DEVELOPMENT ENTREPRENEURSHIP
A Model for Transformative Institutional Change

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SUMMARY

This paper introduces development entrepreneurship, a model to assist development agencies and practitioners introduce transformative institutional change that significantly improves the lives of millions of people. Development entrepreneurship combines the technical and political dimensions of reform to uncover the principles to finding “technically sound, politically possible” reforms. One component is an iterative “learning by doing,” which addresses the complexity associated with institutional change. It stands in sharp contrast to traditional development frameworks based on logical and more linear theories of change which have pre-defined goals and activities that often are unable to adjust to or incorporate political and economic realities. The model also notes the importance of reform conjunctures, unpredictable events that change the political landscape and make reform possible. The second component highlights the role of indigenous leaders or development entrepreneurs who lead and undertake the iterative process. Committed to improving and transforming their societies, development entrepreneurs use entrepreneurial thinking and principles to mobilize people, ideas, and resources and navigate the local terrain. External actors, such as development agencies, consultants, and international NGOs play a critical but supporting role to these indigenous change agents. Development projects that seek to foster institutional change require relatively modest financial resources.

Development agencies and practitioners may be interested in development entrepreneurship for a number of reasons. First, it was developed from the experience of cases that introduced transformative, institutional change. While these are limited to five economic sectors in the Philippines, there are evidence-based lessons for others. Second, the model is consistent with the principles of “local ownership” in the 2005 Paris Declaration as the central actors are indigenous leaders committed to transforming their societies. Third, the model helps development agencies safely incorporate politics and address the perceived risks associated with more politically informed approaches. Local leaders and partners, not development agencies and other external agencies, engage in the domestic political arena. Finally, the model may also hold lessons for those interested in improving aid effectiveness. Although only applied to a handful of economic policy reforms projects in the Philippines, it has shown an ability to engender transformative institutional change. While it is uncertain if the model can be applied to other sectors and countries, the payoff—better development outcomes and improved lives—should encourage continued experimentation.
INTRODUCTION

In recent years, the development community has increasingly recognized the importance of governance for achieving good social outcomes. But moving from understanding its importance to actually acquiring good governance and institutions remains problematic. Carothers and de Gramont (2011) note that “moving away from the temptation of the technical toward methods of assistance that are politically nuanced and politically engaged—is a much deeper challenge.” With the recognition that governance and politics matters, many development agencies have incorporated political economy analysis into their strategic planning, program design, and evaluation processes. For Brown (2009), political economy analysis has helped donors develop more realistic strategies and programs, identify more politically feasible approaches to reform, and shift the focus from individual champions of change to broader and more sustainable coalitions for change.

While the increased attention to politics and political economy is a positive development, its operational value remains a challenge. Beuran, Raballand and Kapoor (2011) pose the challenge as the “so what” test:

“[w]hile many PE [political economy] studies do a reasonably good job of describing the operating environment and identifying winners and losers, most of them fail to meet the “so what” test by making practical recommendations on a way forward.”

This paper presents a practical model, called development entrepreneurship, to help development agencies and practitioners go beyond political economy analysis to incorporate politics into project and program implementation. It provides a framework for effective institutional change: the elusive combination of “technically sound, politically possible” reforms. To find that elusive combination, the model suggests

1) an iterative process that uses evolutionary principles to find technically sound and politically possible reforms; and,

2) local leaders in local organizations, referred to as development entrepreneurs, using nontraditional entrepreneurial and coalition-building skills who manage and undertake the process.

Development entrepreneurship emerged out of the intense economic policy reform battles in the Philippines of the last 15 years.¹ The policy victories have contributed to transformative institutional changes that continue to improve the lives of millions of Filipinos. The liberalization of civil aviation has increased competition, lowered

¹The model emerged from experience and collaboration with many people and organizations. Steven Rood of The Asia Foundation provided wide latitude to experiment. In USAID Philippines, Jon Lindborg, Bob Wuertz, Christian Hougen, Tyler Holt, John Avila and Thomas Rojas were vital partners. Bill Cole was an active early supporter. Most importantly, Philippine development entrepreneurs lived and showed how transformative institutional change is achieved. The economic policy reform case studies can be found in Faustino and Fabella 2011. The book is available at http://asiafoundation.org/publications/index.php?q=built+dreams&x=0&y=0&searchType=country&country=0&program=0
prices, and widened consumer choice. From 8 million passengers in 1990, more than 34 million passengers enjoyed the benefits of liberalization in 2011. In sea transport, the introduction of Roll-on, Roll-off (RO-RO) sea transport policy in 2003 eliminated inefficient and costly cargo handling. The policy reform led to 22-60 percent reductions in sea transport costs (ADB 2010).

In property rights, a law creating administrative procedures for titling residential lands passed in 2010 was largely responsible for a historic 1,450 percent increase in the annual number of titles issued by the government. The number of titles issued jumped from 3,800 annually to over 55,000 titles in 2011. In all cases, Philippine development entrepreneurs in local organizations led the process of finding technically sound, politically possible reforms. Later in the paper, we will explore the activities, outcomes, and role of individuals in achieving the reforms. Because these reforms were supported by USAID and The Asia Foundation, we also explore the role of external agencies.

The remainder of the paper has four sections. First, past and current thinking on governance, institutions, and development are reviewed. Building on the current consensus on development thinking and real-life reform experiences, the next section presents the development entrepreneurship model. The third section details two examples of development entrepreneurship. The sea transport and property rights reform cases detail reform story and the critical role that development entrepreneurs in local organizations and reform conjunctures in achieving transformative reform. The paper concludes with key findings and suggestions to the practical question: “So how does this help me on Monday?”

DEVELOPMENT THINKING: PAST AND CURRENT

The literature on the determinants of sustainable growth has varied considerably in the last 50 years. For instance, in the 1950s and 1960s, many believed that long-run economic performance depended on capital investment, and that raising savings through a “big push” (Rosenstein-Rodan: 1943) would launch countries into self-sustaining growth or “take-off” (Rostow: 1960). By the 1980s, the literature began to emphasize the importance of a good economic policy environment. The so-called “Washington Consensus” emerged with defined sets of institutions and policies to foster growth (Williamson, 1990; World Bank, 1993). However, by the late 1990s, serious questions were raised given the poor performance of countries applying the “Washington consensus,” notably in the aftermath of the Asian financial crisis (World Bank: 1998).

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2RO-RO is a system that allows vehicles to drive on and off instead of the cargo being lifted on and off by cranes and forklifts.

3The detailed economic policy reform case studies can be found in Faustino and Fabella 2011. The book is available at http://asiafoundation.org/publications/index.php?q=built+dreams&x=0&y=0&searchType=country&country=0&program=0

4The United States Agency for International Development (USAID) is the U.S. government’s agency primarily responsible for administering civilian foreign aid (www.usaid.org). The Asia Foundation is an international private nonprofit organization that seeks a peaceful, prosperous, just, and open Asia-Pacific region (www.asiafoundation.org).
More recently, there is increasing consensus on several points. These include: *Institutions Matter*. There is broad consensus on the centrality of institutions to economic growth and development and the role of politics in driving institutional change.\(^5\) As noted by Rodrik and Rosenzweig (2009):

> “[e]conomists increasingly acknowledge the importance of institutions—the rules of the game in a society—and the nature of political and power struggles that lie behind them... issues of governance, politics, and power are no longer a sideshow; they constitute a central element in the field.”

*Local Context and Politics Matter*. The local context and politics have significant influence on growth and development. There is now widespread consensus that there is no single recipe for economic growth and development and a need exists to recognize country specificities based on its development stage.\(^6\) After a rigorous review of 13 countries, the *Growth Commission Report* (2008) concluded, “each country has specific characteristics and historical experiences that must be reflected in its growth strategy.”

The recognition of importance of local context stands in contrast to ready-made menus, such as the Washington Consensus and “best practices” that adopt “one-size-fits-all” approaches. Instead, more open-ended views, such as “good-enough governance” by Grindle (2007), “building on the status quo” by Moore and Unsworth (2006), and “best-fit” by Williams et al. (2010) have began to challenge the dominant view of the day. The subtitle “Good Practice Framework” of the World Bank’s *Problem-Driven Governance and Political Economy Analysis* (September 2009) affirms this shift in thinking.

*Elites Matter*. Elites are those whose influence on the decision-making and whose share in the benefits are disproportionate to their number in the polity. The political settlements framework puts emphasis on the concept of power, how it is distributed among competing and cooperating groups, and how it is used in pursuit of group interests. The focus is thus on powerful actors—those endowed with the capacity to shape the behavior of others (Parks & Cole: 2010).

The elite, however, is neither a monolithic faction nor static in form. James Robinson (2010) claims that disunity of elites or elite decay can trigger institutional change, as can changes in elite preferences occur. As such, differences in elite interests can be exploited to facilitate policy reform. Understanding how elites form around sets of institutions and how elites change over time is necessary to understand the persistence of institution-building in developing countries.

We now turn to a model that draws on current development thinking and the real-life economic policy reform experiences in the Philippines.

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\(^6\) See for example Grindle (2007) and Rodrik (2004).
DEVELOPMENT ENTREPRENEURSHIP MODEL

Development entrepreneurship model builds its approach on these important insights. The goal of development entrepreneurship is to find “technically sound, politically possible” reforms.

The identification and selection of “technically sound” reforms is defined by three characteristics:

1) Transformative. The proposed reform has the possibility of changing the incentives and behavior of the majority of people and organizations. As a result of that change, the interplay will likely lead to better development outcomes.

2) Institutionalization. The proposed reform has the possibility of becoming part of and being incorporated into one of two structures: as part of structured and formalized bureaucratic practices or as part of responses to market signals. In both cases, the purpose of the change is to make reform the “new” status quo and thereby ensuring policy sustainability.

3) Scale. With limited funding or support, the proposed reform has the possibility of expanding beyond the specific project intervention site or agency.

Politically possible is a situation when the political environment favors reform. Because people, emotions and interests are involved, determining “politically possible” is a difficult endeavor. In a world too complex to model, there is no empirical test to determine this condition. Instead experience and educated guesses are our tools. We turn to the “how to” and “who will” find technically sound, politically possible reforms.
**Component 1: Iterative Process**

In the past few years, development has been described as a set of “wicked problems” (Barder: October 2010, Howes: 2012). Coined in the 1970s, “wicked problems” refer to a broad range of problems that involve changing the mindsets and behavior of a large number of people (Rittel and Webber 1973). According to Ritchey (2007), some of the characteristics of wicked problems are:

1. Problems are only really understood after solutions are developed. Because problems are hard to define, solutions are also hard to define.
2. Solutions to wicked problems are not right or wrong, but more accurately “better,” “worse,” “good enough,” or “not good enough.”
3. Each wicked problem and solution is essentially unique. Coupling many factors and fluid social and political context, means that no two problems are alike, and the solutions to them will always be customized.
4. Every solution has consequences. One can only learn about the problem by trying solutions. But every solution tried is expensive and has lasting unintended consequences that, in turn, are likely to spawn new wicked problems.

An Australian government report (Australian Public Service Commission, 2005: pp. 35-36) concedes that tackling wicked problems is an “evolving art” but recommends several principles. One is to use holistic and not partial or linear thinking. A second is to try innovative and flexible approaches. A third principle is to effectively engage stakeholders and citizens in understanding the problem and in identifying possible solutions. A fourth is to achieve a better understanding of behavioral change by policymakers. And finally, a tolerance for uncertainty and acceptance of the need of a long-term focus is required.

A corollary is acceptance that there is no single point in time when full understanding and control are achieved. Relationships, networks, and ideas are constantly being discovered and discarded in response to random shocks and events. Social and political realities are self-organizing systems characterized by non-linearity and unpredictability (Ramalingam & Jones: 2008).

To reduce the information gap and manage uncertainty, an iterative “learning by doing” approach is proposed. In *Just Start: Take Action, Embrace Uncertainty, Create the Future*, three leaders⁷ outline a proven process for achieving goals in an uncertain world (Schlesinger et al: 2012):

1. Start with desire of something you want to achieve.
2. Take a smart step as quickly as you can toward your goal.
3. Reflect and build on what you have learned from taking that step.
4. Repeat.

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⁷1) Leonard A. Schlesinger, the President of Babson College, 2) Charles F. Kiefer, the President of Innovation Associates, and 3) Paul B. Brown, a contributing editor to both the MIT Sloan Management Review and The Conference Board Review.
Owen Barder recommends using the principles of evolution: variation and selection. Instead of a single pre-designed approach with specific steps, it accepts that there are many unknowns. As such, it suggests that a variety of approaches be pursued based on available information and educated guesses. Selection then is the stage of assessing which of the approaches is working. Development entrepreneurship proposes an iterative process consisting of three phases with feedback loops (See Figure 1).

Figure 1. Iterative Process of Development Entrepreneurship

1: Technical and Political Economy Analysis
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 is an understanding of “how political and economic processes interact in a given society, and support or impede the ability to solve development problems that require collective action” (Unsworth and Williams 2011). In their survey article, Duncan and Williams (2010) note 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 standard 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 political actors.
An important outcome of political economy analysis is an understanding of the *business model*, a covenant among elements of the elite showing how surplus or rent is generated, by what rule—formal or informal—and how that surplus is shared by the various vested interests (Faustino and Fabella, 2011). This can be legally mandated or autonomous. In a pure market setting, a cartel is a *business model* to maximize rents extracted from 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).

### 2: Strategies

Strategies are activities that seek to alter the *business model* based on technical and political economy analysis. Key questions revolve around the following considerations:

1. **Decision-maker**
   a. Who is the decision-maker or the target of the strategy?
   b. What are his/her interests and political calculus?
   c. What may make the decision-maker decide in favor of reform?
   d. Who can influence the decision-maker?

2. **Anti-reformers**
   a. What are the opponents of reform doing to hamper or thwart reform?
   b. Who are their allies?
   c. What is the nature of their relationship to key decision-makers and to each other?

3. **Reformers**
   a. Who are negatively affected by the status quo?
   b. Who among them might have sufficient political capital to influence the decision-maker?
   c. What arguments, activities and outputs can be implemented to convince them to spend their political capital on the proposed reform? Customization is essential.
   d. What can be done to weaken or divide those opposed to reform?

4. **Large Forces and Events**
   a. Are there political or economic developments (local, national, regional, international) that may help or hinder reform?
   b. Can these be harnessed?

To successfully alter the business model the primarily commodity is *political capital*—the ability of individuals, groups, associations, families, coalitions, and networks to influence the outcome of political events. A scarce resource, some have more political capital than others but all spend it with care. *Political calculus* is each person’s distinct “formula” that determines whether and when to spend political capital. These “formulas” are time- and context-specific. Reform is, in part, possible because variables in the formulas can be changed. Unfortunately there is no checklist for determining the *political calculus* of politicians or civil society allies. Instead, educated guesses and tests are proposed. *Development entrepreneurship* accepts “perceived self-interest” as the starting point.
An important element of the developing strategy is recognition of the central role of elites because they dominate social decisions (see e.g. Amsden, DiCaprio, & Robinson, 2009). As Fabella (2012) counsels:

“instead of endlessly decrying the existence of the elite and the powerful conglomerates they control in our midst, it may be more fruitful to employ the Asian art of Jujitsu: ride, rather than arm wrestle, the elephants.”

Based on the strategies that emerge, the next challenge is execution.

3: Technical and Political Action

Technical and political action refers to activities that customize technical analysis and implement strategies. The principal purpose of political action activities such as briefings, presentations, policy papers, etc., is to convince those with political capital to spend it on reform.

Technical and political action is one of the most difficult and challenging components of the development entrepreneurship model as it brings together the technical and political dimensions of reform. First is the enormous demand on time and energy. To successfully build a coalition requires taking every opportunity to network. It requires the constant customization of analytical reports and presentations to fit the needs and perceived interests of each potential ally. In developing countries where organizations are weak, engagement at informal and social dimensions may be more important than through formal channels. Dinners, karaoke singing sessions, family and school reunions, wakes and baptisms are important parts of networking and coalition-building. Coalitions and networks are the epicenter of technical and political action as they provide the aggregate political capital necessary for successful reform.

Secondly, technical and political action requires responding and working in “real time.” The challenges of preparing technical analysis, maneuvering in the political arena, building coalitions in “real-time” are enormous. Most development professionals are comfortable with and stay within the technical dimension. Armed with defined terms of references with clear timetables and outputs, their world is predictable and rational. In contrast, the world of reform and politics is murky and uncertain. Relationship-building, networking, and coalition-building are primary ingredients for success. Some will join, others will drop out and still others will betray the reform to work for the opponents of reform. It requires constant and astute understanding of individuals and dynamics. Making mistakes and offending certain individuals can inadvertently turn a potential ally into a committed opponent. As such, the arena of politics is not for the socially and politically faint-hearted.

Reform Conjunctures

The iterative process is broken by reform conjunctures (See Figure 2). These events, which are at times predictable but often unforeseen, render the reform politically feasible. Political feasibility is not set in stone. It fluctuates with unforeseen political and economic shocks, rediscovered personal networks, and many other factors. Similar to “thermals” in hang gliding, conjunctures are unseen mass of air which push gliders up higher. Like experienced hang gliders, seasoned development entrepreneurs can recognize and exploit reform conjunctures.
Component 2: Development Entrepreneurs

Built on the tenet that human agency matters for institutional change, the approach highlights the importance of the principal actors who actively manage reform campaigns with a single-minded focus on taking advantage of reform conjunctures to foster institutional change. These actors are what we call development entrepreneurs. In his preface, Leftwich (2011) argues:

“[t]he idea of development entrepreneurs gives concrete expression to the idea of agency, though in each and every case, these development entrepreneurs were not single, solitary, isolated, or sole agents of change. On the contrary, they were brokers, facilitators, doers, shakers, movers, operators, orchestrators, and activists who knew when, where, and how to mobilize other people (some in key places), interests, ideas and resources to bring about institutional innovation or change in the specific context of the Philippines’ political and institutional environment…. In short, they were able to use the windows, the critical junctures, or the triggers, to mobilize politically in support of key institutional changes or innovations.”

Development entrepreneurs are people who commit to making social organizations work for the greater good by creating the circumstances that lead to the adoption of good institutions. “Creating the circumstances” means technical and political actions such as identifying the welfare-reducing or wasteful status quo; documenting or evidencing the welfare cost of such set-up; identifying or formulating an alternative to
the status quo and evidencing its benefits; bringing the alternative and comparative
evidence to public consciousness; identifying the obstacles and interests that stand in
the way of its adoption; identifying the potential allies for adoption; and, softening
those obstacles with alternatives that favor attainment (Faustino and Fabella, 2011).

This thinking was suggested in earlier work. P. T. Bauer, one of the most forceful
critics of foreign assistance going back to the 1950s, strongly advocated indigenous
development by ground-level entrepreneurs in the developing world. Easterly (2006),
a more contemporary critic of foreign assistance, argues “the only true path to
development is an indigenous one.”

Based on experience and case studies, finding and working with development
entrepreneurs is likely another very difficult and challenging facet in the model. As
John Young notes,

[...]turning a researcher into a policy entrepreneur or a research institute into a
policy-focused think tank is not easy. It involves a fundamental reorientation
towards policy engagement rather than academic achievement; engaging much
more with the policy community; developing a research agenda focusing on
policy issues rather than academic interests.

We turn to their counterparts in the private sector for guidance.

Entrepreneurs and their Logic
Implementing the iterative process requires a distinct approach to life and work. It
requires people in society who serially convert ideas into reality—entrepreneurs.
According to noted researcher on entrepreneurs, Saras Sarasvathy, entrepreneurs use a
different logic. Contrary to the perception that entrepreneurs “make it up as they go
along,” there is logic to their behavior. Entrepreneurs use effectual logic, defined as
“a process that allows goals to emerge contingently over time from the varied
imagination and diverse aspirations of leaders and the people they interact with.” In
contrast to entrepreneurs, managers use causal logic defined as starting with “a pre-
determined goal and a given set of means, and seeks to identify the optimal—fastest,
cheapest, most efficient, etc.—alternative to achieve the given goal” (Sarasvathy,
2001). She further argues that entrepreneurs follow a distinct set of principles:

1. *Bird in Hand.* An acceptance of how the world is, what resources are at
   their disposal, and whom they know.
2. *Affordable Loss.* Recognition that a number of failures are needed to
determine the “winning formula.” This has strong affinity to the principles
   of evolution discussed above.
3. *Crazy Quilt.* Understanding that collaboration, working with others, is
   essential for success.
4. *Make Lemonade.* Drawing from the phrase “if life gives your lemons,
made lemonade,” this refers to an attitude that life has a tendency to bring
new developments and surprises. For entrepreneurs, the correct response is
to adjust and “embrace the change.” This attitude is an expression of

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8] John Young, “Strategies for Impact and Policy Relevance,” Overseas Development Institute,
entrepreneurs' confidence in their ability to recognize, respond to, and reshape opportunities as they develop. Entrepreneurs thrive on contingency.

5. *Pilot in the Plane*. It is an attitude that entrepreneurs are like pilots. There is no need to predict the future because they believe their actions can influence and shape events. (Buchanan, February 1, 2011).

**Local Partner Organizations**

While *development entrepreneurship* emphasizes the role of human agency, the model also acknowledges the importance of local organizations and institutions that support the development entrepreneurs. In the private sector, business incubators are an illustrative example of supporting infrastructure. These organizations provide programs designed to support the successful development of entrepreneurs in small companies through an array of business support resources and services to increase their chances of success. Business incubation programs are positioned to help entrepreneurs access resources through the incubator, business community, local colleges and universities, and other business assistance programs to help them develop the skills they need to grow successful firms.

Development entrepreneurs require a similar eco-system. Local partner organizations provide the scaffolding to support their efforts. Development agencies’ grant support to local institutions working with development entrepreneurs can be one of the most useful and effective forms of assistance. Local organizations have a legitimate right to engage and participate in domestic political processes. This allows for the integration of the technical and political dimensions. Another advantage is that these organizations are autonomous and multilaterally supported. Unlike development contractors and consultants, local partner organizations are not implementers of development agency programs. Instead, their board and staff independently determine their programs. Independent agenda-setting by local partners shields development agencies from the charge of interference in domestic politics. And finally, grants allow all actors (development agencies, local partners and coalition members) to iterate and learn by doing. It accepts that development is a wicked problem and much is unknown at the outset. In contrast, the usual tools of contracting such as scopes of work, proposals and contracts are based on the assumption that problems and solutions are known at the outset.

So far, this paper has argued that institutional change is achieved through an iterative process, punctuated by reform conjunctures, and orchestrated by development entrepreneurs in local organizations to find technically sound, politically possible reform. To illustrate the concepts, the following section presents two examples of how *development entrepreneurship* was implemented to introduce transformative institutional change and improve the lives of people.

**DEVELOPMENT ENTREPRENEURSHIP IN ACTION**

The first case focuses on the successful political battle to introduce a new sea transport policy that spurred investment and competition, lowered prices, and

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9I would like to acknowledge Larry Cooley for this important insight.
increased consumer choice. A second case focuses on the introduction of a law to expedite the titling process to unlock “dead capital” in un titled lands.

*Sea Transport Policy Reform*

This case highlights a number of key elements of *development entrepreneurship*. For one, it will detail the iterative process with references to dead-ends and what emerged as the technically sound, politically possible reform. The case will also note the importance of understanding the broader context and unpredictability of reform conjunctures. And finally, the case provides background on the development entrepreneur who managed the reform process and the policy decision of his policy institute to move from analysis to active engagement.

For decades, many recognized and complained of the high-cost of inter-island shipping in the Philippines. The sea transport network was based on the loading and unloading of containers with gantry cranes and forklifts called Load-on, Load-off (LO-LO). In 2000, a USAID-supported project began efforts by conducting a “technically sound” reform, a study to determine the true costs of port services. After some time, it became evident that the regulatory agency was not inclined to implement the recommendations.

Puzzled by the lack of action of the regulator, the consultants began to explore the political economy of the shipping industry. An understanding emerged that a “status quo coalition” benefitting from an inefficient but lucrative business model was present:

- The regulatory agency encouraged and approved regular rate increases because it received 10-20 percent of the cargo handling fee, representing a blatant conflict of interest;
- Shipping companies established cargo handling companies to make extra profits;
- Labor unions enjoyed the benefits of a labor-intensive logistics network regardless of efficiency losses to the economy.
- Some politicians joined to share in the rent-seeking operations.

This led to rational behavior that was detrimental to economic development—rate increases were regularly requested by cargo handling companies and immediately approved by the regulator after perfunctory public hearings.

With a “captured regulator” and strong private interests, the original first best reform target of overhauling the regulatory agency became a dead end. The reform advocates had to backtrack and redirect its efforts. An alternative technical and political solution was needed. On the technical dimension, several studies in the early 1990s recommended the implementation of the Roll-on, Roll-off (RO-RO) network. As an archipelago, creating connections between islands can foster significant trade and investment. The system allows vehicles to drive on and off of a ship to increase efficiency and lower costs due to negligible cargo handling. In terms of the political dimension and economic incentives, it was understood that the regulator and those

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10The USAID-supported project was called AGILE an acronym for *Accelerating Growth Investment Liberalization with Equity* (1998-2004).
benefitting from the inefficient system would “not commit suicide” by implementing RO-RO. As such, an alternative coalition was needed to counter the status quo.

After many workshops and briefings in 2001-2002, an eclectic mix of political and economic interests emerged as a coalition for change. Government allies joined such as the Secretary of National Economic Development Authority, Secretary of Department of Agriculture, Secretary of Department of Finance, Secretary of Department of Environment and Natural Resources, Secretary of Department of Interior and Local Government, and the Chair of the government-owned Development Bank of the Philippines. On the private sector side, business associations who suffered from and paid for the poor service and high prices actively supported the reform. These included the Mindanao Business Council, Federation of Mindanao Shippers’ Associations, Northern Mindanao Shippers’ Association, Philippine Chamber of Commerce and Industry, Federation of Philippine Industries, Supply Chain Management Association of the Philippines, Export Development Council, Confederation of Philippine Exporters and Importers, and Employers Confederation of the Philippines.

Throughout 2002, reformers noticed that the president was making frequent trips to Mindanao in the southern Philippines. A week prior to each presidential visit, reformers briefed the Mindanao constituents on the need for a RO-RO policy to reduce the costs of transporting goods. In late December 2002, an important but unexpected reform conjuncture surfaced. President Arroyo announced she would not run in the upcoming 2004 presidential election. Instead she promised to implement
programs to secure her legacy. Days after her announcement, a letter signed by members of the government and private sector coalition was submitted to President Arroyo endorsing the RO-RO policy. On January 22, 2003, President Arroyo issued the RO-RO policy (Executive Order 170). On hindsight, it appears that the president signed the policy to cater to the constituents in Mindanao. Since then, RO-RO service has flourished to reduce transport costs and facilitate trade, logistics, tourism, employment, and investment. (See Graph 1 below)

**Graph 1. Cost savings from RO-RO service on selected commodities and routes**

From 1999-2003, the RO-RO policy reform likely cost between $1-$2 million of USAID support to a small team of development entrepreneurs at the Center for Research and Communications, a Philippine policy institute. The return on investment has been significant with significant increases private investments, reduced transport logistics costs, enhanced local and regional development, and growth in tourism (Asian Development Bank 2010).

The story is incomplete without recognizing the central role of Dr. Enrico Basilio, a development entrepreneur, and the organization he worked for, Center for Research and Communications (CRC). While many participated, he and his team provided much of the analysis, relationship, and coalition building. At the time, Dr. Basilio was teaching economics at the University of Asia and the Pacific and was an analyst at a university-based policy institute, CRC. Instead of implementing the traditional policy

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11 President Arroyo later reneged on her promise and ran in the 2004 elections.

approach (analysis, report and seminar), it was agreed between USAID, and U.S.-based contractor, and CRC that the goal was policy reform not simply technical assistance. This represented a turning point for all concerned. Unknowingly, USAID began a journey to incorporate the political dimension of reform. CRC also evolved. Initially established as a policy institute, its mission was to provide analysis and recommendations to policymakers. A board meeting was called. The main issue was whether CRC would provide technical analysis and build the coalition to provide political support for reform. CRC decided in the affirmative. This marked a major significant shift by CRC away from merely providing technical analysis to incorporating technical analysis and politics in their projects.

Property Rights Policy Reform

The property rights case details the iterative process with references to an initial dead-end, the search for a technically sound, politically possible reform and the execution of the strategy. The selection of the reform by development entrepreneurs was the critical factors for success. The case ends with background on the local organizations and development entrepreneurs who conceptualized and implemented the reform campaign.

It is estimated that half of the 24 million land parcels in the Philippines remain untitled. Because prudent regulation prevents banks from lending based on untitled parcels, it is estimated that hundreds of millions of dollars worth of “dead capital” are locked in untitled land parcels. This hampers investment essential for generating employment and reducing poverty. In addition, the lack of secure property rights creates social conflict, hampering the prospects for social peace and economic development. A set of laws and procedures, some such as the Public Land Act of 1936, made titling an expensive and cumbersome judicial process. Millions of landowners chose simply not to title the land and live on their property without title.

In 2007, an activity to improve property rights was started. Supported by USAID, The Asia Foundation worked with the La Salle Institute of Governance to integrate several land agencies such as the Land Registration Authority of the Department of Justice and the Land Management Bureau of the Department of Environment and Natural Resources among others into one department. After several months it emerged the proposed reform was not politically feasible. Several affected agencies launched well-orchestrated campaigns to thwart the reform. In response, the La Salle team conducted a search for a “technically sound, politically possible” reform. After searching, networking, and probing many possible reforms, the team settled on a second strategy—legislate a simpler, less expensive, and faster administrative procedure to title the estimated 8 million untitled residential parcels.

Once the reform was identified, the team at La Salle and later, the Foundation for Economic Freedom began networking and coalition building. Over time, an informal coalition emerged. In the House of Representative, Rep. Cerilles successfully drove the legislation from the House committee to ratification of the bicameral conference committee report. In the Senate, several senators provided leadership. The Land Administration Management Project, an AusAID-supported project, was instrumental

in moving the legislation in the Senate. The Chamber of Thrift Banks, Rural Bankers Association of the Philippines, and the Bankers Association of the Philippines, who were interested in better loan collateral, also supported the law.

In March 2010, the Philippines passed the Residential Free Patent law. This law ushered in institutional change as the interplay between the bureaucracy and individual landowners is now creating significant development outcomes. In the first full year of implementation (2011), more than 58,000 titles were issued to individual families. This represents an astounding 1,450 percent increase over previous years (See Table 3). With an average of four residents per parcel, the reform has increased the security of property rights for about 220,000 people. (For a more detailed exposition, please see “Property Rights Reform in the Philippines: The Residential Free Patent Act” by Calixto Chikiamco and Raul Fabella in Faustino and Fabella: 2011).

Table 1. Number of Residential Free Patents Issued (2003-2011)

<table>
<thead>
<tr>
<th>Year</th>
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<td>2003</td>
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<td>2000</td>
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<tr>
<td>2010</td>
<td>2000</td>
</tr>
<tr>
<td>2011</td>
<td>58,000</td>
</tr>
</tbody>
</table>

*Source:* Philippines Department of Environment and Natural Resources

In terms of external agency support, USAID provided critical grant support to The Asia Foundation and local partners, initially La Salle Institute of Governance and subsequently Foundation for Economic Freedom. For less than $1 million over a four-year period, USAID and its partners helped to usher in a widely beneficial new program. AusAID and local staff of the Australian contractor, Land Equity Inc., played a vital role by providing assistance to key senators.

Reforms such as the residential free patent law are the result of the actions of many people and organizations but two development entrepreneurs deserve recognition: Calixto Chikiamco and Attorney Erwin Tiamson. Mr. Chikiamco, a political analyst who is an ardent believer in the centrality of property rights for economic and political development, provided the intellectual fundamentals. In 2010, he became the president of the Foundation for Economic Freedom, an advocacy nonprofit “dedicated to advancing the cause of economic and political liberty, good governance, secure and well-defined property rights and market oriented reforms” (Foundation for Economic...
Freedom: 2011). A second development entrepreneur, Attorney Tiamson is an equally ardent advocate of property rights. As a former director of the government’s Land Management Bureau, he had the practical and technical skills. He correctly identified and recommended for the team to focus exclusively on residential lands and exclude agricultural lands. He argued that this strategy would: a) avoid the intense politics in agriculture and agrarian reform, and b) get a significant victory since the residential lands were 70 percent of all untitled parcels. In other words, he identified the technically sound, politically possible reform. It is also important to note that another donor project had the opportunity to listen to Attorney. Tiamson since he was a consultant for the AusAID-supported Land Administration Management Project (LAMP). His advice to focus on solely on residential titles was not heeded. Only when the reform gained momentum did the AusAID-supported LAMP provide critical support in the Senate.


**ISSUES FOR CONSIDERATION**

The model raises a range of issues and questions. One set of challenges is whether it is applicable to policy areas other than economic reform. At this point, it is unclear if the model is applicable to other challenges such as environment, women’s rights, rule of law, and local governance to name a few. To partly answer the question, The Asia Foundation with support from AusAID and the Developmental Leadership Program ([www.dlprog.org](http://www.dlprog.org)) will publish set of case studies in 2012 on development entrepreneurship and social sector reform in the Philippines. Initial findings point to
the central role of committed individuals who organized and managed reform coalitions for achieving successful reform.\textsuperscript{14}

Others have asked if the model can be successfully applied to other countries. While it is impossible to argue definitively, it is likely that the key principles used in other countries and contexts. In other words, because the model is based on local politics, the local context, and local leaders, it is likely to be applicable in other countries. The fundamental challenge is finding individuals, the development entrepreneurs, who want to transform their societies.

**CONCLUSION**

This paper has covered a broad range of topics, yet the central message is simple: transformative institutional change can be achieved through an iterative process undertaken by development entrepreneurs in local organizations. From this discussion of the development entrepreneurship model, we can define a number of tenets to inform development thinking and practice elsewhere:

- **Technical and political dimensions play equally important roles for achieving reform.** There is a universe of reforms, some of which are technically sound, and others, politically possible. Successful reform is the elusive mix that is both technically sound and politically possible at specific moments in time, and at critical junctures amid the seeming chaos. An iterative process that constantly combines three reform elements: technical and political economy analysis, strategies, and technical and political action to find the elusive combination.

- **Finding technically sound, politically possible reforms is an iterative, non-linear, and context-specific process.** Successful reform involves the embedding of technically sound policies within the murky and ever-shifting world of local politics, coalitions, and networks. In all cases original goals were changed to account for political dynamics and reform conjunctures.

- **Technical and political action is the most critical and difficult component for achieving institutional change.** Technical and political action seeks to convince those with political capital to spend it on recommended solutions. It is based understanding the perceived self-interest of elites and aligning those interests to make reform possible. Technical and political action is the daily work of negotiating the complex socio-economic and political terrain of reform, building formal and informal coalitions for change to achieve better developmental outcomes.

- **Development entrepreneurs are the central protagonists who will find technically sound, politically possible reforms.** In the first instance, they have a legitimate right to participate in local politics. Allowing them to play this lead role reduces the political risks to external development agencies. Second, local leaders understand the local context better than most and have, or are capable of building, “networks of trust” essential to build an effective reform coalition. And finally, they possess the skills and motivations to structure

\textsuperscript{14}For initial findings see Adrian Leftwich and Edward Laws, "Riker in the Tropics: The Theory of Political Coalitions (1962) and the politics of change in developing countries," Development Leadership Program, April 2012.
“locally appropriate and feasible institutional and policy arrangements necessary for tackling a series of nested collective action problems” (Leftwich: 2009). Development entrepreneurs possess the clarity of purpose and sense of urgency essential for achieving successful reform.

- **Finding and working with development entrepreneurs is a major challenge.** Too often, projects devised by development and other external agencies follow linear framework and theories of change that tend to attract professionals who can deliver the scope of work and outputs. Projects that encourage experimentation, testing, and probing have a higher likelihood of attracting development entrepreneurs.

- **Reform conjunctures, events that change the political environment to favor reform, are critical for success but unpredictable.** To take advantage of these conjunctural waves and opportunities, development entrepreneurs must be constantly engaged in the process and policy environment. The sea transport case highlighted the role of the 2004 elections, a seemingly unrelated event, as the catalyst for the transformative RO-RO policy reform. The key are local partners who are aware, engaged, and prepared.

- **Development agencies play important but supporting roles in achieving reform.** In a number of reforms, development entrepreneurs were supported by grants from development agencies. This allowed development entrepreneurs to lead the reform effort while helping development agencies manage institutional risks and increase aid effectiveness. An important challenge is how development agencies establish mechanisms and approaches to find and nurture development entrepreneurs. This is likely a challenging aspect of adopting the *development entrepreneurship* model.

- **Development projects that seek to foster institutional change require relatively modest financial resources.** Formal rules changes that unleash the interests of many are a relatively low-cost proposition. The residential free patent law is a good example. The law (Republic Act 10023) was only two pages and required limited technical assistance. Most of the activity costs were associated with developing the strategy and building the coalition to support the reform. The open skies policy issued by President Aquino in March 2011 is also a good example. Again the three-page policy (Executive Order 29) required some expert technical assistance but the majority of time and resources were devoted to building the coalition in national and local governments and in the business communities. Each reform cost about $150,000 per year for USAID.

**So how does this help us on Monday?**

While it is a positive development that politics and political economy analysis have come to the forefront of development thinking, many recognize that “translating analysis into operational recommendations remains a challenge.” Development entrepreneurship is an operational model to translate analysis into action.

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15 This section is based on a “Development Entrepreneurship” workshop conducted by The Asia Foundation to develop local individuals and partner organizations. For more information contact jfaustino@asiafound.org

The model suggests that the most important step for achieving success is identifying and working with development entrepreneurs. As such, the immediate practical steps for development agencies and practitioners is to re-examine the many consultants, contractors, and civil society organizations through the development entrepreneur lens. It is likely that potential development entrepreneurs are there but restrictive structures and incentives of logical frameworks, design documents, and contracts have not allowed them to emerge. To find them, build strong personal relationship and ask the question Steve Jobs posed to John Sculley, then-president of Pepsi. At the time, 1983, Apple was an unproven and small four-year old company. A brash Jobs asked Sculley, “Do you want to sell sugared water for the rest of your life? Or do you want to come with me and change the world?” (Public Broadcasting Service).

Once development entrepreneurs are identified, structure a project with a local organization as a home for the development entrepreneurs. Resist the temptation to over-design. Accept that most important things will be discovered along the way, that a broad range of unrelated events will require that significant macro and micro adjustments to goals, activities, and outputs. Outline a broad goal but leave the specific goals, activities, and outputs to be determined in the iterative manner proposed in Figure 1. Work with the development entrepreneurs to assemble a team with the necessary technical and political skills. Constantly press for clarity on the political economy and test strategies through technical and political action. Based on those activities, revisit some of the assumptions and press forward. Work together to steadfastly maintain clarity of purpose and sense of urgency to uncover the technically sound, politically possible reforms.

*Development entrepreneurship* suggests major changes in attitudes, processes, approach, and practice for development agencies and practitioners. Local leaders, not external agencies, will lead and drive an iterative, context-specific and unpredictable process to achieve reform. While the challenges are significant, the payoff—better development outcomes and improved lives—should encourage all to experiment, fail, learn, and ultimately, succeed spectacularly.
REFERENCES


