The skyscrapers of Makati City, the country’s prime commercial district, have long symbolized modern infrastructure, entrepreneurship, and economic progress.

Photo by Erwin Tiamson

This photo was taken on February 24, 2011 in Barangay San Vicente, Angono, Province of Rizal.
Over the past 50 years, the understanding of what promotes development has evolved considerably. From gap identification and the provision of technical solutions, development agencies and practitioners are now more aware of the importance of institutions. While most now accept the definition of institutions as “the rules of the game in a society—and the nature of political and power struggles that lie behind them” (Rodrik & Rosenzweig, 2009), which institutions are right for a particular development environment remains a challenging question. In a review article, Booth (2011) notes that “institutions rule, but what are the right institutions is context- and time period-specific, and institutional change is not self-generating.” Since the right institutions do not emerge by themselves, an even bigger challenge is how to engender the right institutions if we knew them. North’s (1990; 2003) observation is still valid: “We know institutions matter, we just don’t know how to change them.” Partly to address this problem, human agency has recently emerged as a possible determining factor in engendering institutional change (Leftwich, 2011). Very much along this path are two recent books by Banerjee and Duflo (2011), and by Karlan and Appel (2011), which offer compelling instances of incremental changes realized by human agents, changes that build on themselves and together promise to amount to a quiet revolution in welfare improvement.

Drawing on the case studies in this volume, this chapter proposes an approach for development agencies and practitioners to integrate political and technical dimensions to more effectively engender institutional reform. Referred to as development entrepreneurship, the operational approach is designed to help donors navigate the conceptual chasm between the traditional role of being principal providers of technical assistance and the less familiar role of supporting change advanced by local actors. (Unsworth & Moore, 2010).

The development entrepreneurship approach consists of three dimensions to achieve institutional change:

1. **Reform elements.** Premised on the assumption that politics matters, the approach integrates technical analysis, political economy analysis,
and political action. These are integrated in an iterative process with the goal of determining technically sound and politically possible reforms.

2. **Human agency.** Built on the consensus that *human agency matters*, the approach highlights the importance of the principal actors who actively manage the reform elements with a single-minded focus on taking advantage of reform conjunctures that foster institutional change. These actors are what we call *development entrepreneurs*.

3. **Project structure.** Recognizing that incorporating the political dimension remains a challenge for development agencies, the approach outlines a working project structure that reduces the reputational risks of a more political approach to development and improves aid effectiveness.

### The Traditional Pathway to Institutional Change

The *traditional development agency model* neatly divides the political and technical responsibilities. Development agencies and their consultants supply the technical analysis and, more recently and increasingly, political economy analysis. *Political action* is the exclusive realm of government partners. This thinking is embedded in the charters of development agencies. The charters of the World Bank and the Asian Development Bank (ADB) contain explicit prohibitions on political activities. For example, Article 36 of the ADB Charter (1966), entitled *Prohibition of Political Activity: The International Charter of the Bank*, states that:

> The Bank, its president, vice-president(s), officers, and staff shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member concerned. Only economic considerations shall be relevant to their decisions. Such considerations shall be weighed impartially to achieve and carry out the purpose and functions of the Bank.

The traditional approach works extremely well when the interests of public interest-seeking development agencies and government partners are congruent. The water privatization case study is a good example. The principal impetus for change came from reform champions within the Philippine government who maneuvered it through the political maze. But technical advice proffered in a timely fashion by development agencies—in this case, the World Bank and International Finance Corporation (IFC)—proved important.

That the development agencies and host governments have aligned
interests is, however, a statistical outlier. In an overwhelming majority of cases, they do not match. And where they do not match, it remains an accepted tenet that the government can be induced to improve through various incentives or conditions. Unfortunately, conditionalities have been found better at effecting nominal, rather than real, reform. In the case of the National Food Authority (NFA), the interests of the host government and development agencies were never genuinely similar. The 2005 Paris Declaration has signaled the need to revisit this assumption. Given the centrality of politics in institutional change, and of the latter in economic development, the separation of technical analysis from political action in the traditional approach is increasingly the subject of major debate and criticism.

**Development Entrepreneurship**

The development entrepreneurship approach integrates the technical and political dimensions of reform. This integration involves, first and foremost, recognition of the iterative process in the search for a breakthrough. It is quintessentially learning by doing. There is no single point in time when full understanding and control are achieved, as relationships, networks, and ideas are constantly being discovered and discarded to respond to random shocks. It is based on the view that social and political realities are self-organizing systems characterized by non-linearity and unpredictability (Ramalingam & Jones, 2008).

The cases highlight precisely that reform is an iterative search process. Successful institutional reform calls for a series of decisions that are taken in response to the rapidly changing terrain. Williams, Duncan, Landell-Mills, and Unsworth (2010) propose a similar process that links politics and growth. Some of these steps are strategic retreats reminiscent of Lenin’s “one step forward, two steps back.” A natural corollary of the iterative process is unpredictability and protraction. How protracted some of these processes can be—at times taking decades to bear fruit—is highlighted in the case studies.

The highly iterative search process that attends reform is significant, because its trajectory can hardly be predicted by *ex ante* political economy analysis and supplied from the outside. It can only be discerned by individuals involved and immersed in the process. The sea transport case study illuminates this point. In the 1990s, several donors, such as the United States Agency for International Development (USAID) and the Japan International Cooperation Agency (JICA), provided technical assistance to the port regulator, the Philippine Ports Authority (PPA), recommending the implementation of the alternative Roll On/Roll Off (RO-RO) shipping mode. Meaningful steps in that direction did not follow. The interests of the government partners diverged
from those of the donors. The key actors—the regulated shipping companies, cargo-handling companies, port terminal operators and their labor unions, and the government regulator—manifested convergent interests, which conspired to thwart reform and maintain an inefficient cargo-handling system. Higher tariffs by the shipping companies contributed to the income of the regulator. How could consumer sovereignty be served?

One way was to overhaul the regulatory agency enough to give more weight to consumer welfare. While this tack appeared first-best, this proved a dead end, as the power of the allied incumbents, trained precisely in stopping this, proved too strong. Recognizing the futility of working within the agency, the reform advocates, working mostly outside the government with the help of USAID, adopted an alternative and more concrete reform pathway, which turned out to be more politically feasible. This was the RO-RO policy previously shelved by the regulator. Reformers built a coalition of users and other stakeholders affected by, or deeply concerned with the high cost of sea transport. In the government, these included the Development Bank of the Philippines (DBP), the National Economic Development Authority (NEDA), and the Department of Agriculture (DA). In the private sector, committed supporters included the Mindanao Business Council (MinBC), the Supply Chain Management Association of the Philippines (SCMAP), and the Philippine Chamber of Commerce and Industry (PCCI), among others. A favorable political conjuncture helped push the new initiative over the top.

**Unpacking the Development Entrepreneur’s Challenge**

Three essential elements are especially helpful in the unpacking of the development entrepreneur’s challenge: (a) *technical analysis*, which reveals a binding constraint and possible correct solutions; (b) *political economy analysis*, which reveals the political settlement underlying the binding constraint; and (c) *political action*, which seeks to alter the political settlement through an iterative process that discerns a technically sound and politically possible reform. We elucidate each in turn.

*Technical analysis* is the identification and evidence-based evaluation of a binding constraint, indicating its opportunity cost to society, and specifying a plausible alternative.

*Political economy analysis* involves the identification of the major groups supporting the political settlement underlying the institutional status quo, and the pro-reform interests—usually the disadvantaged groups and the fence-sitters who could be transformed into supporters of the reform by appropriate *quid pro quo*. Inherent in political economy analysis is the appreciation of
political capital, the ability of individuals, groups, associations, families, and informal networks to influence the outcome of political events.

In their survey article, Duncan and Williams (2010) note that there are common strands in the various political economy analysis efforts, such as the UK’s Department for International Development’s (DFID) Drivers of Change studies, the Sweden International Development Cooperation Agency’s (SIDA) Power Analysis, and the World Bank’s Problem-Driven Governance and Political Economy Analysis. These include: a recognition of the centrality of politics; a greater emphasis on specific country realities and less on ready-made normative judgments; the identification of underlying factors, such as a country’s history, society, and geography, that shape the political process; a balanced focus on institutions and leadership; and a recognition that development agencies as resource providers, consciously or otherwise, privilege one faction over another, and so are ab initio political actors.

An important outcome of the political economy analysis is an understanding of the business model, a covenant among elements of the elite showing how the surplus or rent is generated, by what rule—formal or informal—and how that surplus is shared by the various vested interests. This can be legally mandated or autonomous. In a pure market setting, a cartel is a business model to maximize rents extracted from the consumers. A monopoly sanctioned by the state whose organs receive emoluments from the monopolist is another business model. In political science, the business model is viewed as a stable political settlement struck among elites (Parks & Cole, 2010; Di John & Putzel, 2009). When such a political settlement is inimical to the collective welfare, then proper institutional change can benefit the majority.

Because the business model is a product of human agency, it is contingent on decisions of critical actors in society. An important element of the business model, therefore, is the role of elites who dominate social decisions (see, e.g., Amsden, DiCaprio, & Robinson, 2009). The primary goal in understanding the business model is to concretely identify the forces, interests, and incentives that sustain poor development outcomes.

Political action refers to strategies and activities, such as coalition building, to get actors to spend their own limited political capital to make reform politically possible. This is the substantive element of the reform process and the exclusive domain of local partners. It involves a painstaking iterative process in search of that replacement institution which the local context can absorb as its own. This then involves, at the same time, an ongoing in situ political economy analysis and simultaneous indigenization and modification of the institutional target. Crucial actor decisionmaking in the
strategic, technical, and political dimensions is integral to this process.

The outcome of the process is technically sound and politically possible reform options, as seen in Figure 10.1 as the non-empty intersection of two sets of reforms. If the intersection is empty, then it is futile to get busy at reform. We will elaborate on these two sets below.

![Figure 10.1. Technically Sound, Politically Possible Reform](image)

**Technically sound reform.** A technically sound reform is one that, if implemented, will either reduce the social cost to, or raise the collective good of, society. It implies a correctly identified binding constraint (a genuine government or market failure). The now well-known “growth diagnostic” procedure (Hausmann, Rodrik, & Velasco, 2005) is one way to ferret out the binding constraint. It is our contention that the set of possible replacements of a welfare-reducing institutional status quo is non-unique. There are many possibilities. In a long chain of causation, there may be many binding constraints, the remedy of each being necessary for the benefits to flow. The development entrepreneur has to make a decision which to attack first, given the political capital of the various members of the coalition.

Technically correct and politically possible reforms stand in contrast to ready-made menus, such as the Washington Consensus and “best practices,” that adopt a “one-size-fits-all” approach. Instead, more open-ended views, such as “good-enough governance” by Grindle (2007), “building on the status

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quo” by Moore and Unsworth (2006), and “best-fit” by Williams et al. (2010) become the order of the day.

**Politically possible reform.** Even assuming the binding constraint is correctly identified, there remains the problem of how to introduce the identified reform. In the traditional model, country ownership of the reform is served by partnering with the host government. The partnership comes with various forms of conditionality (ex-ante, ex-post, and process). Process conditionality, for example, underlies the Poverty Reduction Strategy Papers (PRSPs) of the World Bank. Azam and Laffont (2003) provide the theory underpinning this conditionality view. Many now recognize that sticking with the external pull or push for reform strategy is misplaced. Host governments often do not have the autonomy and strength to deliver what they promise, even when they do want the reform. The political settlements that support the status quo are not dissolved merely because of the promise of aid contingent on reform. Formal rules may change, but the underlying binding informal rules may persist.

“Politically possible” refers to the likelihood—given the local political context, including the efforts and the resources deployed by advocates and oppositors—that the reform will be implemented (see, e.g., Fabella & Fabella, 2011). The first-best (one with the highest welfare benefit) reform may have zero political feasibility. If so, which of the second, third, or fourth best has the best chance of surviving? The development entrepreneur discerns the right balance between the welfare benefit of a reform and its feasibility. It is this role that cannot be easily undertaken by external agencies. Strategic retreats from the original target are unexceptional. This was evident in the cases of RO-RO and the Residential Free Patent Law.

In the case of aviation, the highest authority of the land, towards the end of its tenure, decided on a compromise. The dominant carrier was able to keep flights to Manila limited, so the reform advocates did not get the original target of open skies. But the latter got pocket open skies for the Diosdado Macapagal International Airport (DMIA), which still translated into enormous increases in air traffic rights and seat access. This allowed greater consumer sovereignty. Politics intervened, but development entrepreneurship was able to engineer a settlement, which was still a strong positive. By contrast, the BIR case illustrates how a technically sound reform (the switch to performance contracting for tax collectors) got routed by the adverse political wind when a less-ambitious reform might have worked.
Reform Conjunctures

Reform conjunctures are the combination of unforeseen events or circumstances that render the reform target, or some variant of it, politically feasible. Here we have the environment anointing the best-fit reform, in a sense. The political feasibility of a reform is not set in stone. It fluctuates with unforeseen political and economic shocks, rediscovered personal networks, and other factors. An economic or fiscal crisis can undermine or strengthen the status quo. For example, the looming fiscal crisis in 2002 weakened presidential support for Bañez’s effort to reform tax administration. The nuclear plant explosions in Japan in the wake of the March 2011 earthquake-tsunami disaster have drastically changed the landscape for nuclear power development. If the reform elements are not in place when the favorable conjuncture occurs, the change embraced may not take the path to improve welfare.

The policy change toward the RO-RO option is another example. The RO-RO strategy for engendering competition in the shipping industry was identified a decade before as a technically sound remedy to the government’s failure to make sea transport cheaper and more efficient. But the reform was given only lip service by the authorities. The RO-RO reformers originally targeted a first-best solution to high sea transport: an overhaul of the regulatory agency to stand up to the shipping cartels. However, this turned out to be a non-starter. The shipping cartels had managed the appointment of their allies to the regulatory agency, with the purpose of maintaining the inefficient business model and thwarting any reform effort. It was an unrelated event—the upcoming 2004 presidential elections—and the importance of the Mindanao vote to the incumbent that made the RO-RO initiative compelling and raised its political feasibility. The reformers recognized the strategic opportunity, shifted tactics, and identified a new set of powerful Mindanao-based stakeholders, who demanded that the RO-RO policy be included in the presidential agenda. Thus, more voices lined up behind the policy. Over the opposition of the agency regulating sea transport and the shipping cartel, and primarily in order to court the Mindanao vote, President Arroyo signed the RO-RO policy.

Human Agency and Development Entrepreneurs

There is a plethora of concepts in the development and political science literature going back to the 1980s that come under the rubric of human agency. Concepts such as reform champions, change agents, policy entrepreneurs, and of course, revolutionaries, are all human agency phenotypes that ply more or less similar pathways (Kingdon, 2011; Pierson, 2004). Development
entrepreneurs also come under this rubric, but with a difference.

Development entrepreneurs are human actors who have the cognitive and emotional make-up—engendered either by nature or nurture—that leads them to pursue the greater social good through institutional change. For a range of reasons, some people take personal responsibility for bringing about institutional change that enhances the public good. Whether in government, civil society, or the private sector, development entrepreneurs navigate complex socioeconomic and political terrains, build coalitions, and align various interests toward the desired institutional reform. This is embryonic in Leftwich and Hogg (2010) who note that “local leaders, elites, and coalitions are the critical necessary agents that are required to contest, negotiate, and devise legitimate, effective, and durable institutions.”

Development entrepreneurs are willing to strategically engage himself in the murky world of political networking and bargaining, all in pursuit of the public good. Their efforts—if successful—will benefit the whole community, but not necessarily themselves directly. In other words, they are crusaders for the social good. Herein lies the difficulty with the idea of development entrepreneurship.

Development entrepreneurs march to a different drummer than Economics’ *Homo economicus*, since their pursuit is precisely a public good. In this, they are unlike the classical Schumpeterian entrepreneurs, who may realize enormous financial rewards at the end of the day, though this is hardly their principal motivator. But like the Schumpeterian entrepreneurs, development entrepreneurs take great risk, since the outcome they commit to may never materialize. Deng Xiaoping’s two-decade odyssey to save Chinese Socialism from forever “redistributing poverty” is development entrepreneurship at its best.

The cognitive and motivational make-up of the development entrepreneur is interesting, and evidence on these issues is only beginning to emerge. Saras Sarasvathy (see Sarasvathy, 2001; Sarasvathy et al., 2010) documented hundreds of individual case studies in an attempt to determine the traits and characteristics of entrepreneurs in the business setting. She concludes that entrepreneurs rely on a process that “allows goals to emerge contingently over time from the varied imagination and diverse aspirations of the founders and the people they interact with.” This she calls “effectual reasoning.” By contrast, Sarasvathy avers that corporate managers use “causal thinking,” defined as starting with a pre-determined goal and a given set of analytical means that identify the optimal alternative to achieve the goal.

There is also growing field and laboratory evidence that *Homo economicus*, as simply rational and self-interested utility-maximizing actors, is off the
mark (Ostrom, 2000; 2005; Ariely, 2010). Daniel Pink (2010) cites research evidence pointing to non-monetary factors that motivate people to perform better. Called “intrinsic motivation,” Pink argues that for tasks requiring cognitive and creative skills, optimal performance occurs when people are given (a) autonomy, or the ability to decide what they do; (b) mastery, or the ability to get better at what they do; and (c) purpose, or the ability to give meaning to what they do.

This runs counter to superior-subordinate management structures, and as we explain below, the development agency-contractor model. Instead, it supports the proposition that grant structures that allow for autonomy may be useful. The case studies in this volume seem to corroborate Pink’s view that money is not the main driver. Given the enormous trouble and difficulty that individual development entrepreneurs experience and continue to encounter, such as harassment, lawsuits, and character assassination, it is clear that money is not the main motivator.

Indeed, in some of the cases, such as in aviation and in water service privatization, we recognize autonomous development entrepreneurship at work, that is, actors within government who, on their own—seemingly unconnected to and unsupported by outside allies or donors—pursue reform in the name of public interest. They could have opted for the comfortable caretaker role but decided to challenge the status quo. One has to add, however, that what we call below the “double coincidence of power and righteousness” is rare.

It is our belief that there is in each person’s make-up a social gene that deeply cares for the social good of the community. Evidence for the need to belong to and to do well by one’s group has been mounting from evolutionary biology to brain studies (for a comprehensive review, see Rifkin’s Empathic Civilization, 2009). Whether that gene gets expressed is another matter altogether. The gene will remain in the shadows if the environment is severely unfavorable.

**Circumstantial Drivers**

From our limited experience, academic and non-governmental organizations (NGOs) are hotbeds for development entrepreneurs, especially where these provide the financial wherewithal relatively independent of, and the space and time flexibility to pursue, such a calling. Public intellectuals with independent means also figure prominently, since they have both financial independence and time and space flexibility. The two operative conditions that seem to enable development entrepreneurs are relative financial
independence and flexibility. Needless to point out, they are necessary but not sufficient conditions for a development entrepreneur to be engendered. When these individuals are in the government, they are the ones who can say, “I don’t need this job,” since their outside financial default positions are, in fact, better. These people are also in the best position to appreciate a problem, imagine solutions, and act on them.

Here, there is a window for development agencies to act as facilitators. While financial return is not the motive, still there is a modicum of financial space that must be attained to liberate time and attention from day-to-day needs for provenance. How such facilitation gets implemented remains a challenge and is the subject of the next section.

A Workable Project Structure for Facilitating Locally Driven Change

We have argued that institutional change is achieved through an iterative and protracted search process, punctuated by reform conjunctures, and facilitated by development entrepreneurs. The implications of these findings for development agencies are significant. At the policy level, we argue that it is best for development agencies to concede the role of “principal drivers of reform” to indigenous individuals. Development agencies should consider a less direct approach and instead play a more supportive role that facilitates the work of local development entrepreneurs.

The approach poses a number of difficult challenges for development agencies. We have previously noted the dilemma facing development agencies (Tolentino, 2010): being politically inert avoids institutional risk but also heightens the risk of aid ineffectiveness. In the following section, we explore some solutions to the major challenges of crafting appropriate programs and project modalities that address institutional risk and aid effectiveness.

Project Modalities: Contracts and Grants

The traditional approach to development contracting is to write a straight quid-pro-quo contract with a consulting firm or an individual consultant. This is viable when the deliverables are unambiguous, say, a study of an industry policy environment. The problem with utilizing contracts to promote development entrepreneurship lies precisely with the deliverables. Firstly, a project intended to pursue change in a policy or an institution may not yield appreciable, favorable outcomes over extended periods—a caveat from New Institutional Economics and the experience of development entrepreneurs, such as Deng Xiaoping and his reform odyssey. The process of change is highly non-linear; there could be nothing substantive happening for a long time
despite the exertion, followed by rapid change. Thus, the deliverable output is difficult to measure in the meantime.

Secondly, there are no generally acceptable metrics for background spadework done. Effort tends to be sporadic, idiosyncratic, and difficult to observe. The goal cannot be chopped down into doable bits. The passage of a law, for example, may take years, and even then, many times passage alone does not suffice to bring about real change (i.e., only pro forma change). It may be marred by the deliberate lack of enforcement or inadequate budgets. The steps toward substantive change are numerous, and unless enough of all the steps are completed, no appreciable outcome will occur. Thus, both the effort and the output here are difficult to measure.

Standard agency contract theory dictates that where agent effort is non-observable, contracts should be performance-based, that is, payment comes after the outcome is observed. Where the outcome (change in policy or institution) is also unobserved until it actually happens, there is no natural basis for payment, and therefore, no objective basis for a contract. This double moral hazard problem (Ostrom, Gibson, Shivakumar, & Andersson, 2002; Martens, Mummert, Murrel, & Seabright, 2002; Shirley, 2005) induces the familiar solution to this dilemma among donors: risk-avoidance surfacing as neglect of internal political action. Instead, the arms-length conditionality approach is adopted. Incorporating political action can entail much greater risk-taking on the part of the development agency. The fundamental risk-reward trade-off holds here, as in every standard entrepreneurial endeavor: greater return for greater risk.

Overcoming this problem is not easy. Contract theory has struggled with this issue, and glimpses of the possible solution take the form of (a) careful screening and signaling, and (b) relational contracting and partnerships.

Careful screening and signaling is the process whereby agents are chosen on the basis of a proven and verifiable track record of performance predating the engagement with the aid agency. Prior performance reveals the type of the development entrepreneurs. Such signals of credible commitment mean that the aid agency is rewarding past efforts to incentivize future ones. The first problem this faces is that the past record may itself be difficult to interpret as to authorship and attribution. The second problem is that agents with such records are very scarce; if they were plentiful, the recipient country would not be in need of aid. The third is that it has a success bias because success is easier to verify, but this can be very unfair. A development worker can pour his life into a reform project and never see his holy grail. Deng Xiaoping, in the late 1960s, was a pathetic and quixotic figure. None would have bet that this aging tractor factory worker would eventually engineer the greatest
institutional and economic turnaround of the century! Fortunately for China, Deng wagered on himself.

Relational contracting and partnerships, as in contract theory with moral hazard hurdles, is another way to go. This is built on shared values between the donor and the agent. The relation now occurs as a longer-term and more diffuse social exchange rather than as a more rigid market exchange of goods and services. The terms of the relational contract are not black and white, but fuzzy and flexible. Relational contracting is really a form of a repeated game where the temptation to shirk decreases the longer the relationship lasts. Agency slides into partnership. Is this foolproof? No. It’s just that the likelihood of betrayals can be rendered tolerably small. What is known in most of East Asia as guanxi is a quintessential relational contract. Needless to add, it is a very effective and successful device (see, e.g., Fabella, 2007).

Given the experience of The Asia Foundation, grants of financial resources in pursuit of agreed-upon shared goals are most likely better than contracts aimed at delivering support to development entrepreneurs, given the nature of the tasks. Contracts specify the deliverables, the time and place of delivery, and the sanctions contingent to violations. Grants allow a flexible project structure that provides an environment more congenial to development entrepreneurs. By flexible, we mean that while the broad final goal is established (such as lowering sea transport costs), most other aspects of the project (intermediate objectives, activities, outputs, personnel, and work plan) are viewed instrumentally and are allowed to morph, based on changing conditions, new information, and unforeseen reform conjunctures. In essence, grants harness Daniel Pink’s essential elements for better performance through “intrinsic motivation”: autonomy, mastery, and purpose. It is easier to foster longer-term relational contracts with grants.

The Indirect Approach: Using Intermediaries

Development agencies inclined to work politically confront two main issues. The first is the problem of discerning the politically feasible reform. This is addressed by the political action of development entrepreneurs, but with whom contracting is a problem. The other is the challenge of identifying and distinguishing genuine from bogus reformers. Drawing on the case studies, there emerges recognition that intermediaries can play an important role in addressing both issues.

An intermediary is an agency with a long-term presence in the locality that can play the role of a developmental venture capitalist. Its role is multifaceted: (a) it helps development agencies identify, nurture, and foster lasting
relationships with development entrepreneurs; (b) it serves as a buffer between development agencies and the domestic political processes (see Figure 10.2 below); and (c) it ensures proper narrative reporting and financial compliance.

Figure 10.2. Development Entrepreneurship Grant Structure

The long-term presence of intermediaries in the locality means that its information—about binding constraints, political realities, potential development entrepreneurs, and the need for support—is richer than the development agency’s. The intermediary thus performs the role of channeling aid to development entrepreneurs while information asymmetry is inherent in this relational partnership. This mimics the role of the ordinary venture capital firms, which parlay the capital of their limited partners to fund startups.

The downside of this indirect approach is obvious: it involves resorting to another layer in the aid delivery system. This, however, appears to be an unavoidable cost to gain sufficient understanding of, and inroads into, the murky depths of local politics.

In developing countries, activities by development agencies in the political arena can raise sovereignty infringement issues. And given politically engaged development entrepreneurship, development agencies may be
reluctant to pursue this approach directly. To address this, the development agency and internationally based intermediary organizations can best partner with local entities: civil society organizations, local think tanks, NGOs, and business associations. One advantage of these intermediaries is their right to legitimately engage and participate in domestic political processes. Another advantage is that these organizations are autonomous and multilaterally supported. Unlike development consulting companies and consultants, local partner organizations are not implementers of development agency programs; instead, their board and staff independently develop and determine their reform programs.

Conclusion and Recommendations

The case studies have identified two distinct approaches to institutional change. The first involves the provision of technical assistance to government counterparts. In some cases, such as water privatization, this traditional approach successfully introduced reform. However, it is highly dependent on the presence of genuine reformers already in positions of power who pursue reform in accord with the perception of development agencies. Thus, there has to be a rare double-coincidence of power and righteousness. The ongoing global aid effectiveness discussion underscores that this assumption is rarely operative. Instead, because of regulatory capture and elite rent-seeking, government counterparts are unable to impose their will on dominant elites, even if they wanted to. In those situations, which constitute the majority of instances in developing countries, an alternative approach is called for:

The second approach, development entrepreneurship, is what we propose. It is an approach that banks on three pillars to achieve institutional change: (a) a recognition of the iterative process of change that calls for a combination of technical analysis, political economy analysis, and political action; (b) local leadership, referred to as development entrepreneurs, who take personal responsibility for achieving development outcomes; and (c) a project structure for development agencies to support local partners through intermediaries.

Recognizing the difficulties of identifying and discerning development entrepreneurs, we posit a role for intermediaries, which we call development venture capitalists. These are organizations that have a long-term presence in the country, have a deep understanding of local political and economic dynamics, and have established a network of reform-minded individuals and organizations. They provide development agencies with additional information to make informed choices to improve aid effectiveness.
While the approach looks promising, there is much that is still unknown. The notion of development entrepreneurship proposed here is based on a limited number of Philippine case studies. We hypothesize that development entrepreneurship played an even more important role in other more successful countries (say, Deng Xiaoping in the PRC). Clearly, more research work needs to be done. Though we now have some suggestive indicators of how development entrepreneurs work to engender institutional reform in the Philippines, how development entrepreneurship can effect change in other countries is of interest. In addition, the Philippine cases were limited to economic reform issues involving largely government failures. There is a need to explore development entrepreneurship in other areas, such as education, local governance, and environmental issues, to name a few. There is also a need to explore further the traits and characteristics of development entrepreneurs, and which of these can be purposively nurtured.

In terms of programs for development agencies, a number of ongoing initiatives follow the same pathway. The Asia Foundation, in partnership with the Developmental Leadership Program, held workshops for the Australian Agency for International Development (AusAID) central and field staff on working politically. The Research and Policy in Development (RAPID) program\(^3\) at the UK-based Overseas Development Institute (ODI) has developed a research and training program for policy entrepreneurs. Working with many partners, the ODI has developed a broad range of tools and training models to translate knowledge into action. The Asia Foundation developed a training and mentoring program on development entrepreneurship for Philippine NGOs, think tanks, and civil society organizations.

In an era when institutional weakness is a recognized binding constraint, and institutional change is the main breakthrough channel, working with development entrepreneurs and development venture capitalists is an important modality that development agencies can ignore at the risk of being ineffective. Development entrepreneurship is a compelling mechanism for incorporating the technical and political dimensions necessary for institutional change. As the cases in this volume illustrate, transformative institutional change starts with the dreams of specific individuals. Transforming those dreams into development realities hinges on their commitment and creative ability to maneuver through political and economic realities. In some instances, development agencies and intermediaries play pivotal roles.

We hope this volume helps to transform development dreams into reality.

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\(^3\) See the RAPID programme website: http://www.odi.org.uk/work/programmes/rapid/default.asp.
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