile social sector (US Census Bureau, 2014; InternetWorldStats, 2014; Facebook, 2014; ITU, 2014).

### ***Philippines***

The Philippines improved the most in ICT readiness. In 2014, the population of 105,720,644 was 49% urban and 51% rural. Internet penetration was 36% with 32% active Facebook users, and a 101% mobile subscription penetration. Internet users spent on average 6 hours 12 minutes per day on the Internet through a desktop or laptop. Mobile Internet penetration was 31% and users spent on average 2 hours 48 minutes per day on mobile Internet (GlobalWebIndex; 2014). Social media penetration was 35% of the population with an average 4 hours and 1 minute per day spent by users. Social media apps were used by 62% on their phones while 29% used location based facilities (GlobalWebIndex, 2014). The role of ICTs in fostering innovation by creating new products and services ranked 42nd and the organizational model ranking at 28th was confirmed, contributing to this promising result.

### ***Singapore***

Singapore implemented a 10-year Master Plan for ICT development, namely the Intelligent Nation 2015 (iN2015). The vision of iN2015 extends the city-state to enable innovation in all economic sectors and society, integration in filling the gaps between communities, government and businesses, and, finally internationalisation to gain access to the world's resources (iN2015, 2006). As a city-state, the total population was 5,460,302 with 100% living

in an urban area with 73% Internet penetration and 59% active Facebook users. There were 148% active mobile phones. Users spent on average 5 hours and 16 minutes per day using the Internet through a desktop or laptop. There was a 64% mobile Internet penetration and users spent an average of 1 hour and 57 minutes per day using mobile Internet (GlobalWebIndex; 2014). Seventy percent of the population used social media, spending on average 2 hours and 10 minutes per day per user, with 49% using social media apps on their phone and 18% using location based facilities (GlobalWebIndex, 2014).

### ***Thailand***

Thailand, similar to most other ASEAN members, improved its performance this year (2015). In 2014, the population of 67,448,120 was 34% urban and 66% rural. There was a 35% Internet penetration with 36% active Facebook users, and 125% mobile subscriptions. Users spent on average 5 hours and 7 minutes per day on the Internet through a desktop or laptop. There was a 24% mobile Internet penetration and users spent on average 3 hours and 4 minutes per day on mobile Internet (GlobalWebIndex; 2014). Twenty-five percent of the population used social media an average of 3 hours 39 minutes per day, with 50% of mobile users using social media apps on their phone and 36% using location based facilities (GlobalWebIndex, 2014). Individual use of ICT still lags behind, yet it showed a significant improvement, with a good penetration of mobile phones and use of virtual social networks, comparable to advanced economies.

### ***Vietnam***

With a stable performance, Vietnam has marginally improved its ICT score. In 2014, the population of 92,477,857 was 31% urban and 69% rural. Internet penetration was 39% with 22% active Facebook users, and a 145% mobile subscription penetration. Users spent on average of 4 hours 37 minutes per day on the Internet through a desktop or laptop, and of the 34% mobile Internet penetration, users spent an average of 1 hour 43 minutes per day using mobile Internet (GlobalWebIndex; 2014). Thirty-eight per cent of the population used the social media on average 2 hours 3 minutes per day, with 58% of mobile users using social media apps on their phones and 25% using location based facilities (GlobalWebIndex, 2014). The use of ICT by individuals, businesses, and government remained stable, with little progress registered since the last assessment.

### ***Big Data & Open Government Data***

Big data becomes popular terms in many sectors, especially business organization. Due to its benefits, AEC needs to consider the emerging big data management, analytics, and technologies into their strategic plan for the member countries. Big data is high volume, velocity and variety information

assets that demand cost-effective, innovative forms of information processing for enhanced insight and decision-making (Laney, 2012). Big data sources can be created by people or generated by machines like sensors gathering climate information, satellite images, GPS signals, digital pictures and videos, and transaction records. The growth in big data is not only because a growing number of smartphone users, but also triggered by other smart mobile devices or pervasive computing abilities that is multiplying quickly (Anshari, Alas, Guan, 2015a). For instance, smart meters collect and transmit real-time data on energy usage (OECD, 2012a), and smart automobiles are able to transmit real-time data on the state of the car's components and environment (OECD, 2012b). Many of these smart mobile devices are based on sensor or actuators that sense and are able to interact with their users over mobile networks namely pervasive computing. Pervasive computing exchanges data and interacts with people or computers and other smart devices. More than 30 million interconnected sensors through pervasive computing are now deployed worldwide, in areas such as security, health care, the environment, transport systems or energy control systems, and their numbers are growing by around 30% a year (MGI, 2011). From the whole data digital universe (more than 13,000 Exabytes), it is predicted there will be one third having big data value if it is analysed. Not all data is useful for big data analytics, however, some data types are important for analysis, such as a surveillance camera, embedded device, pervasive computing, social media, consumer images (IDC, 2012).

### ***Open Government Data (OGD)***

One of the most important sources of big data is the Open Government Data (OGD). OGD initiative in ASEAN member countries needs highly consideration in achieving the goal of the AEC 2015. When the society becomes relying on internet, social networks, and mobile technology, then OGD will accelerate the impact of big data for economic growth in the region. Open Knowledge Foundation defines open data includes any type of data that is free to use, re-use and redistribute without any legal, technological or social restrictions (OKFN, 2013). OGD proactively publishes real time data to be used by the public for a tasking, triggering new ideas of business initiative, and improve decision making for corporations and SMEs. Why it is OGD? There is an ongoing paradigm shift on the issue of government data from the perspective of data as being (secret) assets or proprietary of the government to the paradigm that the government's data as *public goods* that will provide more benefits when they are shared to the public *in real time* so that people gains value from the extracted data. After the financial crisis in 2008, OGD was considered a way to create value from data which can be freely used, reused and distributed by anyone where it gives more value, influence, and more impact when it is shared with the public to the more open

environment (Ritter, 2014). In some extents, open data contributes to the disaster prevention, rapid response, and improve communication between government, universities, business communities, and citizens using OGD platform. There are many benefits from OGD such as transparency and accountability by government been doing, making information available in real time to the public, and improve public services and the ability to provide input and feedback to the public policy delivery process. From perspective people in the business, OGD has been able to boost tremendous economic growth by accelerating business to take a quick decision making since OGD shares a real time data to the public. There are some identified government data includes in OGD initiatives like public services data, research development and innovation, statistics data, socioeconomic indicators, weather and environment data, healthcare monitoring, culture and exhibitions. The value of OGD as part of the big data source will definitely play an important role in driving the success of AEC.

## **METHODOLOGY**

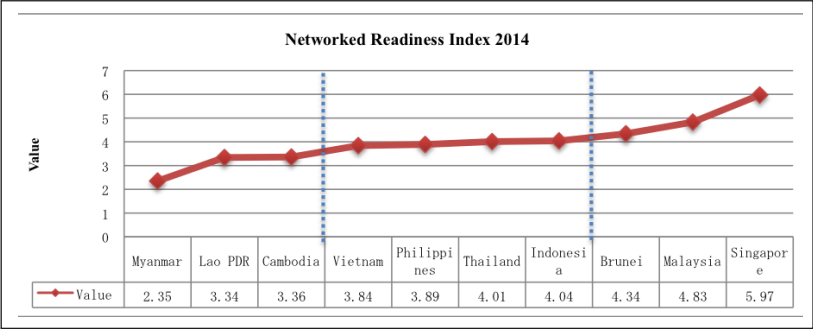
This study builds on recent reviews of ICT status in ASEAN countries. Searches of Google Scholar and Scopus indexing journals were conducted using keywords 'ICT AND ASEAN, ICT Brunei Darussalam or Cambodia, Indonesia or Laos or Malaysia, or Myanmar, or Philippines, or Singapore, or Thailand and Viet Nam'. We chose only English-language articles published in peer-reviewed journals. After removing duplicates and articles beyond the scope of this study, we selected 50 articles for review to extract the ICT issues in an ASEAN context. We employed a thematic analysis of discussions that most importantly linked papers and articles. We extracted ideas and then applied them in reviewing ICT and the ASEAN environment. We developed the analysis into the proposed model based on the strategic thrust of ICT.

## **DISCUSSION**

### ***4.1 Infrastructure Development***

To measure infrastructure development in the ASEAN countries, we used data from the Networked Readiness Index (NRI) of 2014, which was taken in 2013. The ASEAN countries improved their overall scores and the majority also made progress in their rankings, although some continued to be reside at the lower end such as Cambodia (108<sup>th</sup>), the Lao PDR (109<sup>th</sup>), and Myanmar (146<sup>th</sup>) (Bilbao et al, 2014). The World Economic Forum and INSEAD produced the Networked Readiness Index (NRI) which

measures performance in terms of ICT readiness including excellent digital infrastructures, robust innovation systems and universal Internet use. Some features of the NRI are accessibility and usage and it includes the affordability of ICT infrastructures, digital resources, software and Internet literacy. In addition, it covers how using ICT can benefit individuals, communities, businesses, and governments (Bilbao-Osorio, Dutta, & Lanvin, 2014).



**Figure 1: NRI 2014 - Source: Authors’ Compilation**

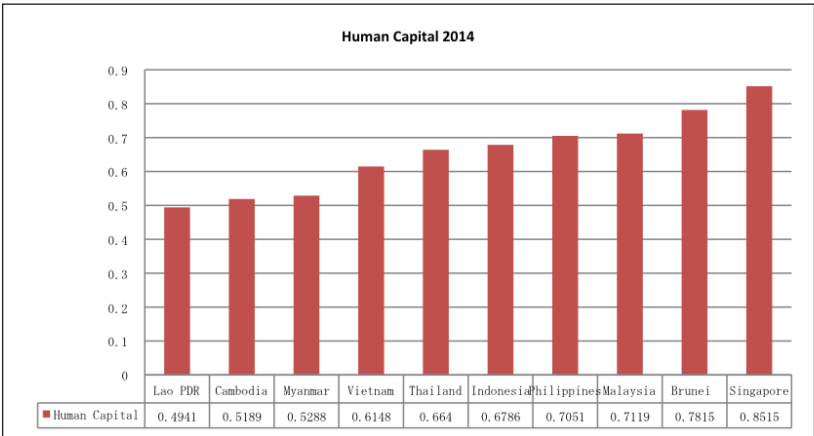
Figure 1 shows that Singapore performs very well and ranks second in the world for the most outstanding digital ICT infrastructure that is very supportive for business and provides the best online service in the world. The NRI has provided governments and business makers with a useful conceptual framework to evaluate the impact of ICT at an ASEAN as well as a global level and to benchmark the ICT readiness and usage of their economies (Bilbao et al., 2014). In summary, there are three categories of infrastructure readiness as shown Figure 3. The upper level index includes Brunei, Malaysia, and Singapore. The middle level includes Vietnam, Philippines, Thailand and Indonesia. The lower level includes Myanmar, Laos, and Cambodia.

**4.2 Human Capital Development**

Educational disparity is another contributing factor to the digital divide. A strong correlation exists between education, literacy, and the ability to use ICT. Education is the most important determinant of the intensity of Internet use (UN, 2014). The ASEAN ICT initiatives should encourage the skills of citizens seeking information and services. People in ASEAN are expected to understand new roles in seeking information, understanding basic information, and making decisions for themselves. People with appropriate ICT literacy levels have abilities that include e-learning or mobile learning activities, e-government for public service and administration, and e-business for promotion and transactions. In addition, ICT literacy indicates the ability



to perform online activities, and to enhance skills in analysis and decision-making, and act on preserving morality, responsibility, value, and identity as an ASEAN member.

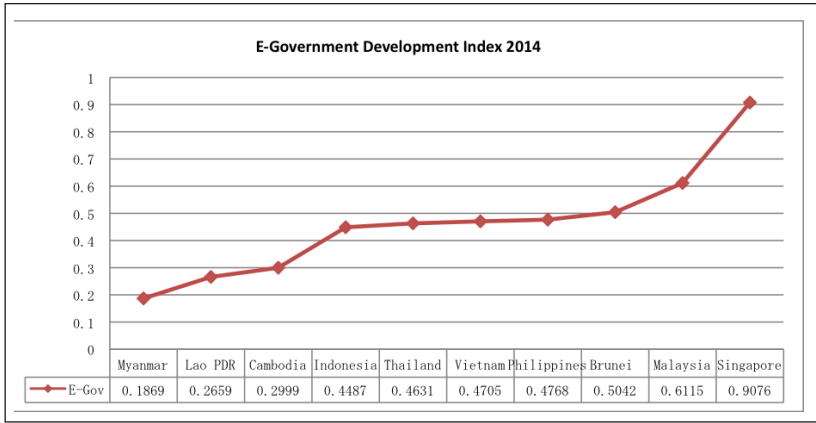


**Figure 2: Human Capital Index 2014 - Source: Authors’ Compilation**

Therefore, it is important to realize that the spectrum of skills and literacy are not narrowed to the technical aspect of ICT but include the whole dimension of social development. We used the Human Capital Index to be part of measuring the ICT readiness of ASEAN countries (Figure 2).

### 4.3 *People Empowerment & Engagement*

Measuring ICT readiness in the ASEAN countries should consider citizen empowerment, participation and engagement. Effective e-government service requires a paradigm shift from a traditional perspective where citizens are perceived as recipients of services to being partners in the process of administration and public service decision making which are related to the public interest. Empowerment in E-Government emerges to achieve enduring partnerships with citizens in administration and public service.

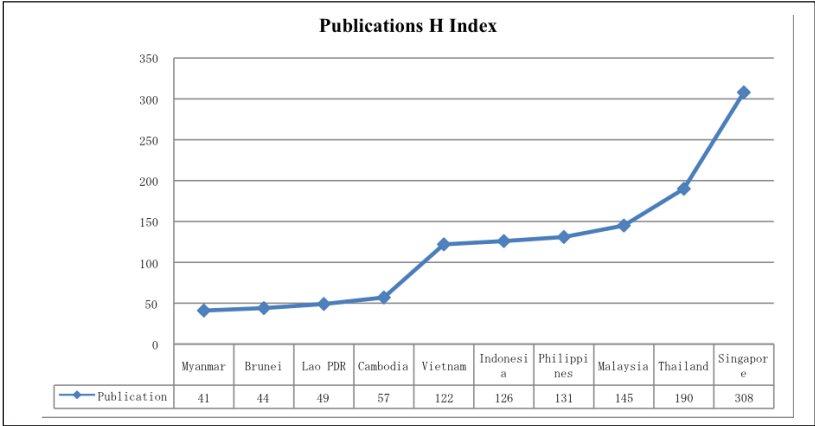


**Figure 3: Human E-Government Index 2014 - Source: UN E-Government, 2014**

Many governments attempt to empower and engage their citizens and encourage them to participate through ICT mobile devices, because the number of people in ASEAN who own mobile smartphones is growing fast. With mobile devices, people can access e-government systems anywhere at any time. Empowerment and participation of citizens should be incorporated in e-government processes to support good governance. Therefore, we used the E-Government Development Index (EDI) released by UN for the year 2014. As shown in Figure 3, Singapore leads in the EDI followed by Malaysia and Brunei. Philippines, Vietnam, Thailand, and Indonesia stand at the moderate level. Cambodia, Laos and Myanmar need more time to implement E-Government initiatives.

#### **4.4 Innovation**

Innovation deals with the contribution to knowledge on a per country basis. Contribution to knowledge can be measured by considering the number of publications in refereed journals. To simplify the ranking, we collected the H index publications data per country from the Scopus indexing website. To reduce the gap, AIM may start with initiatives to create greater access for ICT, provide access for the business sectors, education and knowledge resources, government services, and community, across the region. Furthermore, the ASEAN University Network (AUN) should encourage the formation of research communities and collaboration between ASEAN universities and research centres.

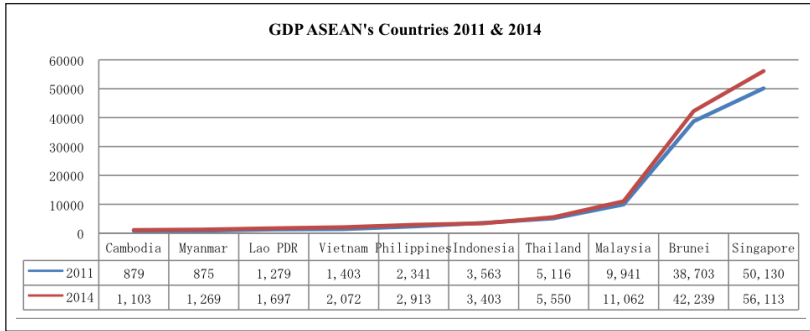


**Figure 4: Publication H Index 2014 - Source: Scopus, 2014**

Figure 4 shows the distribution of the rate of the contribution of knowledge per country based on the H index level. The figure measures the country's knowledge sharing capacity as well as its overall capacity to innovate, and the production of novel entities measured by the number of Patent Cooperation Treaty (PCT) patent applications and publications. The business-use pillar captures the extent of a country's Internet use as well as the efforts of firms in an economy to integrate ICT into an internal, technology-savvy, innovation-conducive environment that generates productivity gains. It also measures the availability of staff training, which indicates the extent to which management and employees are capable of identifying and developing innovations.

#### **4.5 Economic Transformation**

Economic transformation is the aim of C2C integration and collaboration. It is the outcome from AIM 2015 that ICT should contribute to economic development and transformation in ASEAN. As discussed before, economic transformation refers to the knowledge-based economy, which depends on the ICT readiness of each community. Therefore, strengthening C2C integration and collaboration can be supported by strengthening ICT development in each ASEAN country. Figure 7 explains the quantitative measure of economic progress of ASEAN members through a GDP indicator comparing 2011 and 2014. GDP is measured by adding total consumer, government and business spending, and the value of net exports. GDP is often used as a way to measure a country's standard of living. We use GDP to find the correlation between the strength of an economy through GDP and other factors such as ICT infrastructure development and the Human Capital Index.



**Figure 5: GDP ASEAN Countries 2011 & 2014 (Economy Watch, 2015)**

Figure 5 shows that Singapore and Brunei have a greater GDP rate than other ASEAN countries. In the knowledge economy, ICT can contribute to accelerate growth of GDP and vice versa, whereas GDP may support ICT development to make the business process more effective and efficient.

## 1.6 C2C Integration and Collaboration

We summarize the findings in Table 1 below. The scope of ICT readiness is divided into ICT infrastructure using the Network Readiness Index (NRI), people literacy using the Human Capital Index (HCI), people empowerment and engagement using the E-Government Development Index (EDI), innovation using the H-index publication, and economic transformation using the Gross Domestic Product (GDP). Each number should be interpreted as the level of readiness for each item. From the standpoint of each country, we sum the individual scores to obtain the total score. We also provide recommendations for each country based on the weakest or strongest points.

**Table 1: The Networked Readiness Index 2014 (The World Economic Forum, 2014)**  
**DEVASIA = Developing Asia; ADV = Advanced Economies**

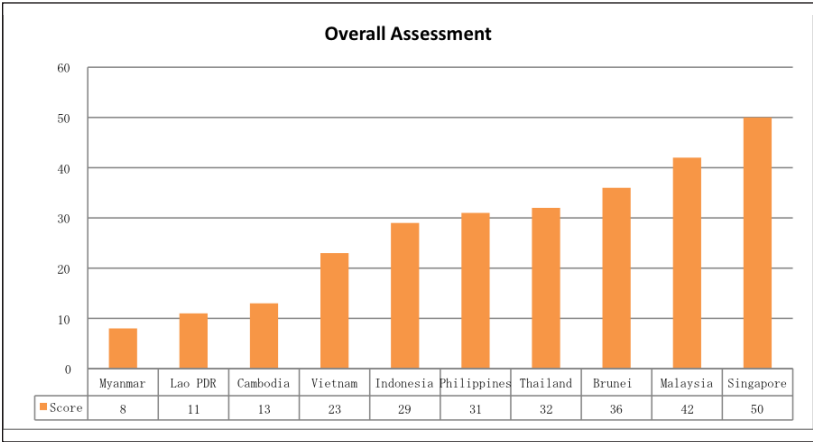
Country	Infrastructure	Human Capital	Engagement	Innovation	Economic	Recommendation
Brunei Score: 36/50	8	9	8	2	9	<ul style="list-style-type: none"> <li>Human capital high but innovation low, very few universities (4 only) and research centres</li> <li>Economic transformation should consider using more from infrastructure &amp; human capital</li> </ul>

Country	Infrastructure	Human Capital	Engagement	Innovation	Economic	Recommendation
Cambodia Score: 13/50	3	2	3	4	1	<ul style="list-style-type: none"> <li>• Has potential in innovation that must be encouraged and improved further through human capital and ICT infrastructure</li> <li>• Human capital and ICT infrastructure should be made the priority for development to contribute economic transformation</li> </ul>
Indonesia Score: 29/50	7	6	4	6	6	<ul style="list-style-type: none"> <li>• With the large population and many universities in Indonesia, the government should seriously consider developing innovation and human capital</li> <li>• Though the infrastructure of ICT has improved (cheap Internet access), government initiatives should facilitate systems such as the e-government initiative in all sectors</li> </ul>
Lao PDR Score: 11/50	2	1	2	3	3	<ul style="list-style-type: none"> <li>• The biggest challenge is developing human capital</li> <li>• Empowerment and engagement should follow the government investing more in ICT infrastructure</li> </ul>
Malaysia Score: 42/50	9	8	9	8	8	<ul style="list-style-type: none"> <li>• Human capital is in a good position and it should be improved further</li> <li>• Economic development should improve if innovation and human capital are facilitated further</li> </ul>

Country	Infrastructure	Human Capital	Engagement	Innovation	Economic	Recommendation
Myanmar Score: 8/50	1	3	1	1	2	<ul style="list-style-type: none"> <li>• It should consider investing more in ICT infrastructure to reduce the digital divide within the country</li> <li>• Has potential in human capital but it must have support systems</li> </ul>
Philippines Score: 31/50	5	7	7	7	5	<ul style="list-style-type: none"> <li>• Has a moderate level of ICT infrastructure development</li> <li>• Economic transformation should improve when the government invests more in ICT infrastructure</li> </ul>
Singapore Score: 50/50	10	10	10	10	10	<ul style="list-style-type: none"> <li>• Singapore is considered a developed country where the challenge is to maintain development and encourage continuous innovation</li> <li>• The other challenge is to ensure community does not change in terms of ethics and principles resulting from the advancement of ICT</li> </ul>
Thailand Score: 32/50	6	5	5	9	7	<ul style="list-style-type: none"> <li>• Human capital, ICT system support (e-Govt) and ICT infrastructure need more attention</li> <li>• It has potential in innovation that should support economic transformation if the three factors above are improved</li> </ul>
Vietnam Score: 23/50	4	4	6	5	4	<ul style="list-style-type: none"> <li>• The country has a moderate level of ICT development compared with other ASEAN countries</li> <li>• The government should consider improving infrastructure and human capital, which leads to innovation for better economic transformation</li> </ul>

**Table 4: Scoring of ICT Readiness and Recommendation - Source: Authors' Compilation**

The biggest challenge in the ASEAN ICT initiative is the digital gap between ASEAN members as seen in Figure 6. It needs collective effort from all the ASEAN members to establish synergies so that C2C integration and collaboration can be achieved.

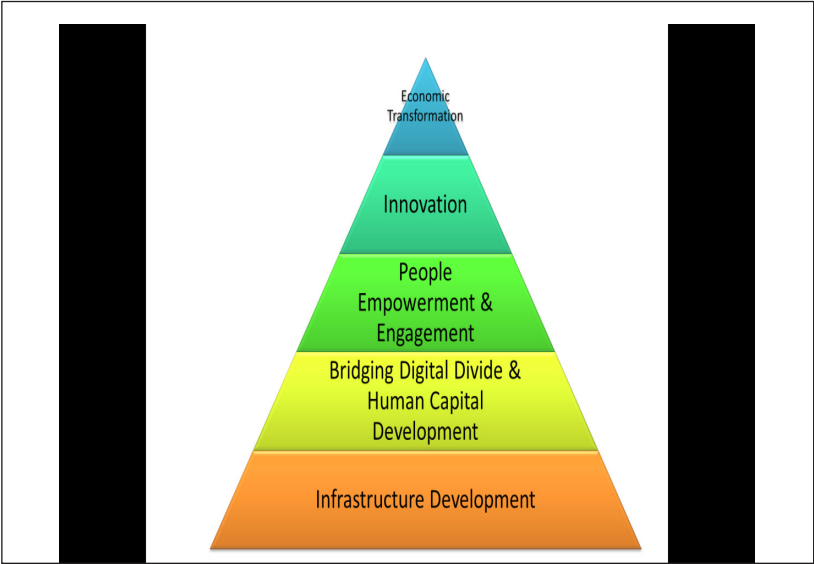


**Figure 6: Overall Assessment of ICT Readiness - Source: Authors' Compilation**

## I. ICT Readiness & Big Data Challenges

There are six strategic realities in the ASEAN ICT Masterplan 2015. Because the ICT readiness of each member country differs at various levels, we propose a framework for ICT development in the ASEAN context based on AIM 2015 (see Figure 7). The aim of the framework is to help countries understand their recent status and condition, secondly to assist them to set their respective priorities for ICT initiatives, and finally to set a future direction to eliminate the digital divide and create ICT as a tool for economic transformation. We propose the framework in the form of a pyramid in which each level should be fulfilled before moving to the next level. At the bottom, the ICT initiative should start from developing the ICT infrastructure. We believe that C2C integration and collaboration are difficult to achieve without the support of sufficient ICT infrastructure that is reliable and affordable for the community in the respective country. The second level is development of human capital. Improving human capital will automatically reduce the digital divide within a country and the region. Development of human capital should be at the national level to ensure the ICT literacy of citizens is standardized with other member countries. Thirdly, people empowerment and engagement can only be achieved if the other two foundations have been accomplished, then we should achieve empowerment and engagement. The government plays an important role in people

empowerment and engagement to enhance the well-being of their citizens, in the effort they make to implement their vision for ICT development, and in the number of government services, they provide online.



**Figure 7: Phase of ICT Initiatives in ASEAN**

Fourthly, innovation is about the competitiveness of the community through ICT. Innovation is a competitive advantage and added value that governments place on carrying out government support to encourage citizens to use ICT and human capital as a factor in the competitiveness of the country. Finally, economic transformation is the goal for the ICT initiative in ASEAN, where ICT can contribute to support a knowledge economy and strengthen ASEAN economic competitiveness.

**Big Data Challenges in AEC**

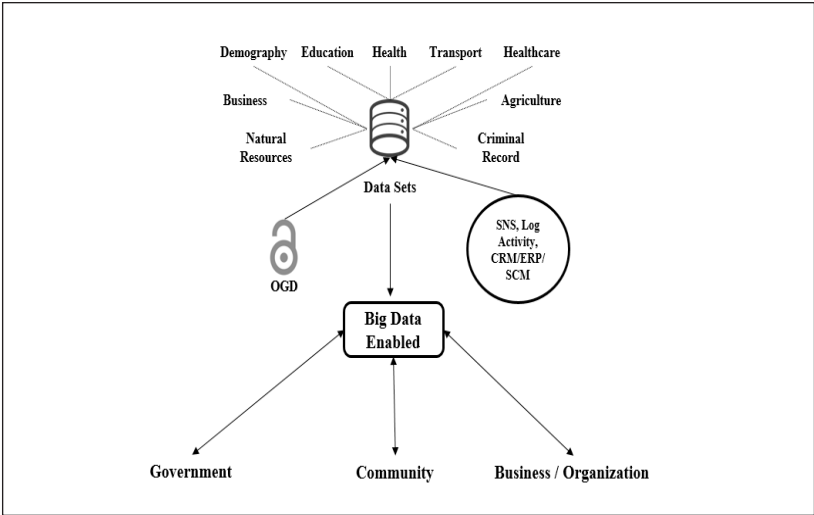
Goods and services are expected to move more easily across borders because of the reduction in transaction time, costs and technical barriers to trade, benefiting business to business (B2B) activities, enhancing trade facilitation and removing tariffs within ASEAN through commitment to a Common Effective Preferential Tariff (CEPT) (ASEAN, 2014). At the same time, the digital universe will grow to eight zettabytes by 2015 (IDC, 2012) due to data exchange of individual, community, business, and government. Therefore, big data will have a broad impact socially and economically to AEC. ASEAN needs to have a new strategy and business model to exploit



the value of big data by engaging all stakeholders such as governments, corporations, SMEs, institutions, and individual on board. There are some challenges for big data initiatives in AEC.

*Big Data Awareness*

The first challenge is ASEAN’s leaders acknowledging the potential and promise of big data. The ASEAN leaders should realize the value and impact of big data in realizing ASEAN Economic Community 2015. In the simplest scenario, people are producing a huge amount of data every day. However, they are very hard to realize the value of their own data produced to the public. When they are given the tools and mechanism to store, retrieve, explore, and visualize their own data. They can comprehend of the value of data for better decisions such as understanding their own habits, forecasting expenditures, managing their finances effectively. Similarly, it is applied in the context of business and ASEAN that is a vast quantity of data produced can be managed, retrieved, analysed to solve common problems in a region like disaster prevention and response, Centre for Diseases Control and Preventions, regional business trends and forecast, consumers’ demand & supply. Leaders in ASEAN must take a necessary step to ensure their country is ‘*Big Data Enables*’.



**Figure 8: Big Data Enabled Source: Authors’ Compilation (2015)**

For instance, healthcare is one of the major spending any country in the world (Anshari, et al, 2013a, b). Figure 8 shows the model of big data enabled on, how big data could potentially reduce the budget spending in ASEAN countries. Healthcare centers through OGD in each country release real time

data, how many patients suffer from specific diseases. It gives information on the proportion and forecasting people going to see a doctor. From general public, they generated data from online conversations among people (SNS), interactions between people and systems (e-health & mHealth), and sensor-enabled machinery (Almunawar & Anshari, 2014a). Lab (Doctor) in each district will analyze and send sample results' subset of their patients to central Healthcare. Data from various sources is retrievable and used by people. Information on disease and prevention are released to public.

### *Business Process with Big Data Enabled*

Secondly, ASEAN community is challenged to come up with the initiative to provide Enterprise Resources (ER) solutions (ERP, SCM, and CRM) with the capability of 'Big Data Enabled'. Big data is in early stage in the cycle that needs to address technical and infrastructure challenges, and it will expand to non-technical audience. It will be the next generation of ER solutions with the new features of feature of big data enabled. Therefore, universities and research centers across ASEAN should be encouraged to extend their research scope to come up with the new ER business solution with big data enabled. We predict that there will be a new evolution of the ER business solution introduced to the market soon that will embed big data enabled in their ER solution. For instance, a new generation of CRM will be empowered with mining a real time all of customer data, the interactions of the sales force with them, and combines the results with external datasets on industry and news, social networks of the customers, geographic and demographic patterns, to determine which forecasts are the most likely to make a transaction in the near future. We also will witness more Web technology adopts big data enabled that can detect patterns of users based on their clicks, visiting a web page, and even social media conversation. In those scenarios, the third challenges for AEC is developing 'Big Data Hub' for each country.

### *Big Data Hub*

Within the implementation level, each member country should develop a big data hub that acts as a proxy for ASEAN big data integration. This will enable data sharing any clusters of data sources such as social networks, weather update, business trends, OGD. People across the region will rely on big data hub to get specific information from various sources in single and standardize platform. Data hub in each country must be integrated and managed into single ASEAN entity. It needs to develop a big data hub for each country where the hubs will be connected as a single networked entity. For instance, business from Thailand can access big data hub to understand customers' trends and understanding of customer behavior in Indonesia, which often provides opportunities for commerce due to accurate decision,

create better customer service and retention plans that are aligned with a customer's value to the ASEAN community. Furthermore, big data hub can escalate new and innovative products or services across ASEAN that enables advanced analytics leading to better business outcomes. When each member country has implemented big data enabled, then each big data center will create a big data hub for the purpose of AEC. We can see the benefits and potential beneath. For instance, in the case of disease prevention, how much saving can be made when all research centers and universities in ASEAN are able to use the big data hub to combat the specific disease problem in the region? It will prevent repetitive work of research because the progress is shared in the big data hub. Furthermore, it will make the process of efficient, effective, and quick.

### *Big Data Manpower*

The era of big data is coming to bring new opportunities for discovering new values. In the big data era, reliable system of big data analysis is critical to provide reliable value. Demand for big data skills will significantly improve until 2020. There are no specific data were shared for ASEAN, however the demand is expected to grow by 160 per cent in the United Kingdom alone (de Waal-Montgomery, 2015). One type of analysis is the social media analytics. To illustrate above statement: Starbucks has used social media, such as blogs, twitter and niche forum, to analyze the costumers' on the new product being introduced. This is much quicker as compared to using a periodical method, waiting for the sale's reports to come in and evaluate its performances.

### *Big Data and Big Gap*

Finally, the biggest challenge in gaining value for big data in regard to AEC is the digital gap between ASEAN members as seen in Table 2. It needs collective effort from all the ASEAN members to establish synergies so that integration and collaboration can be achieved. The gap resides in the domain of infrastructure and human capital readiness. In terms of infrastructure readiness, AEC could maximize the efforts to the cloud computing since big data reside increasingly in a computing cloud, above vast hardware, data centers linked to billions of distributed devices, all governed by increasingly intelligent software. In fact, by 2020, nearly cloud computing providers will manage 40% of the information in the digital universe (IDC, 2012). Cloud computing accelerates the potential for flexibility, efficiencies for managing data and scalable analytic solutions (Anshari, Alas, & Guan, 2015b). The big data hub can be developed through cloud computing. In addition, the availability of high-speed broadband access, especially mobile broadband access, has significantly facilitated the collection, transport and use of data in the economy (Almunawar & Anshari, 2014). It is estimated that households across the ASEAN connected with smart devices. Mobile networks are

best geared to geographically mobile and dispersed AEC who want to be connected everywhere and anytime. However, a major barrier for the people in rural areas is the lack of access when a few mobile network providers have been chosen that affects to less competitive broadband services and prices. The solution should be for *government policy and regulations* to allow mobile network providers in ASEAN countries to share the services for the community within ASEAN.

#### *Legal Aspects, Privacy and Security*

Ensure legal frameworks and policies are big data friendly. When a value and volume of data increases, so does the risk of data breaches. In fact, the major crime problem for global companies has recently been losses of intangible assets, such as electronic data, which is higher as compared to tangible assets (Masters & Menn, 2010; Kroll, 2012). As data, usage requires information systems and networks to be more organizations that are open, are encouraged to adjust their security policy to the more dynamic environment in which data are widely exchanged and used (OECD, 2013).

## CONCLUSION

ICT has become pervasive and transforming in the multi sector relationships across ASEAN countries. By looking into the data analysis above, some ASEAN countries are very resilient and great adopters of the Internet and mobile technology, which promises further innovation in terms of Internet services. However, there are gaps in terms of ICT initiative amongst the members, but opportunities for collaboration, sharing knowledge and ICT infrastructures by those who are already strong in ICT initiatives with those developing, thus reducing the impact of the digital divide. Furthermore, AIM 2015 will contribute to economic transformation, but further investment in infrastructure, digital content, e-government systems, human capital, and innovation are needed to ease access and foster even better economic and social impacts.

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# **The Application of Good Corporate Governance in Adopting Disclosure Policy and Requirements**

Rami M.A. Sweity & Asmah Laili Yeon\*

*School of Law*

*Universiti Utara Malaysia*

\*Corresponding author; email: Email: asmah485@uum.edu.my

## **ABSTRACT**

*The downfall of corporate structure are based on many reasons including inability to control board members, poor effective control internally, bad managerial decisions and wrong information disclosing to shareholders, investors as well as stakeholders. Moreover poor corporate governance, lack of transparency and inadequate financial reporting system has been reported as the causes of the East Asian financial crisis in 1997. For that reason this paper intent to analyse and discuss the application of good corporate governance amongst Malaysian Public Listed Companies (PLCs) in adopting disclosure policy and requirements. This is a qualitative research involving 38 consumer products of PLCs (i.e. representing 30% out of 126 companies). These companies were chosen as unit analysis using a random probability sampling technique. Content analysis was employed to investigate the practices of good corporate governance amongst consumer products companies listed in Bursa Malaysia. All relevant data/information of PLCs were gathered from the Annual Report of the 38 companies from the period of 2013-2015. The findings of this research show that the PLCs had applied the principle of good governance with adherence to disclosure policy and requirements as required by the Malaysian Code of Corporate Governance and Bursa Malaysia Listing Requirements.*

**Keywords:** *Corporate governance, public listed companies, good governance, disclosure policy*

## **INTRODUCTION**

Corporate governance (CG) has become a major concern especially since the advent of Enron Scandal in the United States (Kim 2007). In Asia specifically, the issue of CG took off seriously after the Asian financial crisis in 1997 which impetus for rigorous efforts for CG reforms, by both government and industry in identifying weaknesses highlighted by the crisis to regain investors' confidence in the Malaysian capital market (Nam et al. 2004). This action encouraged the government of Malaysia to see the need to

keep the standard of CG in all firms so as to regain and re-secure investors' interest and confidence (Abdul Rahman, 2007). Therefore, the paper intends to examine and discuss the application of good corporate governance amongst Malaysian Public Listed Companies in adopting disclosure policy and requirements as required by the Bursa Malaysia Listing Requirements (BMLR) and Malaysian Code of Corporate Governance (MCCG).

## **LITERATURE REVIEW**

### **Overview of Corporate Governance**

Basically, the terms CG is explained as a systematic process through which corporate organizations are supervised, directed, controlled and ensure that the directors of the organizations are accountable to the shareholders. The CG therefore is a complete guide to the legal and regulatory structure which governs the actions, internal policies, and controls that are established by the companies themselves. The primary aim of CG is to ensure that members of the board as well as management behave in the best interest of entire shareholders (Cadbury, 1992).

On the other hand, the term CG has also been subjected to some considerable debate (Ryan, et al. 2000). For instance, various studies in their argument seem to conclude that the term CG can be viewed from different perspectives as no definite or specific definition can be given (Solomon, Jill. 2011), despite that several authors have considered specific definitions of CG (Donaldson, et al 1995). According to Cornelius (2005) CG is considered as the supervision of the accountability of company directors to deliver monitoring for the objectives and policies of the corporation as well as enhance their enforcement.

In 2004 Organization for Economic Cooperation and Development (OECD) updates its definitions of CG where it defines it as CG involves a set of relationships between a firm's board of directors, its management, its shareholders as well as other relevant stakeholders. CG provides a mechanism in which organizational goals are designed and pursued in order to achieve performance through sound control system. A good CG should provide appropriate incentives and motivations so that the members of the board as well as the management can pursue which correspond with the attention of both the company as well as shareholders. It is therefore essential to say that when CG is effective in an organization or in an economy, the degree of confidence of investors will increase and the market will function effectively (OECD, 2004).

From various definitions considered above, CG refers to a set of *legal and non-legal principles* and certain practices which affect the performance and control publicly quoted companies. In a broader sense, the effects of CG hinge on directors and board members of public companies as the allocation of risks and returns as it affects the activities which the firm engages which incorporate all the managers, stakeholders, employee creditors and the members of the communities at large (Basariah Salim, 2011).

### **Corporate Governance Development and Framework in Malaysia**

In Malaysia, efforts to improve CG practices of PLCs started as early as 1993 when the BMLR made appointment of audit committees mandatory. Good CG practices were further emphasized by the Securities Commission (SC) following the move from a merit-based to a disclosure-based regulatory regime in 1995 (Haniffa, 1999).

However, due to the financial crisis in 1997/1998, the government was forced to intervene through rescue packages and this prompted the government to establish High Level of Financial Committee (HLFC) on CG in March 1998. The committee comprising of senior representatives of the government, regulatory bodies, industry bodies and professional associations was set to the task of reviewing CG practices and recommending legal reforms to strengthen their effectiveness. Notable in these CG reforms efforts are the initiatives by the SC, the Companies Commission of Malaysia (CCM), the Malaysian Accounting Standards Board, the HLFC on CG, the Malaysian Institute of Corporate Governance, Bursa Malaysia (BM), the Malaysian Institute of Accountants, and the Minority Shareholders Watchdog Group (Hamid, Azmi Abd. 2008).

Towards better governance in Malaysia, efforts have been asserted long before the Asian countries faced the financial crisis in 1997. However, to ensure continuous effectiveness of the market, the Code on Merger and Takeovers were issued, and subsequently various practice notes were also put in place to ensure that the activities of corporate bodies in respect mergers and takeovers were effective (Cheah, 2010). In 1993 through the Securities Commission Act 1993 (SCA), the SC was vested with the power to investigate dealings in the stock market and to protect the investors from illegal acts of operators on the market. In addition, attention has been given and actions taken on the issues of the audit committee as well as independent directors. Moreover, in 1996 a code of ethics for directors was introduced in order to strengthen the marketplace. The content of the code was transparency principles, accountability, corporate social responsibility and integrity to ensure transactions in the market are well carried out. The main areas which the code covers include relationship with employees, shareholders,

customers and creditors, CG and social responsibilities to the environment (Hock, 2007).

Further in order to ensure that the Malaysian economy is enhanced and boosted, the Malaysian Minister of Finance on 24 March 1998 established the HLFC on CG. It started with a Committee that consists of parties and representatives from industry and government. The recognition that was given to Malaysian CG was significantly evidenced through the release of MCCG by the committee that was saddled with responsibilities in 2000. There were four basic report guiding principles and rules which include provisions on Board of Directors, remuneration of director, shareholders, audit as well as accountability. In 2012, the MCCG was revised in 2012 and as being specified in the MCCG 2012, it makes it compulsory for all companies to make appropriate disclosure in order to promote companies for better CG practices so as to protect the interest of shareholders. The code is also meant to strengthen the board structure and composition while the directors' roles are recognized and their fiduciary responsibilities.

**Table 1: The Eight Corporate Governance Principles (MCCG 2012)**

ITEM	THE MCCG PRINCIPLES
Principle 1	Establish clear roles and responsibilities
Principle 2	Strengthen composition
Principle 3	Reinforce independence
Principle 4	Foster commitment
Principle 5	Uphold integrity in financial reporting
Principle 6	Recognise and manage risks
Principle 7	Ensure timely and high quality disclosure
Principle 8	Strengthen relationship between company and shareholders

BM has adopted most of the recommendations of the MCCG 2000 in order to enhance the transparency of PLCs disclosure. The code was brought into full effect in January 2001 and simultaneously the BMLR was also amended. All listed firms with a financial year ending after 30<sup>th</sup> June 2001 onwards were required to include in their annual report - the statement of CG, a statement of internal control, composition of the board of directors, composition of audit committee, quorum of audit committee and any additional statements by the board of directors (MCCG, 2012).

The MCCG 2000 states the provisions relating to the board of directors as the first principle of MCCG 2000. It emphasizes on the role, composition and structure of the board of directors as the most crucial elements for effective CG mechanisms for Malaysian companies. The code recommends that firms

have a well-balanced and effective board to take the lead role in establishing best practice in CG and the code defines a well-balanced board as having a balance of executive directors and non-executive directors, including independent non-executive directors, to ensure effective decision making by the board with no domination from individual or small groups of individuals. Additionally, the code also requires that non-executive directors have the necessary skills and experience and be persons of calibre and credibility in order to bring independent judgment to the board (Hampel, 1998).

MCCG has also strongly recommended for the separation of responsibilities between the CEO and chairman although the BMLR does not put this as a criteria. Other areas where there has been strong emphasize from the MCCG is that all board of directors should maintain a sound internal control system, to address in their annual reports the principle and best practices relating to internal control such as to identify principal risks and ensuring the implementation of appropriate measures to address business risks (MCCG, 2001).

MCCG 2000 was revised on 2007 and the code mainly to strengthen the role of audit committee by requiring the committees to comprise fully of non-executive directors. In addition, all its members should be able to read, analyse and interpret financial statements so that they will be able to effectively discharge their functions. The key amendment to the code is aimed at strengthening the board of directors and audit committees and ensuring that board of directors and audit committees discharge their roles and responsibilities effectively (Hampel. 1998).

Further in order to boost the CG of PLCs in Malaysia, the BM called for all directors to undergo continuous training to enhance their capabilities in performing their responsibilities as directors as well as to influence corporate thinking on issues relating to CG (Zulkafli et al.2005). The programme aimed at enhancing the competency and professionalism of company directors and is a prerequisite to continued listing. Companies with a financial year-end of 31 December 2005 onwards were required to disclose the training attended by the directors in the annual report (Wan Hussin, et al. 2003).

## **RESEARCH METHODOLOGY**

This paper is based on findings of qualitative research and content analysis was employed to investigate the corporate disclosure practices amongst the consumer products companies listed in BM. It has been agreed by Krippendorff (2004) that it is an accepted method of textual investigation. There are 126 consumer products companies listed in BM, and only sample

of 38 companies (i.e. representing 30%) were chosen for unit analysis using a random probability sampling technique (Sekaran, 2010). In this technique, all the selected companies were identified and listed serially using excel software. All relevant data/information of PLCs were gathered from the Annual Report (AR) of the 38 companies from the period of 2013 -2015.

### RESEARCH FINDING AND DISCUSSION

The sample of the analysis involved 38 companies in consumer products. Table 2 shows the implementation of 12 items in corporate governance practices as required by the BMLR.

**Table 2: Implementation of corporate governance practices amongst PLCs**

Items Respondents	GCG	TCA	IPCG	IECD	DECG	ECGP	EATD	PICG	RDI	ADP	DPI	DT
R1	Yes	Yes	Yes	Yes	slightly yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R2	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R3	Yes	Yes	slightly yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R4	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Not reported	Yes	Yes
R5	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R6	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R7	Yes	Yes	Yes	slightly yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R8	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R9	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R10	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	slightly yes	Yes	Yes	Yes
R11	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R12	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R13	Yes	Not reported	Yes	Yes	Not reported	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R14	Yes	Yes	Yes	Yes	Yes	Not reported	Yes	Yes	Yes	Yes	Not reported	Yes
R15	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R16	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R17	Yes	Yes	Yes	Yes	Yes	Yes	Yes	slightly yes	Yes	Yes	Yes	Yes

Items Respondents	GCG	TCA	IPCG	IECD	DECG	ECGP	EATD	PICG	RDI	ADP	DPI	DT
R18	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R19	Yes	Yes	Yes	Yes	Not reported	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R20	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R21	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R22	Yes	Not reported	Yes	Yes	Not reported	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R23	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R24	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R25	Yes	Not reported	Yes	Yes	Yes	Not reported	Yes	Yes	Yes	Yes	Yes	Yes
R26	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	slightly yes
R27	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R28	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R29	Yes	Yes	Yes	Not reported	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R30	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R31	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Not reported	Yes	Yes
R32	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R33	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R34	Yes	Yes	Yes	Yes	Yes	slightly yes	Yes	Yes	Yes	Yes	Yes	Yes
R35	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R36	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	slightly yes	Yes
R37	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R38	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Indicators:

GCG : Good CG practice.

TCA : Taking Corrective Action for PLCs

IPCG : PLCs are in line with the principles of the MCCG

IECD : Develop and implement effective corporate disclosure policies.

DECG : PLCs disclose the extent to which it is complying with the CG

ECGP : Disclosure in PLCs attached much importance to enhancing CG practices.

EATD : PLCs should establish disclosure policies to ensure, accurate and timely disclosure.

PICG : Company's performance in implementing CG.

RDI	: The board responsible for disclosure of information through AR
ADP	: The board should ensure that the company has appropriate disclosure policies.
DPI	: Directors of PLCs should disclose personal interest to the company
DT	: Directors Training

According to the PLCs AR there are at least twelve items that indicates how the companies delivered their CG as indicated in Table 2 above.

a. Implementation of Good Corporate Governance (GCG)

All PLCs admitted that their companies had implemented good CG practice. It is stated in the AR of R26, *“The Board....recognises the importance of good corporate governance and is committed to maintain high standard of corporate governance”*. However, R111 recognized the standard of a CG by stating, *“Director of the view that the presence of good corporate governance is fundamental to the continued growth of the Group”*.

b. Taking corrective action for PLCs

Majority of the companies have taken corrective actions to upheld PLCs practices. This is contended by R68, *“...and ensure that appropriate action is taken on the recommendations of the internal audit function”*. Further it is also stated in the AR of R47 as *“...to allow for timely responses and corrective actions to be taken to mitigate risks”*. Only three companies did not report their corrective actions that they had taken may be because these companies did not have problems with the audit process.

c. Practice and conduct of PLCs are in line with the principles of the MCCG

It is shown that the practice and conduct of all PLCs are in line with the principle of the MCCG. As mentioned by R32, *“In line with the MCCG 2012....the Company outsourced its internal audit function to an independent professional firm to assess the adequacy and effectiveness of the Group’s governance”*. This is also similar to R3 where it had reiterated that *“the Board of Directors supports Malaysia Code of Corporate Governance (‘MCCG’) and is committed towards achieving full compliance with its principle”*.



d. Develop and implement effective corporate disclosure policies

The findings shows that majority of PLCs develop and implement effective corporate disclosure policies. This is admitted by R5, *“The Board affirms its overall responsibility for the effective governance, risk management and internal controls systems of the Group”*. Furthermore, R8 stated that, *“... the Group adopts the practice of comprehensive, timely, and continuing disclosures of information to its shareholders as well as to the general investing public”*.

Further majority of PLCs has disclosed the extent of complying with the CG, where R81 indicated that *“...the Company has applied the Principles of Corporate Governance and the extent of compliance with the Recommendations as set out in the Malaysian Code on Corporate Governance 2012 (“the Code”).”* Indeed, R66 in their own response shows that *“the Board has applied the principles and the extent of compliance with the Recommendations as set out in the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) issued by the Securities Commission”*.

PLCs also believed that disclosure practice is important to enhance CG practices. Hence, the majority of companies highlighted the importance of disclosure to enhance CG practices, R26 stated that *“...the importance of effective and sound system of internal control to enhance good corporate governance, achieve Group’s business objectives and safeguard shareholders’ investment”*. Moreover, the board of the companies requires such requirements to improve CG, R76 recorded that *“the Board also concurs that there are still areas throughout the Group that require improvements and enhancements in order to achieve the best corporate governance standards”*.

The issue of PLCs should establish policies to ensure, accurate and timely disclosure is part of effective CG effort by them. This is highlighted by R68 where *“...to establish corporate disclosure policies and procedures to enable comprehensive, accurate and timely disclosures relating to the Company and its subsidiaries”*. Also, R66 maintained that *“...to provide shareholders and investors with comprehensive, accurate and quality information on a timely and even basis”*.

e. Company’s performance in implementing CG

It is reported in several AR regarding information devoted to the company’s performance in implementing CG. It has been highlighted that by R3, *“...to protect and enhance shareholders value and the Group’s financial performance”*. Likewise, R81 believes that monitoring performance is one of the solutions to comply with CG *“the Board is fully responsible for the*

*overall performance of the Group. It provides stewardship to the Group's strategic direction and operations in order to enhance shareholders' value"*. However three companies did not reported the extent to which it is complying with the CG.

f. Responsibility of Board of Directors for disclosure of information

The overall of the company's has shown that the AR is the main source to disclose the information. As stressed by (R5); *"The Annual Report remains a key channel of communication with the stakeholders of the Group. It contains the financial and operational review of the business of the Group, corporate information"*. In different way R44 recorded that *"the disclosure will be made in the annual report with the breakdown of the aggregate value of the transactions conducted pursuant to the mandate during the financial year"*.

The board also should ensure that the company has appropriate disclosure policies to be implemented as reported by R48, *"The Board...to ensure broad dissemination of material information in a comprehensive, accurate and timely manner and in accordance with all applicable legal and regulatory requirements"*. Likewise R81 have shown that *"The Board ...ensuring that the financial statements of the Group and of the Company give a true and fair view of the state of affairs of the Group and of the Company"*.

It is also a requirement under the Companies Act 1965 directors should disclose their personal interest which is related to company's affairs. The finding shows that most of the companies have disclosed the interests of the directors as R76 highlighted that *"... the interests of the directors holding office at the end of the financial year in shares of the Company and its related corporations during the financial year are as follows:"* In addition, R60 admitted *"...the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year are as follows"*. However, R124 had not made any report regarding this matter.

## RECOMMENDATION AND CONCLUSION

From the above discussion, it is concluded that there is a high level of adherence to corporate governance amongst PLCs and it also shows that PLCs in Malaysian have gone beyond complying with just basic governance requirements. Based on the findings all companies have performs well in implementation of good corporate governance. However in relation to PLCs performance in disclosing the extent to which it is complying with

the CG, there are three companies failed to report. Further, the listed issuers are embracing each principle of the MCCG and adopting the majority of its recommendations. The findings found that companies which failed to report the implementations of the recommendations as suggested in MCCG in their annual reports and simultaneously failed to state reasons for their non-compliance or disclose any alternative practice. There is no penalisation clause for non-compliance of such act because MCCG is just a guideline to PLCs and has no legal essence. Therefore, it is suggested that the Bursa Malaysia should introduce rating and ranking system for the best performance PLCs in complying with the CG of disclosure policy and requirements. Incentive should be granted to the most successful PLCs in adherence to the policy and requirements. In Malaysia, the BMLR have raised the standards of CG of PLCs in order to enhance investor confidence and to further improve the integrity of the capital market. However, mere adoption of rules and regulations to improve CG is not effective. It is the concerted efforts of those in charge with the direct responsibility of determining corporate policies and practices.

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# **Dilemma of Decentralization and Local Autonomy in Indonesia**

**H Mansyur Achmad**

*Institute Pemerintahan Dalam Negara (IPDN), Indonesia*

\*Corresponding author; email: nnurliah@yahoo.com

## **ABSTRACT**

*Decentralization is the devolution of authority from central to local government to manage the domestic affairs based on the needs and aspirations of its people. Decentralization process also translates into providing autonomy to the local government. However, the degree of autonomy granted to local governments raises a dilemma due to political pressure and political demands. Too much autonomy can sometimes lead to a disproportionately distribution of power in the hands of the elites. This paper, therefore, attempts to critically analyze the practice of decentralized autonomy in local governments in Indonesia. Specifically, it argues that the current practice of decentralization and local autonomy inhibits the ability of the local government to effectively empower greater participation from citizens. Instead, poor local citizens continue to be sidelined in the fight for political control.*

**Keywords:** *Decentralization, Local Autonomy, Good Governance, Local Governance and Indonesia*

## **INTRODUCTION**

Over the last few decades almost all countries in the world are keen to decentralize their governments in various dimensions and shapes based on the demands of the political and administrative needs of individual countries, especially countries in the third world. Many countries even have changed the organizational structure of government in the direction of decentralization. The amount of interest in decentralization is also in line with the growing interest from various international development agencies (Conyers, 1983: 97). Now decentralization has appeared universal and accommodated in a variety of different views.

According to the decentralization theory, there are two models of decentralization currently being practiced throughout the world, the structural efficiency models and models of democracy. Structural efficiency model is rooted in the theory of management, while the model of democracy is rooted in the political theory. In the developed countries, the use of both models

is not experiencing significant problems because both models meet the prerequisites for the implementation of decentralization and local autonomy is strong ideology, but in developing countries such as Indonesia, the use of one of these models in the extreme will have an impact significantly on the regional administration.

In Indonesia, the implementation of decentralization and regional autonomy causes a dilemma due to political interferences. It also should be understood that decentralization is not a “panacea” for all the problems faced by developing countries. Any model chosen still requires a process of internalizing the values of decentralization and regional autonomy into the community, state and nation.

As a system, the decentralization and local autonomy have two sides that cannot be separated. On the one side, decentralization is preferable due to its advantages, but on the other hand, decentralization creates problems especially in regards to conflicting demands between politics and administration. Therefore, an understanding of the dimensions, the degree, the advantages and disadvantages of decentralization and regional autonomy will help the country choose the model of decentralization and regional autonomy that is best suited to Indonesia.

## **DIMENSION OF DECENTRALIZATION AND LOCAL AUTONOMY**

Harold F. Alderfer (1964) reveals that there are two general principles to distinguish how the central government allocates power. First, de-concentration which prepares the administrative unit or field stations, either singularly or in the hierarchy, either separately or combined, with instructions on what they should be doing or how to do it. No policy is made at the local level and there is no fundamental decisions are taken. Central agencies have all the power, while local authorities are completely beholden to the former. Second, devolution, where the local governments are prescribed certain powers over certain tasks.

Meanwhile, Conyers (1986) divides decentralization based on the type of functional activity, the type of authority or power transferred to each functional activity, level or area of authority transferred, authority over the individual, organization, or entity which is transferred at each level, and the authority that is transferred by way of legal or administrative. This conception of decentralization is similar to Alderfer’s description of devolution. Rondinelli et.al. further elaborate the concept of decentralization (in Meenakshisundaram, 1999) to include de-concentration (submission of a number of authorities or administrative responsibility to lower levels within the ministry or government agency), delegation (displacement responsibility for certain functions to organizations outside the regular bureaucratic structure



and only indirectly controlled by the central government), devolution (establishment and strengthening units of sub-national governments with activities that are substantially outside the control of the central government), and privatization (giving all responsibility for functions to non-governmental organizations or private companies that are independent of the government). Similarly, Rondinelli, McCullough, & Johnson (1989) also distinguish five different forms of decentralization: privatization, deregulation of private service provision, devolution to local government, delegation to public enterprises or publicly regulated private enterprises, and de-concentration of central government bureaucracy.

Cohen and Peterson (1999) further clarify the distinction of decentralization based on the origin of history, hierarchy and functions, problems addressed, the pattern of the structure and administrative functions, experiences of certain countries, and a variety of purposes that include political, spatial, private interests, and administrative interests. Hoessein (2001b) reveals that the devolution in the UK is synonym for political decentralization in the United States and *staatskundige* library *decentralisatie* in the Dutch government. According to Sinjal (2001) devolution, political decentralization, and deconcentration are also known as *medebewind* and *vrij bestuur*. Liang Gie, (1965) further defines *medebewind* as the right to run the regulations of the central government or the local level based on the orders of the top echelon in the government. Rohdewohld (1995) expresses a similar meaning of *medebewind* but with a different language as a particular function under the jurisdiction of the central government run by the autonomous regional government administration unit on the orders of the central government. The central government retains jurisdiction in planning and funding. *Vrij bestuur* may imply that there is doubt about who is in charge of a problem. The rationale for this is the emergence of *vrij bestuur* because the authority can be detailed one by one, but none of the legislation which is able to predict the societal problems that develop very dynamically so that when there is a vacuum of authority handling a particular problem with the principle *vrij bestuur*.

In regard to Indonesian government perspective, devolution is the equivalent of decentralization and delegation is the functional equivalent of decentralization. The historical development of local government in Indonesia, ranging from the time of the Dutch East Indies to modern Indonesia has been experiencing various forms of decentralization.

## DEGREES OF DECENTRALIZATION AND LOCAL AUTONOMY

Theoretical debates about the concept of decentralization center on the degree of decentralization. But it seems that the degree of decentralization can be structured based on certain factors, although still contentious and a big disparity within the meaning and interpretation. Factors to be considered

in setting the degree of decentralization proposed by Muluk (2009, 24-25) include *first*, the degree of decentralization can be seen from the function or business that is run by the local government. The more the functions are decentralized, the higher the degree of decentralization. *Second*, the types of delegation: open-ended arrangement and ultra-vires doctrine. If a local government has open-ended arrangement, it can be considered a greater degree of decentralization and if a government has the type of delegation which is based on ultra-vires doctrine it is considered a lower degree of decentralization. *Third*, the type of control the central government has over the local governments which include repressive control and preventive control. *Fourth*, it is related to the financial aspect involving the extent to which the decentralization of decision making affects the management of revenue and expenditure.

*Fifth*, the formation of local government which means that the degree of decentralization would be higher if the source comes from the local authority rather than delegating legislative provisions of the executive. *Sixth*, the higher amount of financial assistance to the local government (PAD), the greater the financial dependency of the local government towards the center. Seventh, if politics at the local level is still dominated by national-level political organization, the degree of decentralization is deemed to be lower when compared to the local level if politics is dominated by local political organizations and more independent of national political organization.

Another aspect that may be considered in determining the degree of decentralization is the degree of power. There are three levels of decentralization. First, at the level of regions (decentralized unitary) or state (decentralized federal country) with a population of one million or more. Second, at the district level or equivalent with a population of 50,000 - 200,000. Thirdly, at the level of the village or community. This is where the essence of the decentralization because at this level, community leaders often meet the local administrators who will provide services required by them.

Decentralization policy is clearly stated in the Indonesian Constitution under Law No. 22 of 1999 on Regional Government. This legal provision of Law No. 22 of 1999 on Regional Government also regulates the distribution functions of the village government level. But in practice the distribution function at the village administration is run under the subordination on district / city. Then the same thing still applies in Law 32 of 2004 on local government. The Law No. 23 of 2014 on Regional Government in lieu of Law No. 32 of 2004 underlines the subordination of the village administration at Regency/City Government but more specifically regulated in Law No. 6 of 2014.

One of the reasons why the Law 23 of 2014 is enacted is to improve service, empowerment and community participation within the framework of the Unitary Republic of Indonesia. However, the goal of the regional administration to improve service and enhance empowerment and community

participation will not be successful, if the government is not focusing on ethics.

The implementation of Law No. 22 of 1999 as amended into Law No. 32 of 2004 on local government which is further broken down into Law No. 22/2014 on the election of Governor / Regent / Mayor, followed by the release of Government Regulation No. 1 of 2014, Law 23 of 2014 on Regional Governance and Law No. 6 of 2014 of the village. On one hand, it is intended to meet the administrative needs for the realization of effective public services. But, on the other hand, it is also intended to meet the interests and political demands for the development of local democracy. The dilemma occurs when one goal of this policy is intended to meet the needs of the administration, but at the same time the demands of local politics to bring local democracy is getting stronger.

### **ADVANTAGES OF DECENTRALIZATION AND LOCAL AUTONOMY**

In view of liberal democracy, local government brings two benefits: firstly, it provides a positive contribution to the development of national democracy because local government is able to be a vehicle for political education, and provide training for political leadership, as well as support the creation of political stability. Hoessein (2000) adds that the concept of autonomy contains freedom for initiative to take decisions on the basis of the aspirations of the people without direct control by the central government. Therefore it is very closely associated with democracy. Second, local government could provide benefits to the local community (locality). Hoessein (2001a) opines that local autonomy is important for the community. Affairs and interests of the locality are deemed important to them because their political base is to the local government, not to the nation.

The advantage for the local community is the existence of political equality, accountability, and responsiveness. Antoft & Novack (1998: 155-159) also reveal the advantages of local government in several ways, namely: accountability, accessibility, responsiveness, opportunity for experimentation, public choice, the spread of power, and democratic values. In economic perspective (see also Stoker, 1991: 238-242, the public choice theory), decentralization is an important medium to improve personal well-being. According to this perspective, individuals are assumed to choose his residence to compare various packages and tax services offered by a variety of different cities. Rational individual would choose a place to stay that will provide the best option packages.

Advantages that can be obtained from the local government in this perspective include: first, the public responsiveness to individual preferences. Goods and

public services offered by the local government, unlike the private sector, will be enjoyed by the entire relevant population, so that the consumption by the population will not reduce the share of the population to another. The local government will also guarantee the affordability of the cost of public goods and services, which, if offered by the private sector would be expensive. In addition, the local government also provides a way for residents to communicate through elections and other political means.

Second, the local government has the ability to meet the demand for public goods. But in politics, it is difficult to identify because the complicated relationships between the items, prices, taxes, elections and political preferences, participation, and leadership. Decentralization and local autonomy can reduce this problem by increasing the number of administrative units and degree of specialization function thus improving the government's ability to meet public demand.

### **DISADVANTAGES OF DECENTRALIZATION AND LOCAL AUTONOMY**

Marxist views the state as a whole and does not need to be segregated between geographical areas. There are several explanations underlying the impartiality of this view towards decentralization. First, the division of the region in the context of decentralization of regional autonomy will only create the conditions that lead to the accumulation of capitalists. Secondly, decentralization will also affect the collective consumption so that it will be politicized. Collective consumption tends to provide services on the basis of the interests of all classes. According to this view, decentralization will only produce new injustices in the collective consumption among regions.

Thirdly, although democracy will basically put the majority in local government, which means that the working class should dominate, but there are many ways that can be done by the capitalists by obstructing the emergence of the working class in the government. Representative institutions in local government remain a symbol of liberal democracy and are still controlled by the capitalists. Fourth, in regard to the relationship between the governments, the local government officials act as an extension of the central government to safeguard the interests of the central government. In terms of planning, decentralization would never benefit the local people against the capitalists. Decentralization of regional autonomy also prevents financial and tax redistribution from rich areas to poor areas. Decentralization will also eliminate the responsibility of the bourgeoisie against the depressed areas. Fifth, there are various obstacles on how local democracy will work in a decentralized government. These hurdles include ecological aspects, political, and economic causes of democracy at the local level. According to Marxist, this can only be overcome by centralization aimed at redistribution and fairness. Decentralization also leads to disintegration that can cause dysfunction of the state to provide services and public property.

The dilemma then lies in choosing between structural efficiency and democratic model. Structural efficiency model will indeed maximize the advantages of decentralization and regional autonomy, because governance is run as effectively as possible based on the principles of strict government management. This is done in the era of the enactment of Law No. 5 of 1974 on the main points of government in the local area. Actually Law 5 of 1974 principally was very good, but due consideration of the effectiveness of the national support authoritarian leadership, the degree of decentralization and regional autonomy would be reduced. As a result, local governments very very dependent on the central government. But things are different with the issuance of Law No. 32 of 2004 on local government which is further broken down into Law No. 22/2014 on the election of Governor / Regent / Mayor, followed by the release of Government Regulation No. 1/2014 and Law No. 23/2014 on Local Government which would give the rights, powers, and obligations of autonomous regions to set up and manage their own affairs and interests of local communities in accordance with the legislation.

Democratic model that relies on the participation of local communities in local governance will maximize the shortcomings of decentralization and regional autonomy. The current political reality shows that in local elections, the practice of money politics is rampant through various modes, such as the distribution of food, social assistance, to the giving of money directly. As a result, the likelihood that owners of capital to be elected as the head of the government is greater. It is a testament to Marx doubts about the model of local democracy in regard to decentralization and regional autonomy. Similarly, it will also affect the collective consumption such that decentralization and regional autonomy will only produce new injustices in the collective consumption among regions.

Marx acknowledges that although democracy will essentially put a majority in local government, which means that the working class should dominate, but there are many ways that can be done by the capitalists to obstruct the emergence of the working class in the government. The fact that elections for regional head (Regent / Mayor and the Governor) involve money politics reinforces Marx assumption that decentralization and local autonomy are not able to create local democracy essentially. There are many obstacles that can disrupt local democracy in a decentralized and autonomous regions. These hurdles include ecological aspects, political, and economic. In the end, decentralization and regional autonomy will cause dysfunction of the state to provide goods and services to the public

## **CONCLUSION**

The difficulty to balance the need for greater democracy through regional autonomy and the tendency by rich political actors to engage in corrupt practices to gain political control creates a dilemma in Indonesia. Hence,

choosing the right amount of autonomy that meets the needs of local citizens while at the same time adhering to the orders from the central government, remain important agenda for administrators especially in light of Indonesia's pursuit to grant more autonomy to the provincial governments.

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