

Catalysts for regional development: putting territorial coordination in practice ¹

Gustavo Gordillo and Rodrigo Wagner ²

(Draft version. Comments welcomed)

Abstract

Lack of coordination among agencies at project level and scarce promotion of contracts at micro-scale are critical gaps widely spread in many Latin American regions. We discuss some specific and feasible mechanisms: (i) alliances for rural development and (ii) contract promoters; that may play a catalytic role to deal with the mentioned problems.

Based on a continuous improving integral strategy and an effective operative framework, these alliances would be prone to unveil areas for interventions and to channel them into the pipelines of the ministries, financing agencies or private investor initiatives. These alliances can assist in solving tradeoffs between enough economies of scale for enhancing capabilities and sufficient local knowledge. Also, they might reduce capture problems.

Contract promoters on the other hand, can be viewed as facilitators for startup businesses. They evolve as enterprise incubators, with expertise for rural areas, projects and marketing; combined with a vision for development. Both catalysts have a synergetic effect for coordinating regional development and should be prominent in rural modernization agendas.

Key Words: Rural development, Catalyst, Experimental, Promoter, Local Governance, Applied Political Economy

JEL Classification: G50, R11, H83, M13, D7

¹ This paper has also benefited from the presentation of a previous version at the 8th International New Institutional Economics meeting (ISNIE 04: Tucson, USA, 2004). The information, designations employed and opinions expressed in this paper, are those of the authors and do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization or its Regional Office for Latin America and the Caribbean, concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. These opinions may not coincide with those of the FAO.

² Gustavo Gordillo is Assistant Director-General and Regional Representative of FAO for Latin America and the Caribbean. Gustavo.Gordillo@fao.org Rodrigo Wagner is Consultant for the same Organization. Rodrigo.Wagner@fao.org

1. Introduction

Economics is good at predicting equilibrium. However, the prediction of dynamics and speed for reach that equilibrium is not as well developed (Mas-Colell et al³, 1995). In this sense, several and diverse models try to explain why certain regions seem to attract more economic activities than others⁴ (Head and Mayer, 2004). They highlight the endogenous decisions of individuals and companies: where to establish, returns to scale and issues concerning information (incomplete or asymmetric). Some explain the differences according to the endowment of natural, physical or even human capital.

More recently, social capital has been identified theoretically and empirically as a determinant of productivity (Knack and Keefer, 1997; Fafchamps and Minten, B. 2001) Social capital⁵ can be conceived as the social networks that mediate the enforcement of an ensemble of rules within which a society functions and the degree of trust people have on the validity of those rules. The most direct implication for this discussion would be that with a good endowment of social capital the projects might develop better, citizens' participation might be enhanced, and conflicts could be better channeled.

But, as we remark previously, speed and path of convergence into equilibrium really matters. We do not want to wait until the far long run. Thus we should ask: How can we increase and improve productive links for catalyzing regional development?

³ Section 17 H. Tâtonnement stability.

⁴ See also the literature about New Economic Geography.

⁵ Social capital refers to social organization traits such as trust, rules and norms and social networks that might improve efficiency in society by facilitating coordinated action (Robert Putman, 1993). Putnam links traits of societies with macro level performance. As Woolcock (1998) notes this interpretation is more integrated in the liberal theory of democracy in the sense that its concerns are more focused on elements that make states and societies function more efficiently and with better accountability. We prefer to use the concept of social capital in relation with collective action theory. Woolcock proposes a definition of social capital which would encompass norms and networks that facilitate mutual beneficial collective action. Bourdieu (1992) in turn defines social capital as the sum of actual or potential resources belonging to an individual or a group thanks to their integration to a broader and permanent network of inter-personal relations. *Bebbington (1999)* in addition highlights the role social capital plays in facilitating access to assets.

In this paper,⁶ we are focused on facilitating and enhancing development at a regional (meso and micro) level within a given basic set of endowments, rather than beginning by listing the shortcomings or insufficiencies at those levels. We start by showing some coordination problems that emerge from governance structures and lack of capabilities to find opportunities. Then, we move to discuss two types of mechanisms that could play an important role as catalysts (i) alliances to coordinate (micro) regional efforts of different agencies and, (ii) a system of contract promoters or facilitators.

An improvement of such “contract environment” would certainly increase the potential for long term regional development probably thru the proliferation of rural SMEs⁷

Developing good catalysts for contracts at meso and micro level is one of the most important, and maybe also one of the less explored, tools to unleash regional potentials. If catalysts are effectively embedded in local societies, probably their multiplier effect will be stronger and sustainable.

The main contributions of these paper are: (i) developing feasible in-roads to account for gaps in coordination at local level: the meso-catalyst; (ii) connecting that coordinating structure with a pool of catalyst at micro level that reduce transactions costs at micro level; and (iii) outlining a learning process to encompass continuous improvement of the methodology aimed at coping with those problems.

In short, we seek to formalize means to foster development in a region by an articulated effort to favor: development of abilities, interaction between people and institutions and a good micro- environment to establish enterprises.

In the second section, we review the state of the art regarding decentralization and contract promotion. In the third section, a regional development initiative that involves 3 Latin American countries and 9 micro-regions is revised. In the fourth section, we elaborate on the traits of the alliances for regional development. In the fifth section, the contract promoter

⁶ Following an analogy with chemistry, we understand a catalyst as an agent or organization that speeds up the reaching of productive interactions.

⁷ Small and Medium Enterprises

profile is discussed and the main challenges for its development are described. Finally, in section six we present some concluding remarks and suggest further lines of analysis.

2. Pursuing regional development. How far are we?

Public decision making is not aseptic⁸. Recognizing that, we present a conceptual background having in mind the incentives that each agent has, whether extra regional agency, local government, investor or simply local people, to interact in mutual benefit engagements.

2.1 Decentralization Trade-off

Initially, Tibout (1956) states that market of competing municipalities will reach the optimal provision of public goods. However, the evidence that “people votes with their feet” doesn’t fit so much into reality due to transaction costs and information asymmetries. Oates (1977) approach of Fiscal Federalism advocates for the efficiency of increased decentralization, if there are not cost advantages of centralization. The problem is that there are advantages in some issues, especially those regarding technical capacities.

But, in Latin America the question is not only at which scale the tax are collected and expenditures are defrayed. Decentralization favors efficiency, but not if one hastily delivers formal command without the resources (including human resources) to local authorities (Faguet, 2004; Vogelgesang, 2000). Some of the talents can be imported or developed, but trusts and certainties must be generated locally. The latter ones are processes that may be facilitated but one must keep in mind the historic co-evolution of the population, its inertia and the dynamics of potential change (North et al, 2000).

Formally, in the political economy literature, there is an unsolved trade-off regarding decentralization. It may facilitate the capture of local government, especially when extreme heterogeneity among actors' assets is present (Bardhan, 2005), description that fits with some places in rural Latin America. “Caciquismo” or “Coronelismo” has long been discussed as

⁸ In many analysis the state is considered as “one” benevolent entity. On the other hand, political economy and constitutional level of analysis remove such restrictions (Rausser and Goodhue, 2002), viewing those levels of decision to be also endogenous to players, which is more realistic approach for efficacious in regional development

evidence of those captures (Freyre,1968; Bartra,1978; Roniger, 1987a,b). However, local governments have advantages in knowledge of local variables: preferences, type of the local agents and productivity.

On the other hand, centralization increases economies of scale for technical capacity and decision making. However, Laffont and Martimont (1998), excessive centralization also facilitates the government capture, a reason why those authors emphasize the advantages of multiple agencies. In fact, North, Summerhill and Weingast (2000) warn that increasing the relevance of political decisions has diverse consequences: those with power have even less interest in leaving it. Sometimes, the fear to power loosing conducts the leaders to a sabotage of constitutional norms. Reducing discretion of authorities while, for example, protecting individual rights, reduces the loser incentives for breaking rules. Similarly, a big “capture premium” increases the propensity to use extra-constitutional methods to grab power or resist the policies promoted by those who detent power.⁹ Nonetheless, even with multiple agencies and low capture levels; the local variables normally are not efficiently detected.

Although decentralization is a very important issue, our focus is promoting development within the actual constitutional constraints. We recognize that execution and quality of interventions are very low, in part due to lack of local knowledge and coordination deficiencies by the centralized agencies, as well as to the limited economies of scale for technical capacities at local level.

There is significant theoretical work describing the relevance of perceptions and incentives for service delivery and prioritization at the local government level: political lobby (Becker, 1983); regulatory capture (Laffont, 2000) and rent seeking (Tullock, 1988). On the empirical side, recently FAO conducted a research on Latin American rural municipalities and their agricultural services quality. Supported by quantitative analysis of 1060 field interviews in 340 municipalities in 4 countries (Chile, Peru, Brazil and Mexico), it argues that successful decentralization of agricultural service delivery requires more than injecting financial support

⁹ See also some critics to the ideas of “prevent people from authorities”, especially in areas in which it is not feasible and where the contracts are not enough, and should be included in a more general context of local powers. For example see the case study of promoting market for rural photovoltaic energy in India by Radulovic (2004).

and technical training: it requires the construction of sound institutions that are capable of governing the cooperation between farmers, administrators and organized groups in society. External support might be more effective if used to strengthen the institutional arrangements that underpin cooperation between actors with different governance functions. This study also shows a positive and significant relationship between the fact that local governments take actions in agricultural services and their perception that central government agencies, local voters or local interest groups are concerned for that issue. Local governments invest when they perceive benefits, either financial or political (Gordillo et al, 2003).

Thus we can conclude that the actual dilemma is not about decentralizing, but about degrees and pace of change to guarantee efficiency and low levels of capture.

*2.2 Problems when "the solutions" are problems*¹⁰

Since the sixties, it is recognized that relatively less attention has been given to problems of regulating the conduct of legally independent but functionally interdependent public agencies¹¹ (Ostrom & Ostrom 1965). The literature for public-private coordinating partnerships is even younger. Coordination among agencies will be reviewed at both macro and local scale.

(a) Coordination at Macro scale

Public problems are a continuum, and when governments and agencies organize their activities and establish their boundaries will usually generate overlapping. Increasingly, the world becomes more complex and, with it, multidisciplinary and multi-level approaches require new approaches on the definition of agencies' mission and objectives.

In a quick search we found more than 50 peer reviewed publications¹² regarding or proposing coordinating committees among ministries, secretaries, cooperation agencies or intermediate public institutions. Though useful in very precise situations, coordination committees are

¹⁰ This name was adapted from the Pritchett y Woolcock (2004) paper.

¹¹ Agency considered broadly as cooperation agencies, ministries, public offices, corporations and NGOs pertinent to public interest

¹² Probably there are much more, however in this brief survey we can detect that coordination is a very extended problem and that how make operative that coordination is generally managed as a black box. Use the search "agencies AND coordination AND government" in Econlit and in ScienceDirect.

probably one of the "jokers" in every coordination problem. It is the buzzword for topics as different as: forest policies, HIV and chemical dependence correlation, implementation of alternative energies...

Coordination committees are being used at national level¹³ (e.g. inter-ministerial) as well as at international one (e.g. United Nations System¹⁴ in 1998, RUTA¹⁵ in Central America in 1980 and Inter-agency group¹⁶ of rural development in Latin America in 2000) Coordination may be a useful arrangement and generally it presents interesting results. With these coordination committees central governments want to align their policies and, sometimes, they are successful, probably due to a combination of a strong political support with a good managerial protocol. However, commonly some overlapped problems appear:

I) Principal-agent problems: for example the no alignment of organizational policy and the incentives¹⁷ for the agencies executives to collaborate and commit in searching Pareto Optimal outcomes for all agencies (e.g. when someone is evaluated by the level of budget expenditures rather than by the final impacts).

II) Managerial problems: best practices - like quality assessment, indicators setting up and continuous improvement - are not widely spread in those committees. Responsibilities are diluted in some circumstances.

III) Monitoring and follow up activities are not always easy to perform, resulting in the sub-optimal quality of the committee outcomes. Incentives for

¹³ In many Latin American Countries are used for environmental issues. In Chile are also used for transport planning, for rural and agricultural issues were established roundtables with different actors; actual administration has popularized such way of managing conflicts. In Argentina, there is a secretary for inter-ministerial coordination. In Peru, for example, there is a committee for SMEs promotion: (<http://www.mesapyme.com/>). Also, there are Inter - secretarial commissions in Mexico (e.g. against corruption, for social development). In Brasil, there is a Committee in which Casa Civil participate in some sense as a coordinator, there are also some committees ad hoc, like Marine resources (CIRM) and for Alcohol-Fuel policies.

¹⁴ The Chief Executive Board for Coordination and the pertinent High Level Committee on Management (HLCM) of the UN system. This board was improved in 2000.. More information at <http://ceb.unsystem.org/>

¹⁵ www.ruta.org

¹⁶ Inter. Agency group (IADB, IFAD, World Bank, FAO, IICA, ECLAC, USAID and GTZ) was created in the Annual IADB Governors' Meeting in New Orleans (March., 2000). More details at http://www.iadb.org/sds/ENV/site_2129_s.htm

¹⁷ Regarding problems in the international cooperation system, see Easterly (2002).

politicians, in order to seriously support and follow up the evaluation recommendations: cross controls of mass media, NGOs, and superior authorities could improve the responsiveness of governments to the detected and reported gaps. (Gordillo and Andersson, 2004).

IV) Participants on those committees may not have full fledged authority or simply no incentives to play an active role.

IV) Non permeability: if it is mandated, the heads of each agency could coordinate themselves in a committee. However, in most situations, this coordination does not reach the operative level of projects.¹⁸

V) Problems due to centralization of decision-making: although we assume that coordination among central government agencies is optimal, other problems persist such as the lack of information about local conditions, local preferences, local externalities and local projects operators.¹⁹

(b) Coordination at Municipal –scale

Coordination at municipal level could be performed, like in the Municipal Councils for rural development of Brazil and Mexico (Gordillo et al, 2003). Recent evaluation of that councils mention that in some situations they are useful; however different problems could be identified:

I) Capture by local authorities ("mayor-isation" of the council).²⁰

II) Councils do not increase too much the value of coordination, because the actual structure of municipalities serve as channels for those problems.

III) Insufficient economy of scale for technical capacity, fragmenting and diluting resources.(Vogelgesang, 2002)

¹⁸ Serrano (2003)

¹⁹ For some details about the relevance of the knowledge of local variables and the political game that generates, see Besfamille (2004) and Boadway *et al* (1999)

²⁰ For example see the assessment on Municipal Councils for Sustainable Rural Development in Brazil cited by Olivera 2004.

IV) Councils that only operates "in the paper" for fulfilling requirements of subsidies catching (e.g. some of the municipalities for applying in the PRONAF program in Brazil, see Oliveira, 2004).

V) Councils without enough local support. That's the case for some of the least successful territorial pacts in Italy (Italian Finances Ministry, 2003)

Consequently, coordination at both scales is useful, but has limitations that can be overcome with institutional arrangement at meso-level.

2.3 Frictions at micro scale: background and the contract promoter

We turn now to non- governmental perspectives on regional development. Large corporations can also work in the logic of the alliance, by being providers of good projects for both agencies and private business. It is important that large private projects be linked to local priorities. However, micro and small enterprises and also potential one person firms need to operate in a different context, a rougher environment in which the reduction of friction costs and information asymmetries should be strongly addressed, but with more idiosyncratic mechanisms.

Promoting small business is widely known as a strategy for development. However, how to operate that promotion is not trivial, especially if one seeks business sustainability. Incubation environment should enable the galvanization of new ideas, but also customer and quality pressures are needed, in order to guarantee that you are not incubating weak ideas that will only be a future demand for subsidies.

Neither credit nor closed training packages could serve as background, and are not in fact, sufficient for developing abilities in practice. They are not contextualized to the problems of the firm, or to the real constraints which explains the absence of firms. A business promoter needs to be a facilitator making more in-business than in-classroom training. Also, an

appropriate associative environment and an institutional arrangement for the coordination of those business is essential (Tendler, 1996).

3. Facilitating catalysts implementation: the Regional development project

Considering the above arguments, FAO through its Regional Office for Latin America and the Caribbean is galvanizing the recent trend in many countries to focus on regional development by promoting a set of institutional arrangements under an umbrella project on regional development. In this project, we are trying to promote catalyst institutions at two scales. First, at meso level, a semi-endogenous alliance, at regional (group of municipalities) scale for project coordination and gain of impact efficiency in a long run strategic approach. Second, developing micro-level catalysts or “contracts promoter”, for enhance the actual or potential productive relations within and across regions.

Background

Territorial emphasis and coordination of institutional arrangements for development is actually a consensus within cooperation agencies for Latin America²¹. However how to move from strategies into actions and impacts is not as well studied. From FAO’s perspective our vision on regional development has been nurtured by a series of on-going projects: (i) Special program for Food Security (SPFS) in 9 Countries. Based on local characteristics and needs, it aims to move the endogenous potential, favoring human and social capital in practice, focused on the sustainability of food security in the target areas. (ii) Project of Sustainable Rural Land Planning and the SIRTPLAN²² methodology, which develops a participatory planning of land use. (iii) Public Expenditures in the Rural Areas project, conducted comparatively in 21 countries in LAC²³, which studies appropriations and allotments, norms and incentives in rural public expenditures within the period from 1985 to 2001. (iv) Promotion of productive Alliances in 4 countries²⁴, which developed a methodology for

²¹ See for example the new Strategy for Rural Development of IADB, document discussed in March 2004, with multiple cooperation agencies and academic actors at FAO Regional Office for Latin America and The Caribbean. Also, see the Brasilia Declaration, documented by FOCA and reported for UN Economic and Social Commission.

²² Sistema de Información de Recursos de Tierras para la Planificación
<http://www.fao.org/Regional/LAmerica/prior/recnat/sirtplan/>

²³ Latin America and The Caribbean

²⁴ México, Brasil, Peru y Chile

increase the links of small rural producers with the rest of the supply chain, promoting more and better relations and favoring quality. (v) The study about role of local governments and agricultural public services, that is mentioned in section 4.

Extent

This project is kicking-off in 9 Latin American regions from Mexico, Brazil and Chile. The specific regions were determined in agreement with sub national governments, in order to have enough political support.

Purposes and proposed results

This Project of Regional Development aims to: (i) Create, or empower if it exists, an instance for actors articulation, which define a strategy for rural development and materialize that dynamic plan thru the execution of projects at different scales of intervention. This plan should also contain an operative way for deal with contract promotion at micro level. (ii) Enabling the creation of permanent learning mechanisms which allow improving regional coordination and effectiveness of the actions taken. (iii) Adaptively replicate this approach, in a comparative study, which allows for extract lessons helpful to future implementations of such system in other regions in Latin America.

Learning with an experimental approach

A basic cuasi-experimental²⁵ approach has been used taking “equivalent” regions in Brazil and Mexico and helping them to develop alliances: a couple of high industrialized states (with their pertinent attitude and bureaucracy), a couple of high-tech agriculture states coexisting with under development agricultural areas and, some states characterized by socio-economically diversified rural societies.

For dealing with observation biases, in this long run “experiment”, an expert group has been invited in order to guarantee some level of objective monitoring and continuous systematization of results.

Being enabling and regulator rather than executor

²⁵ Experimental Economics is the use of laboratory experimental methods to evaluate theoretical predictions of economic behavior

Regional people have advantages in know what is feasible to coordinate. An external agency such as FAO could then offer: (i) an adaptable standard for developing an alliance, with requirements for guaranteeing a good process performance (ii) facilitation for implementing that management standard (iii) advocacy for political support at higher level (iv) support for the promotion of that alliances and its projects thru a donors meeting and a marketing strategy.

We now move into sections 4 and 5 to elaborate on both core components of the regional development project.

4. The Alliance profile

Several development projects have had the temptation of by-passing the permanent structures of local power. This, probably, in the short run is the optimum to attain full delivery of project funds and to implement step by step all the stages of the development "master-plan", which most likely was developed without consideration of local priorities. However, in the long run no subsidy is permanent and the sweet loans should be paid. What a bitter inheritance for the future authorities, which cannot even receive the accumulated knowledge of their organizations!

Financial institutions for development²⁶ were frequently centers for project evaluation and coordination. However, they are not able to effectively evaluate certain projects, generating a bias for some initiatives, especially those which involve considerable transaction costs and abundant local-specific knowledge. The participation of banks and investment agencies within the Alliance could be useful for a common understanding of the projects by both the banks and their potential clients, and for a feedback loop in the evaluation of some contracts promoters, based on the repayment performance of their customers (the new entrepreneurs). Modern finances, however, require investment decisions to be independent of financial decisions (Brealey and Myers, 1991)²⁷. Consequently, banks must not define or create the

²⁶ For example some development banks, like the Brazilian Banco do Nordeste - BNB.

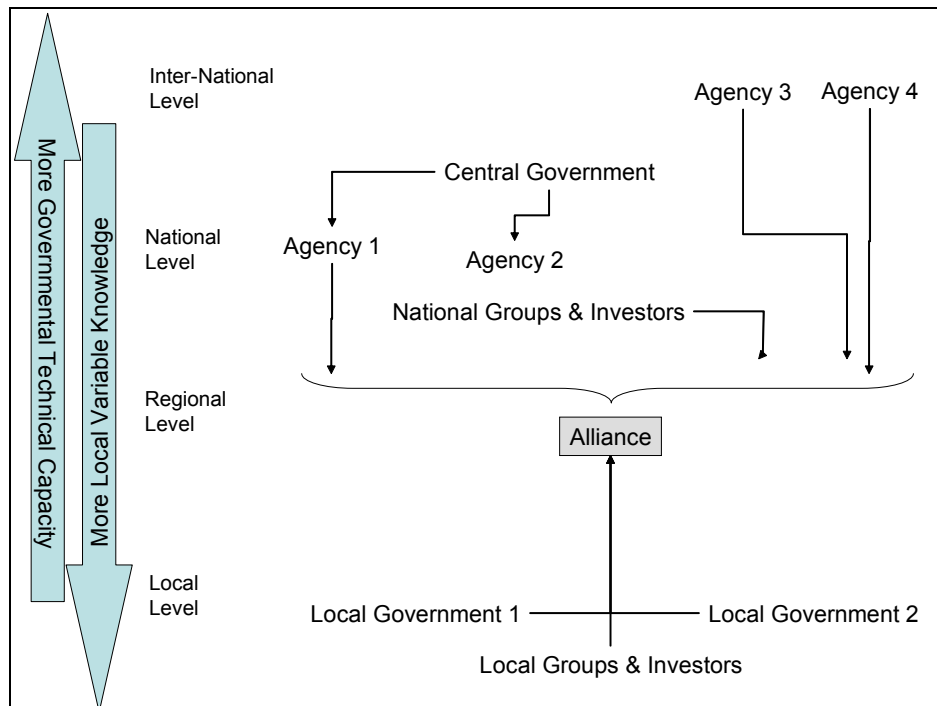
²⁷ Following Modigliani & Miller Theorem.

projects (they commonly do not have the expertise for generate or evaluate innovative projects in risky or pioneer environments), since they are just another alternative for funding.

The “filling gaps” approach of the alliances

But how to solve that trade off between short and long runs between local priorities and entrenched interests, between cosmopolitan knowledge and idiosyncratic *savoir-faire*? The alliance needs to act like as it were an independent central bank²⁸ with a clear mandate, a vector of indicators and goals²⁹, with technical capacity for model, planning and executing the actions for affect the dynamics of that vector and with enough stability to overcome the electoral cycles and the capture.³⁰

Figure 1. Schematic view of the position of the alliance in the governance structure



²⁸ See for example the successful Chilean Central Bank independent approach regarding Inflation Targeting issues in Corbo and Schidt-Hebbel, 2000).

²⁹ Development is not a single variable problem. Development is not equal to GDP. It is a vector of multiple indicators. For a critical point of view of previous approaches see Adelman, 1999.

³⁰ The term Non Governmental Public Organizations (NGPO) has been previously used by Gordillo (1999) to indicated that missing or incomplete markets demand public interventions but not necessarily from government agencies. It would express the provision of certain types of public goods –namely intangibles such as policies, norms and regulations- by private actors to infuse certainty and sustainability beyond political regimes changes. These are public organisms unlinked from a specific political regime but integrated to the public sphere and subject to scrutiny and accountability.

What exactly is the Alliance?

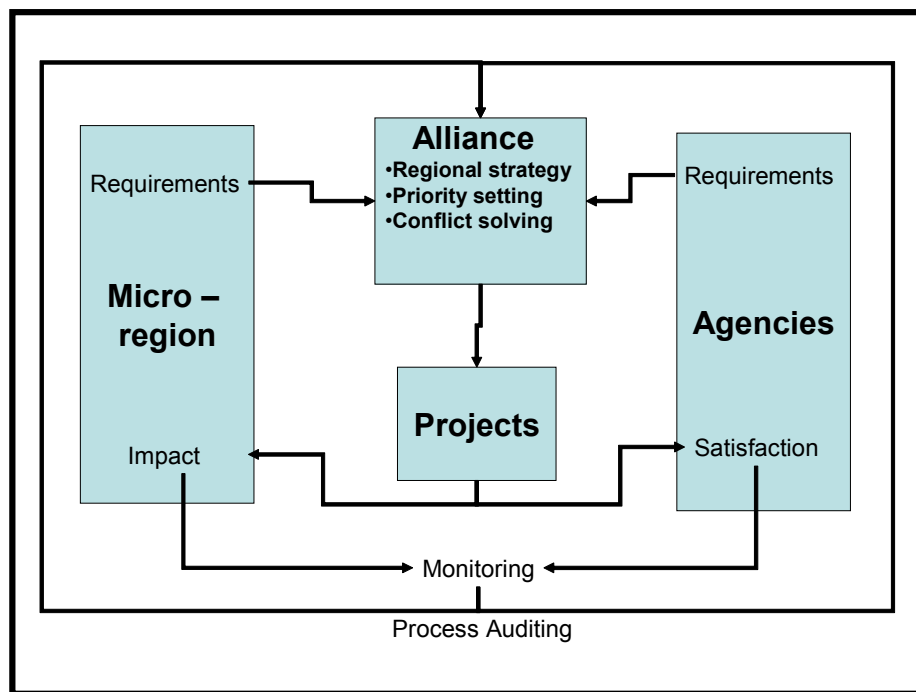
It is a coordinating organization at regional scale, which articulate local requirements and potentials with the opportunities (actual or possible) given by both the different agencies (governmental, international, cooperation) and the market, in a long run sustainable and integrated vision.

The alliance is responsible, independently of who executes, about implemented projects quality and strategic coherence. In order to fulfill its mission, it must have: a dynamic and integral strategy, an effective coordination system (with documented responsibilities), a process and product monitoring system and, finally, an effective commitment for continuous improvement of the system.

The alliance is a meeting point for different positions. Conflict should be managed in order to equilibrate visions and regulate timing and sequencing.

All the above purposes boil down to attaining within the legal framework, sustainable improvements of regional welfare³¹.

Figure 2. Schematic chart of the Regional Development Alliance role and processes.



³¹ Formally defined as vector of indicators regarding economic, social, human and environmental variables or a given function of that vector and its dynamics.

*Social construction of the market*³²

In this regional strategy, "social capital for business" is needed. Some issues that could be included for an effective construction of those markets are:

- i. A continuous training and education programs aimed at creating in the long run a culture about the compliance of contractual issues: avoiding payments delays and fulfilling conditions of production and delivery (Fafchamps, 1996).
- ii. Incorporate / promote clusters³³ and agglomeration of business groups, in order to overcome the potential defects due to inadequacy of basic services and inadequate governance (Fisman and Khanna, 2004).
- iii. Promote exercises of regional foresight as a socially organized learning process documented in a dynamic strategy that should be translated into concrete projects. (Gertler and Wolfe, 2004).

Emergent institutions at meso level

Previous experiences and similarities with intermediate institutions can be found in developed countries, like the LEADER programs (EU, 2004), but with differences on assets endowments, both on the economies of scale for technical capacity and on human capital.³⁴

Meso institutions were developed in the nineties in Italy, France and Spain: some of them were successful and other failed. Those which impact strongly in their region are correlated with an effective focus of Collaborative Governance (Culpepper, 2003).

In Latin America, recently those meso-catalysts can be found in a variety of such intermediate coordination institutions: (e.g. Agropolos in Cearà (BR), UGT in Bio-Bio's region (CHI), Fidecitrus in Monterrey (MX)). These institutions emerged for filling gaps in coordination at meso and micro scale, but they are mainly structured in practice just as "project-making bureaus".

What is then, the value added of the regional development project when those institutions already exist? Considering that those are evolving organizations in need to consolidate this regional project may assist in: (i) defining an integral strategy for regional development,

³² Following Bagnasco (1988).

³³ Cluster in the broad sense: it could be simple but integrated to the local value chain.

³⁴ Also, we can mention the ERVET (Ente Regionale per la Valorizzazione Economica dell' Territorio) in Emilia Romagna . Rodriguez Pose, 1998.

avoiding the usual biases towards infrastructure projects or segmented sectoral activities; (ii) Increasing the efficacy and efficiency of the alliance processes, thru implementing a quality management standard (iii) enabling stronger links between the alliances and the agencies, spreading thus a credible signal of best project coordination practices.

*Implementing and improving Alliances.*³⁵

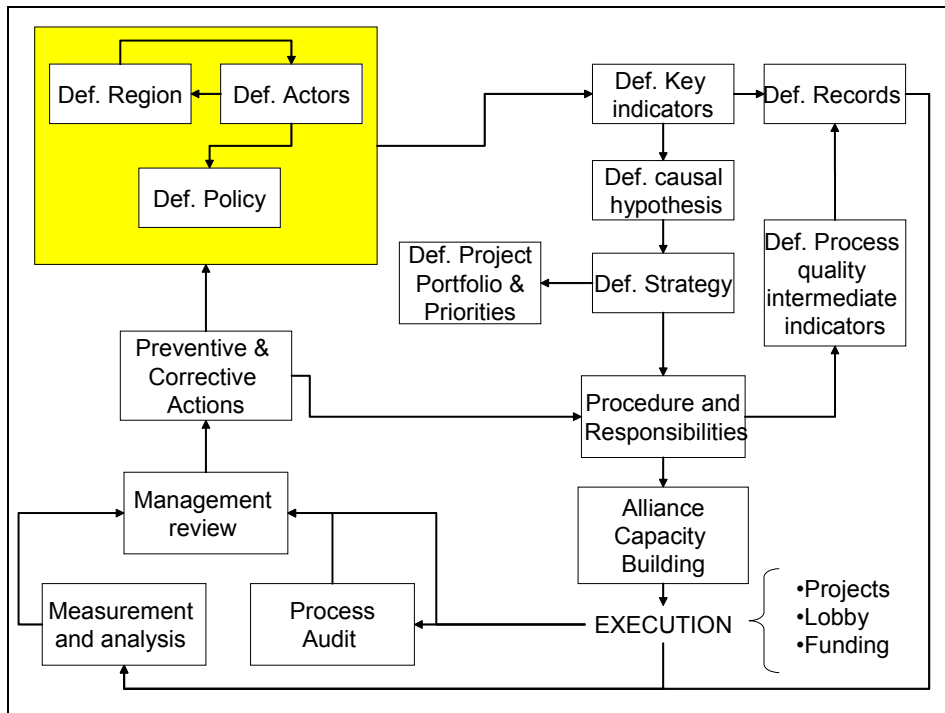
In almost all situations, those alliances are a kind of institutional arrangement which decisions are probably not mandatory in courts, due to the complexity of decision making and the incompleteness of contract. It means that such contract cannot be legally enforced (Besfamille, 1996), but the outcomes of an efficacious alliance are subject to be evaluated by votes (for politicians), and growth (for firms) or the reach of some goals (for interest groups and agencies). However, the voting scheme biases the decisions against long run social profit, favoring outcomes that mature early. For avoiding such effect, and allowing an effective Alliance: (i) A transversal appropriation of the Alliance and the long run dynamic strategy should be guaranteed. In this sense, the follow up of formal approaches of Change Management³⁶ could be incorporated as a way for deal with the *de facto* institutionalization of alliance. (ii) A “development vector” of indicators, as previously mentioned, should be integral and with enough level of consensus. It must include items regarding: human capital (not only schooling but in the broad sense), natural capital, physical capital and social capital (including the institutional strength). For effectively communicating the objectives to the broad constellations of agencies and groups that should follow up the alliance guidelines, an appropriate and consistent framework of indicators for each project and division could be implemented³⁷ (iii) For implementing and effectively operating the Alliance, a continuous improvement quality system operates within the alliance, in order to facilitate an environment of accountability with managerial and mutual enforcement, considering likely a certifiable standard. The pertinent macro-stages are mentioned in Figure 3 and explained below

³⁵ This section has benefit from the comments made in the Experts Seminar in August 2004. It was a conceptual stepping stone for formalize some previous outlooks in the Regional Development Project. <http://www.rlc.fao.org/proyecto/fodepal/Bibvirtual/psf/psfregi.htm>

³⁶ See for example the Kotter's (1996) eight steps approach. It should be applied avoiding to jeopardize long run sustainability

³⁷ For example, the adapted use of the the Balanced Scorcard (Kaplan and Norton. 1996) approach could be a pertinent way for channelling strategic objectives into each process and Project.

Figure 3. Stages for development and continuous improvement of the alliance. Start reading from the upper left corner.



a) Identifying region, potentials and gaps³⁸

i. Identification of Region

Region should be determined as a social construction more than a pure geographic distinction. Some level of intra-regional heterogeneity is desirable, for including and connecting at least one area with economic potential. Some level of pluri-activity potential should be searched and promoted.

ii. Institutional Arrangements.

Institutional strengths and weaknesses should be documented. Local political economy should be modeled in order to best implement the alliance. Critical points for empower institutions should be described. Special interest in the analysis of relevant actors and current institutional framework for consultation, planning, research and

³⁸ This sub-section has benefit from the outline discussed by Professors De Janvry and Sadoulet in the Experts Seminar described in a previous footnote.

training, regional marketing and coordination with national policies should be described. A plan for overcome the detected gaps, included those about technical and political competences, should be incorporated.

iii. Productive capacity.

Potentials and constraints regarding competitive advantages for economic activities, including labor market, should be identified and promoted. Enough magnitude of projects package should be checked in order to configure in some dimensions a “big push”.

iv. Social incorporation

Social strategies for reduce poverty and increase access to productive assets³⁹ should be analyzed and included in the programs. Safety nets and de facto risk reducing initiatives should be enough in order to allow best economic and social development. Any gap should be reported, including also a feasible plan to deal with.

b) Indicators and strategy definition.

We can never win a game without counting goals. Each region should develop its own vector of indicators, mutually agreed in both the measurement and the source of data. Proxies should be analyzed accurately and considering their potential biases. If there no exists a data-source for a key indicator, it should be developed and included in the monitoring system. For guarantee compatibility and consistency, coordination with existing offices that manage pertinent datasets should be included in the Alliance management system. It should be implemented an adequate recordkeeping for indicators and their monitoring, including the statistical analysis. Each concept included in the strategy must be reflected in the indicator’s vector. Finally, for the strategy and for each project it must be a documented hypothesis which connects actions to undertake with the dynamics of the indicators vector, it also should include the key suppositions made.

³⁹ Assets viewed in a broad sense: including human, physical, natural and social capital.

c) Procedure and responsibility definition

Processes that are key for final quality of the Alliance services should be documented, effectively implemented and continuously improved. The interaction of processes and the responsibilities for different persons and institutions involved in the Alliance are of special interest. The procedures could be auditable in order to verify that the alliance do what it promise to do. The pipeline for projects is a key process.

d) Capacity building.

The relevant personal and institutional competences should be checked for fulfill the quality requirements of each project. The alliance must effectively promote the improvement of capacities, especially those of the permanent local institutions.

e) Project Realization

i. Requirements detection

An effective and continuous improving set of mechanisms for detection of local needs and agencies requirements should be in place. The requirements should be documented in order to facilitate the compliance checks later.

ii. Project Design.

Design process should consider both the micro-region and the agencies requirements. A documented checklist for project design should be implemented. It should include: fulfillment of a set of defined requirements, documented hypothesis for link actions with strategic indicators and key defined stages. Projects should be ranked and interactions with other current and past pertinent projects should be stated.

iii. Project Execution.

Project execution will probably be outsourced. In this case, enough level of instructions and responsibilities should be assigned in order to allow for the proper execution.

iv. Project output release.

Independent of who executes the project, the alliance is responsible for the release a product that fulfills the established requirements. If the

product do not, the Alliance should promote corrective actions prior to release, if it is possible.

v. Post release activities

The alliance should monitor and report the compliance of product after its release. In some sense, the alliance should act like an ombudsman for detect previous quality problems and channel them into the pertinent agency.⁴⁰

f) Measurement, analysis and process audit

An affective mechanism for update the value of strategic indicators and intermediate or cause indicators should be in place. Pertinent statistical analysis should be performed.

On the other side, an effective program of internal and external process audits regarding the fulfillment of the planned processes and the resulted outcomes should be implemented and maintained.

g) Institutional learning and change

Monitoring is not enough for guarantee improvement. This information should be properly used for make recommendations and improvements. In this sense: First, a Senior Management Review should be executed at least with yearly frequency. It should consider the indicators, projects performance and audits results for taking its decisions. It must be a meeting based in facts. Second, after the detection of each actual or potential problem, fact that should be recorded, a corrective and/or preventive measure should be put in place and documented, in order to continuously improve the alliance outcomes.

In conclusion, for the effective implementation of an Alliance must be a regional-specific process. However, a minimum level of management regarding planning, realization monitoring and effective learning is paramount for Alliance and regional success. A checklist for the implementation of the given guidelines is going to be developed.

⁴⁰ For example channeling them thru the pertinent departments or thru the Ombudsman department. It is preferable to document that communications and ask for deadlines.

5. The Contracts Promoter

Favorable local environments (Putnam, 1993, Bagnasco, 1988; Carmagnani & Gordillo, 1997); and families (Buboltz, 2001) are capable to create some kinds of social capital (possibly in a positive feed-back loop) that coalesce in economic welfare for communities and regions. However, specific interventions are needed in contexts with a long tradition of exclusionary development and with a low endowment of entrepreneurship particularly policy entrepreneurship (North et al 2002; Gordillo & Andersson, 2004).

Human capital is not only acquired at school, social capital neither. In fact, empirical studies demonstrate that familiar transfers of knowledge, abilities and networks are very strong in explain earnings (Bowles and Gintis, 2002). In a world of equal opportunities an effective system of education for production must be warranted.

Inspired in teachers

When Latin American elites were aware of the political importance of constructing a sense of national belonging and of imbuing a sense of liberation thru self-realization⁴¹ (Freire, 1970), they generated one of the greatest efforts on promoting contracts: contracts between citizens and their country, their language and their history. The provision of such a private good (education) and the pertinent public good (environment with at least some level of cultural competences and cohesion, and other spillovers of education), by the state, was a successful enterprise namely during the alphabetization campaigns. Who promoted those contracts? Of course, teachers possibly formed at Universities or as technicians, but with some key competences that made possible to maximize the number and quality of arrangements (Seda-Santana, 2000).

Contracts Promoter (CP) Profile

A CP is a competent go-between actor that encourages links between people, institutions and organizations in order to engage in productive relations. This is mainly thru:

⁴¹ In the sense, used by Paulo Freire, it means increasing personal autonomy and solidarity.

(i) offering alternatives (ii) co -developing business. Essentially, a CP reduces transaction costs.

A contracts promoter should enhance the three kinds of entrepreneurship identified by Kirzner (1997): Pure arbitrage, speculation (inter-temporal arbitrage) and Schumpeterian innovation. In the first two, the entrepreneur operates in a world characterized by imperfect information and will discover opportunities for resources that others do not. By being alert to seize opportunities, the entrepreneur will buy under-priced resources and put them to new uses and new means. (Harper, 2003). On the other side, Schumpeterian (pure) innovation must focus on the process required to turn new resources into new ends.

To fulfill the above requirements, the key challenge is that this CP acquires⁴² the following competences:

(i) CPs while familiar with local circumstances and power relations must also be aware of the countries context and of the regional foresight exercises (strategies). They must manage the basic concepts of marketing and "competitive advantages" of their area.

(ii) CPs must have technical competence to interact and impact the behavior of people in their pertinent range. Oral communication requires managing different languages of people and organizations that should be linked and negotiating skills. On the other hand, an effective writing is needed (Ball, 2003) for effectively transforming ideas into realities.

Feasible implementation of a CP System

Of course a CP with the mentioned abilities might no even consider working at a local level or once acquiring them thru local practice might migrate into other business. A proper mechanism for benefit sharing is needed, in order to comply with both participation and incentive compatibility constraints.⁴³

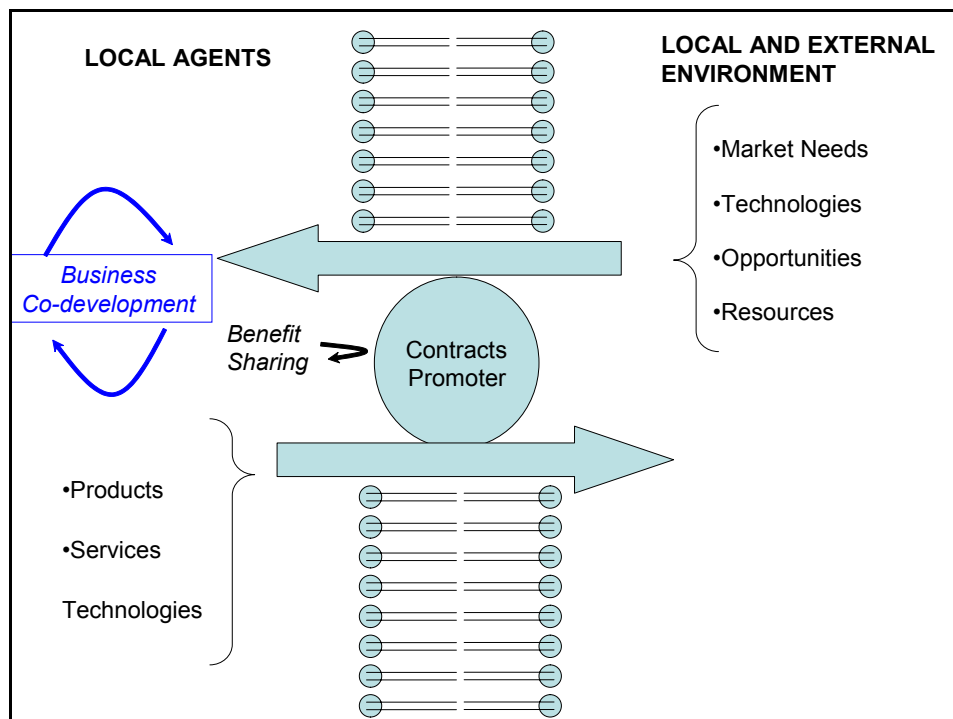
Regarding the implementation in practice, probably a voucher system or an equivalent mechanism like a co-governance structure (Ostrom, 1996, Ackerman, 2004) could be used. More important than specific mechanisms is the principle of access and of sharing

⁴² Acquiring by a trainee internship, by previous studies or by any other effective mechanism

⁴³ For an interesting discussion on those restrictions, see Mas-Colell, Winston and Green. 1995. Microeconomic Theory. Oxford.

information for consumers and feedback for suppliers. Requirements about actual or potential disconformities could be classified in: (i) exit possibility, (ii) ex post voice and (iii) ex ante voice (Hirschman, 1970; Lepenies, 2004). Other systems, more centralized than vouchers, could also be effective if a whole set of indicators and quality management practices were established, in order to provide those 3 kinds of communication channels. Sustainable entrepreneurship facilitation cannot be put in practice without a clear alignment of facilitator incentives and an effective feedback of the final consumers, as was outstandingly pointed out by Tendler & Alves Amorim (1996).⁴⁴

Figure 4. Schematic analogy between contract promoter and the enzymatic catalyst model used in biology.



⁴⁴ See also the book: Tendler, J. 1996. Good Government in the tropics.

6. Concluding Remarks

In this paper, the main concern we address is how some barriers to the development can be removed in practice and within the actual constitutional constraints, in order to reduce coordination costs, exclusion-based transaction costs and policymaking problems regarding long run sustainability issues.

We showed that uncoordinated interventions by the states and agencies can affect negatively the impact of projects, or at least, block the potential spill-over.

Briefly analyzing previous evidence about power allocation, we observed that centralized power has problems regarding the information about local preferences and capacities. On the other side, local governments have competitive advantages regarding those issues but lack enough economy of scale for technical capacity and contacts (which cannot be contracted in completely divisible units). As mentioned by Laffont (2000), we recognize that the 100% local corner-solution is not the panacea: inadequate decentralization can increase the level of capture by local interests, especially in regions where the capture becomes too easy due to "*caciquismo*" which in itself is a symptom of low levels of democracy, insufficient schooling and lack of social capital.

Obviously different kinds of projects have different optimal scales for allocating power, but a portfolio of multiple agencies and multiple levels increases the checks and balances⁴⁵ and improves accountability. However, then coordination problems emerge in this context..

A well known prescription are the coordinating committees of agencies at supra national, national, state or municipal levels. They help coordinate different agencies and probably impinge on the impact of interventions. Nevertheless, even if based on the best managerial practices available they may still carry relevant deficits of local information because they are not territorially embedded.

⁴⁵ Following conclusions of Laffont, 2000.

We thus advocate for an alternative and complementary approach: The Alliance. An embedded intermediate institution that, associated in a territorially based group of municipalities and integrating the main views of different local actors, develops synergies thru project coordination. This bottom-up approach reduces transactions costs and estimation errors about local variables; while guaranteeing enough technical capacity and including each project within a dynamic and consistent strategy that enables the spill-over.

These local alliances could be classified as one kind of a more general type of "catalysts", aimed at articulating governments and markets, reducing transaction costs and information asymmetries.

Another of such catalysts is the "Contracts Promoter", which helps to meet individual. Probably, it is the ideal for future generation of rural extensionists: with an approach to construct the entrepreneur activity assessing *in situ* local assets, competences and market opportunities.

We are not suggesting these catalysts as short-cuts to permanent institutions in future regional development initiatives. Instead, we think that the actual government agencies should be adapted and enriched with more links at meso level and micro level, in order to fill the gap between strategies, real operations and desired outcomes. Formal modeling and simulation of the role of catalysts enhancing and speeding up relations could be useful to find new approaches. Further research about special cases of catalysts, technical operation and impact evaluation of such organizations is a main challenge.

8. Bibliography

- Ackerman, J. 2004. Co-Governance for Accountability: Beyond "Exit" and "Voice" World Development 32 (3). 447-463.
- Adelman, I. 1999. Fallacies in Development Theory and their Implications for Policy. U. of California- Berkeley, Agricultural and Resource Economics Working Paper No. 887. Available at <http://are.berkeley.edu/~adelman/dubrov.pdf>
- Bagnasco A.. 1988. La costruzione sociale del mercato. Il Mulino.
- Ball, J. 2003. The quality of writing on forests and forestry: a personal view. XII World Forestry Congress. Quebec Canadá.
- Bardhan, P. 2005. Scarcity, Conflicts, and Cooperation: Essays in the Political and Institutional Economics of Development. MIT Press. *Forthcoming*.
- Bartra, Roger et al. 1978. *Caciquismo y poder político en el México rural*, México, D.F.: Siglo Veintiuno.
- Besfamille, Martin. 2003. Local public works and intergovernmental transfers under asymmetric information. Journal of Public Economics. 88. 353– 375.
- Boadway, R. Horiba, I. and Jha, R. 1999. The provision of public services by government funded decentralized agencies. Public Choice 100. 157-184.
- Bowles, S and Gintis, H. 2002. The Inheritance of Inequality, Journal of Economic Perspectives, 16 (3). 3-30.
- Brealey and Myers. 1991. Principles of Corporate Finances. Mc Graw Hill. 1991.
- Carmagnani, M. and Gordillo, G. 1997. Desarrollo Social y cambios productivos en el mundo rural contemporaneo. Fondo Cultura Economica. Mexico.
- Corbo, V. and Schmidt-Hebbel, K. 2001. Inflation Targeting in Latin America. Latin American Conference on Fiscal and Financial Reforms. Stanford University. Nov 9-11.
- Culpepper, P. 2003. Institutional rules, Social capacity and the stuff of politics: experiments in collaborative governance in France and Italy. Research Working Paper RWP 03-29. Kennedy School of Government, Harvard University.
- Easterly, W. 2002. The Cartel of Good Intentions: Bureaucracy Versus Markets in Foreign Aid. Center for Global Development Working Paper No. 4. Available at http://www.cgdev.org/docs/cgd_wp004_rev.pdf
- European Union. 2004. LEADER European Observatory Available at http://europa.eu.int/comm/agriculture/rur/leaderplus/publi/index_es.htm
- Fafchamps, M. 1996. The enforcement of commercial contracts in Ghana. World Development. 24 (3). 427-448
- Faguet, Jean-Paul. 2004. Does decentralization increase government responsiveness to local needs? Evidence from Bolivia. Journal of Public Economics 88. 867– 893
- Fisman, R. and Khanna, T. 2004. Facilitating Development: The Role of Business Groups. World Development. 32(4). 609-628
- Freire, P. (1970). Pedagogía del oprimido [Pedagogy of the oppressed]. Mexico City: Siglo XXI.
- Freyre, G. 1968. Sobrados e mocambos. 4 ed., J. Olympio. Rio de Janeiro
- Gertler, M.S. and Wolfe, D.A.. 2004. Local social knowledge management: Community actors, institutions and multilevel governance in regional foresight exercises. Futures. 36 (1). 45-65.
- Gordillo, G, 1999 La ansiedad por concluir: La débil institucionalidad de las reformas estructurales en América Latina, *Mercado de Valores, México, Nacional Financiera, octubre de 1999*

- Gordillo, G. y Andersson, K. 2004. From policy lessons to policy actions: Motivation to take evaluation seriously. *Public Administration & Development*. 24 (4). 305-320
- Gordillo, G; Andersson, K; Noguer, L. and Van Laerhoven, F. 2003. Desempeño de los servicios públicos agrícolas y el rol del gobierno local. Latin American Studies Association (LASA) Meeting, Dallas, Texas, March 27-29, 2003. Available at <http://www.rlc.fao.org/prior/desrural/pdf/lasa.pdf>
- Harper, D.A. 2003. *Foundations of entrepreneurship and economic development*. Routledge. London.
- Head, K. and T. Mayer, 2004, "The Empirics of Agglomeration and Trade." forthcoming in the *Handbook of Regional and Urban Economics Volume 4* edited by V. Henderson and J.F. Thisse, Amsterdam: Elsevier.
- Hirschman, A.O.1970. *Exit, voice and loyalty. Responses to decline in firms, organizations and states*. Harvard University Press. Cambridge, MA. USA.
- Italian Ministry of Finances (Ministero dell' Economia e delle Finanze). 2003. *La lezione dei patti territoriali per la progettazione integrata territoriale nel Mezzogiorno*. Dipartimento per le Politiche di Sviluppo.
- Kaplan and Norton. 1996. *The Balanced Scorecard*. Harvard Business School Press.
- Kirzner, I.M. 1997. Entrepreneurial discovery and the competitive market process: an Austrian approach. *Journal of Economic Literature*. 35:1. 60-85.
- Knack, S and Keefer, P. 1997, "Does social capital have an economic payoff? A cross-country investigation," *Quarterly Journal of Economics*. 112 (4) 1251-1288
- Kotter, JP. 1996. *Leading Change*. Harvard Business School Press. Boston, MA. USA..
- Laffont, JJ and Martimort, D.1988. Transaction costs, institutional design and separation of power. *European Economic review*. 42. 673-684.
- Laffont, JJ. 2000. *Incentives and political economy*. Oxford University Press.
- Lepenies,P. 2004. Exit, Voice, and Vouchers: Using Vouchers to Train Microentrepreneurs— Observations from the Paraguayan Voucher Scheme. *World Development*. 32 (4).713-724
- Mas-Colell, A.; Winston, M. and Green, J. 1995. *Microeconomic Theory*. Oxford.
- North, D. C., Summerhill, W. and Weingast, B.R. 2000, "Order, Disorder, and Economic Change: Latin America vs. North America," in Bueno de Mesquita, B. and Root, H. editors, *Governing for Prosperity*, New Haven: Yale University Press.
- Oates, W. Ed. 1977. *The political economy of fiscal federalism*. Lexington Books. Massachusetts. USA.
- Oliveira, R. 2004. 1. El Programa Nacional de Apoyo a la Agricultura Familiar (PRONAF): resultados, impactos, monitoreo y evaluación. FAO, Regional Office for Latin America and the Caribbean.
- Ostrom, E. 1996. Crossing the great divide: coproduction, synergy and development. *World Development* 24 (6). 1073-1088.
- Ostrom, V. and Ostrom, E. 1965. *Annals of the American Academy of Political Science* 359. 137-146. Pritchett, L and Woolcock, M. (2004). Solutions when the solution is the problem: arraying and disarray in development. *World Development*. 32:2.
- Putnam, R.D. 1993. *Making democracy work: Civic traditions in modern Italy*. Princeton University Press.
- Radulovic. V. 2004. Are new institutional economics enough? Promoting photovoltaics in India's agricultural sector. *Energy Policy*. *In press*.
- Rausser, G. and Goodhue, R. 2002. Public policy: its many analytical dimensions. In Gardner, L and Rausser, G. *Handbook of Agricultural Economics*. Vol 2B. Elsevier Science.

- Rodriguez-Pose, A. 1998 Dynamics of regional Growth in Europe: Social and political factors. Oxford University press.
- Roniger, L. 1987. Caciquismo and coronelismo - contextual dimensions of patron brokerage in Mexico and Brazil. *Latin-American-research-review*. 22(2).71-100.
- Roniger, L. 1987. Coronelismo, caciquismo, and oyabun-kobun bonds - divergent implications of hierarchical trust in Brazil, Mexico and Japan. *British Journal of Sociology*. 23 (3).310-330
- Seda-Santana, I. 2000. Literacy Research in Latin America: Context, Characteristics, and Applications In Kamil, M.L., Mosenthal, P.B., Pearson, P.D., & Barr, R. (Eds.). 2000. *Handbook of reading research: Volume III*. Erlbaum. Mahwah, NJ. USA.
- Serrano, R. 2003. What makes inter-agency coordination work? Insights from the literature and two cases studies. Inter American Development Bank – Social development Division. Washington.
- Tandler J. 1995. *Good Government in the Tropics*. Johns Hopkins University Press: Baltimore, MD.
- Tandler, J. and Alves-Amorim, M. Small 1996. Small firms and their helpers: Lessons on demand. *World Development* 24(3). 407-426
- Tiebout, CM. 1956. A pure theory of local expenditures. *Journal of political Economy* 64. 416-424.
- Tullock, G. 1988. Rents and rent seeking. In Rowley, C.; Tollison, RD and Tullock, G. (Eds). *The Political Economy of Rent Seeking*, Boston, MA: Kluwer Academic Publishers, 51-62.
- Vogelgesang, F. 2000. Reformas Institucionales y Desarrollo Rural - un balance a partir de las experiencias de seis países – Presented at the Workshop “Políticas públicas, institucionalidad y desarrollo rural en América Latina y el Caribe”, México, August- 2000.