

Built on Dreams Grounded in Reality



Economic Policy Reform in the Philippines



The Asia Foundation

**Built on Dreams, Grounded in Reality:
Economic Policy Reform in the Philippines**

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The Asia Foundation

with support from



USAID
FROM THE AMERICAN PEOPLE



Australian Government
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Built on Dreams, Grounded in Reality: Economic Policy Reform in the Philippines

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Jaime Faustino and Raul V. Fabella

Message from The Asia Foundation

Despite the improved performance of its economy in the recent past, the Philippines continues to lag behind its neighbors Indonesia, Malaysia, and Vietnam. Perhaps more importantly, the percentage of families living in poverty has not been reduced, and in fact has recently increased. Widespread corruption, coupled with weak legal and regulatory systems, impede the nation's development and ability to provide economic opportunities to its citizens.

For over a decade, The Asia Foundation has sought to help foster sustained economic growth in a globally competitive environment. As a relatively small organization, The Asia Foundation seeks to address strategic issues that hamper reform through innovative programs that leverage our close partnerships with productive reformers throughout the country. For instance, the Transparent Accountable Governance (TAG) program sought to improve the climate for investment and business in cities through collaboration between mayors and the private sector to reduce corruption and red tape. Under the Policy Reform Program, funded through a cooperative agreement with the United States Agency for International Development (USAID) between 2006 and 2008, the Foundation and its partners addressed key policy issues focused on greater competition in the maritime sector, air transport, and power industries, as well as additional relevant reform sectors, including securing property rights. The "Economic Growth Hubs, Infrastructure, and Competitiveness" project, which runs between 2009 and 2012, also funded by USAID, concentrates on targeted activities that aim at better-performing economic growth hubs through the development of tourism enterprise zones; more rational provision of infrastructure through the promotion of public-private partnerships; expansion of the Subic-Clark logistics hub; and implementation of the Residential Free Patent Law to increase urban residents' access to titles residential properties.

As the Foundation chose to try to focus its limited resources on strategic activities, there naturally arose the question of what reforms are likely to be successful and which are not. Development practitioners have begun to evaluate aid effectiveness, and the Foundation felt it could contribute to the debate by disseminating a better understanding of competitiveness and

economic reform in the Philippines. This is based on an examination of cases—successful and unsuccessful—to help ground theoretical debates in reality.

This publication would not have come to fruition without the support of our development partners. For many years, USAID has partnered with the Foundation in supporting some groundbreaking policy reforms in the Philippines. In turn, the Australian Agency for International Development (AusAID) recognized the need to increase understanding of the reform process in the Philippines and backed the Foundation’s efforts in researching and documenting the case studies found in this book. We hope that the reform cases featured, in line with the political economy approach, will inform future projects of the Philippine government, non-governmental organizations, and development agencies. Finally, to our partners and the dedicated local reformers who championed change within their respective sectors, I would like to express our gratitude for their hard work, astuteness, and tenacity. The Philippines is a better place due to their commitment in bringing about lasting reforms.



Steven Rood
Country Representative
The Asia Foundation, Philippines

Message from USAID

USAID's work in the Philippines seeks to promote sustainable, broad-based economic growth, which has proven to be effective in reducing poverty, enabling sustainable basic service delivery, and expanding opportunities for people to live healthy and productive lives.

Over the past 50 years, USAID has supported Philippine efforts to promote a more competitive economy and produce higher levels of investment and growth. Since 1961, USAID has provided the Philippines with more than US\$4 billion in economic assistance. This assistance has helped develop the country's infrastructure, increase agricultural productivity, spur micro-enterprise growth, promote sustainable environmental management, improve health and nutrition, strengthen education, and foster democracy and decentralization. USAID continues to support the development goals of the Philippine government, particularly in areas that address constraints to trade and investment, improve regulatory quality, and promote transparent and accountable public institutions.

Development must be led and driven by the leadership and citizens of developing countries, underscoring the importance of country ownership and responsibility in pursuing their own development priorities. USAID believes that the best way we can serve the developing world is to create the conditions where our assistance is no longer necessary, replaced over time by efficient local governments, thriving civil societies, and vibrant private sectors. In the Philippines, USAID has effectively collaborated with local counterparts and stakeholders as change agents—or development entrepreneurs—who have the cultural knowledge and in-country expertise to ensure that assistance leads to sustainable growth. Based on our experience, donor assistance is made more effective if it is based on a careful reading of the local context and conditions, a judicious choice of counterparts, and the mobilization of a domestically driven reform constituency. In this case, the role of donors is to support reform initiatives by local reform-minded stakeholders.

Over the years, the partnership between USAID and The Asia Foundation has been built on this fundamental premise of empowering and capacitating local groups and associations that seek to bring about reform in various sectors of Philippine society. This approach stresses local ownership and

initiative by engaging private stakeholders and civil society organizations, as they seek to participate in the development process and collaborate with government representatives and officials.

In this collection of case studies, this approach of bringing about policy change through local private sector agents sheds some light on how successful reforms ultimately happen. The deregulation of the telecommunications sector, the liberalization of civil aviation, the introduction of Roll-On/Roll-Off transport policy in the domestic shipping sector, and water privatization are some of the more successful reforms of the past two decades. These reforms were made possible because of determined political leadership, support from a broad-based coalition of stakeholders, and change agents that helped push these reforms through the bureaucracy. In particular, recognizing the link between public institutions, coalitions, and private agents, and an understanding of the complex political economy context are required to advance reform. As the reform cases highlighted in this book show, those who seek effective and sustainable reforms must first understand the intricate interplay between many separate entities, agents, and actors. This topic is both critical and timely, as the Philippines moves forward with a new president and a new reform agenda centered on better governance, reduced corruption, and poverty alleviation.

Congratulations to The Asia Foundation and its local partners for an insightful book that contributes to a better understanding of economic policy reform in the Philippines.



Gloria D. Steele
Mission Director
USAID Philippines

Message from AusAID

Development involves realizing positive change—change that makes goods and services more affordable for people; change that promotes more and fairer competition; and change that ultimately leads to improvements in the lives of the majority of people and especially the poor.

While development theory offers many alternative explanations of change, our understanding of how positive change takes place in practice can only be gleaned from detailed analysis of the process, dynamics, and actors involved.

The case studies presented in *Built on Dreams, Grounded in Reality* analyze economic policy reforms in transport, water supply, telecommunications, property rights, commodity marketing, and taxation. They illustrate the sometimes unpredictable and unexpected processes through which important reforms can be achieved as well as some cautionary tales of how reform efforts can become stalled or thwarted.

The case studies not only make compelling reading, they also present a strong argument for adopting a new approach to understanding and supporting reform initiatives—one that is based on: careful analysis of the local context; an in-depth assessment of key stakeholders and their differing motivations for supporting change; taking advantage of opportunities as they arise; and perseverance, sometimes over many years.

The recently released policy statement on Australian Aid—*An Effective Aid Program for Australia: Making a real difference—Delivering real results*—emphasizes the importance of enhancing the effectiveness of Australian Aid. As we strive to improve the impact of our development assistance in the Philippines in support of reforms that will lead to meaningful, measurable, and sustainable improvements in lives of poor people, there is much that we and others in the development community in the Philippines and other countries can learn from this fascinating set of studies.

We commend The Asia Foundation and all the contributors to this publication for making an important contribution to our understanding of how

reforms can take place in the Philippine context, and we look forward to being part of future efforts to support further positive change in the Philippines.

Maraming salamat.



Titon Mitra
Minister Counsellor
AusAID - Philippines



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Profile of Organizations

The Asia Foundation is a nonprofit, non-governmental organization committed to the development of a peaceful, prosperous, just, and open Asia-Pacific region. The Foundation supports Asian initiatives to improve governance, law, and civil society; women's empowerment; economic reform and development; sustainable development and the environment; and international relations. Drawing on nearly 60 years of experience in Asia, the Foundation collaborates with private and public partners to support leadership and institutional development, exchanges, and policy research.

With 18 offices throughout Asia, an office in Washington, DC, and its headquarters in San Francisco, the Foundation addresses these issues on both a country and regional level. In 2010, the Foundation provided more than \$98 million in program support and distributed nearly one million books and journals valued at over \$42 million.

The United States Agency for International Development (USAID) is the principal agency responsible for managing U.S. Government assistance programs in more than 100 developing countries around the world. USAID was officially established in the Philippines on November 3, 1961.

USAID Philippines' current programs focus on strengthening peace in conflict-affected Mindanao, promoting good governance, increasing economic opportunities, protecting the environment, strengthening health services, and improving basic education.

The Australian Agency for International Development (AusAid) is the Australian Government's agency responsible for managing Australia's overseas aid program. The objective of the aid program is to assist developing countries reduce poverty and achieve sustainable development. In the Philippines, Australia's aid program has an overarching objective to assist the Philippines to meet its development goals, especially in reducing poverty, increasing economic growth, improving basic education and enhancing national stability and human security.

About the Authors



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Dr. Fabella is a professor of Economics at and former dean of the University of the Philippines School of Economics where he teaches Advanced Microeconomics and does research in the emergence and impacts of institutions and regulatory regimes. He earned his MA in Economics from the UP School of Economics and his Doctorate from Yale University. He is a member of the National Academy of Science and Technology.

In July 2011, President Benigno Aquino III conferred on Fabella the Order of National Scientist for his remarkable contributions as an academician and economist. He is one of only 37 National Scientists in the country.



Jaime Faustino

Mr. Faustino manages the Economic Reform and Development Program at The Asia Foundation Philippine office.

Born in the Philippines, Faustino moved to the United States when he was twelve years old. In 1985, he graduated from Duke University (B.A. History) and is a proud Blue Devil. For several years he lived in Alaska, Mexico, Nicaragua, Spain, and Berkeley, California in the U.S. In 1988, he returned to the Philippines and studied at the University of the Philippines (M.A. Political Science, 1992). As a third culture kid, Faustino bridges the gap between Philippine partners and international development agencies.

For Faustino, his wife Therese and three kids, life is a purposeful adventure.



Enrico L. Basilio

Mr. Basilio is the founding president of the REID Foundation, Inc., a private, not-for-profit think-tank doing policy research and advocacy on public-private partnerships, transport, infrastructure budget, tourism, and education. He is also a convenor of the Philippine PPP Coalition, and the Philippine representative (alternate) to the ASEAN High-level Task Force on Connectivity. He was a professor of Economics for 17 years at the University of Asia and the Pacific, and vice president at the Center for Research and Communication for eight years.

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Santos dreams of a Philippines where Filipinos can make a living and be fulfilled in their own country, and where citizens are not only happy, but also educated, healthy, and secure.



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Mr. Chikiamco is an internet entrepreneur, a book author, and a writer on political economy. His interests cover business, technology, and political economy. He serves as a property rights consultant to The Asia Foundation and is currently the president of the Foundation for Economic Freedom, an organization committed to good governance and economic and political liberty. He writes a monthly column on political economy in his capacity as board member of the Institute of Development and Econometric Analysis Inc. (IDEA Inc.) He's the Founder and CEO of two Internet companies. He finished AB Economics summa cum laude from De La Salle University and MPS in Media Administration from Syracuse University in New York.



V. Bruce J. Tolentino

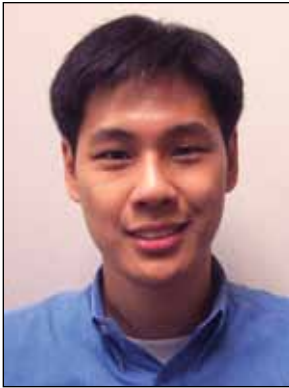
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Foreword

Agents and Coalitions in the Politics of Institutional Reform

Adrian Leftwich¹

A spectre is haunting the aid business. It is the spectre of aid effectiveness. Many bilateral development agencies—in part because of the fiscal crisis—are reviewing their aid policies in order to satisfy electorates that their aid spending is achieving value for money and that targets are being reached. Spurred no doubt by the gloomy prospects for achieving many of the Millennium Development Goals in many countries—those in Africa are especially problematic—(Bourguignon et al., 2008) there is much debate about how to improve, if not transform, aid and development policies and practices, or whether aid is of much use for development anyway.

Though not an entirely new debate, it has been reflected in a series of books over the last few years, each of which has questioned the conventional policy paradigms that have shaped development thinking and policies over the last few decades. These have been largely technical in approach, institutionally formal in conception and often driven by the requirement to meet various targets and outputs (logframery).

Bill Easterly's *The White Man's Burden* (2006) pointed out that the *planners* have set goals and often externally shaped objectives, policies and institutions and have eclipsed the *searchers*—those internal agents of change, as in Japan at the time of the Meiji restoration who devised locally appropriate solutions to the challenges of Japanese development by adopting, adapting, and innovating to local conditions. Roger Riddell's study, *Does Foreign Aid Really Work?* (2007), called for new ideas that could address the limitations of aid policies and also for a greater openness in development agencies to new ideas rather than remaining locked-in on path-dependent old practices, procedures and programming templates. The series of case studies in a recent World Bank publication, edited by James Manor (2007), on *Aid That Works*, underlines many of the ideas in the other books, and emphasizes in particular the notion that one size does not fit all, and that local participation is crucial in shaping the institutional arrangements that will facilitate growth, stability, effective service delivery, and greater inclusion. Dambisa Moyo's recent challenging book on aid and Africa, *Dead Aid* (2009), recommends a steady but targeted tailing off of aid, excepting only humanitarian emergencies. She suggests that this would be likely to result in reduced corruption (as aid offers

¹ Dr. Leftwich is the Research Director of the Developmental Leadership program (DLP) at www.dlprog.org. The Asia Foundation is a partner organization in the DLP.

easy rents for those in power), the emergence of African entrepreneurs and an increase in growth rates.

Three common themes stand out about these recent books and debates—all of which are echoed in other literature.

First, the one-size-fits-all approach simply does not work. Country specificity is far too complex and requires far greater nuance and policy specificity, depending on the many contingent factors, levels of development and political circumstances. General policy prescriptions involving structural adjustment, democratization, freeing up markets, decentralization, capacity building, reducing tariffs, and many of the other elements that went into the Washington Consensus in the 1990s regularly ran into difficulties shaped precisely by such local contingent factors and processes—and configurations of power and interest—which were not at all congenial to those prescribed changes (Rodrik, 2006).

Secondly, it is clear that institutions matter for development—no ordered or predictable pattern of economic, political, or social interaction is possible without legitimate rules of the game that are understood and accepted by the players of the game who are required to abide by them. But as Esther Duflo and Abhijit Banerjee (2011) have rightly pointed out in their important new book, it is important to distinguish between **INSTITUTIONS** and *institutions*. Whereas the former refer to the big generalised **INSTITUTIONS**—democracy, decentralization, property rights, rule of law, accountability—they are all, in practice, made operational where they exist in very different, local and specific *institutional* forms and arrangements. For example, even in the so-called liberal democracies, the forms and particulars of democratic institutions and politics differ greatly; so do the forms and particulars of property rights, or authority and powers at various decentralized levels of decision-making. In directing our attention to the lowercase *institutions*, Duflo and Banerjee come at the same issue of specificity from a different route. They suggest that it is important to work out what works in any given structural context and to encourage that, not to suggest—let alone impose on a conditional basis—off-the-shelf arrangements or policies, based as they often have been on the normative *desiderata* of western policy-makers or politicians.

Thirdly, and crucially for the purposes of this foreword and the essays in this collection, the implications of the first two themes converge in policy and operational terms on the need for care, modesty, experimentation, country specificity, policy diversity, and understanding of context—and especially the political context, as DFID has pointed out recently in reviewing a decade of research into governance and politics (DFID, 2010). More significantly still, if country context matters, and if appropriate, legitimate and locally specific institutional arrangements are the only ones that will really work, then all

these implications draw our immediate attention to the role of human agents—the individuals, organizations, or formal and informal coalitions within developing countries—who not only have to design and shape the institutional and policy environment, but also have to make them work and survive. We are not only dealing with politicians and policy-makers here, but also with officials and bureaucrats across as well as up and down the public service, and key players outside government, in the private sector.

In short, although none of the studies referred to above say as much, the net and most important implication of the debate is to bring the idea of agency back to thinking about developmental change (Leftwich, 2010). It is to redirect our attention not simply to the institutions or policies that will work, but to the role of human agency in shaping and sustaining them in very different institutional, structural and political contexts.

This book of essays has as its focus the way in which *development entrepreneurs* worked politically to bring about (though not always, as some of the cases show) some very important institutional changes in the Philippines. These are classic illustrations of lowercase institutional change, not uppercase INSTITUTIONAL change, and illustrate dramatically what Duflo and Banerjee call the “surprising power of small changes” (Duflo & Banerjee, 2011: 247). The 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. What is interesting about all these cases of developmental entrepreneurial activity is that every one of them was in a very different sector, and a range of different local strategies and framing of the issues was used. Moreover, the development entrepreneurs knew how to recognize when the policy window was open: that is, that an opportunity had arisen that made the chances of success greater than before. They knew when and how to seize the moment, when, and how to move, whom to form alliances and coalitions with, and how to navigate the formal and informal political institutional architecture. 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.

The idea of the development entrepreneur is an important example of the role of human agency in change and has rarely been used or followed up in development thinking or policy terms. But it is not a new concept or approach to the understanding of institutional change in more mainstream political

science, as applied in the OECD countries. Indeed, the closely related concept of “policy entrepreneurs” was first introduced by John Kingdon in 1984 in his classic study, *Agendas, Alternatives and Public Policies* (Kingdon, 1984 and 2011), in an attempt to understand the policy process in the USA. Kingdon made the point that such entrepreneurs can be found at many points in the process—he or she might be an academic, a cabinet secretary, an elected politician, a minister of state, a lawyer, a senior bureaucrat or a lobbyist. Paul Pierson refers to such agents as “institutional entrepreneurs,” (Pierson, 2004: 136-7) who are able to mobilize a coalition of interests around a policy or institutional solution to a collective action problem. Moreover, he points out that actors who straddle a series of socio-political networks are especially well placed to engage in successful political work to bring individuals or organizations together in some formal or informal alliance or coalition around a common policy. So being connected can make a considerable difference to the success of the development entrepreneur and her or his prospects for mobilizing an effective—even winning—coalition of interests.

So, is it possible that the failure to recognize, *respect*, and to support the role of local agency—and especially of developmental leaders, entrepreneurs, brokers and coalitions—is at least *one* of the key reasons why aid and development policies and programs have had such patchy success? After all—as many of the books mentioned above point out—some of the most successful modern development stories (Botswana, Singapore, Taiwan, Mauritius, South Korea, China and India, for example) have not been major recipients of aid, or not for long, if at all, after short initial bursts. In all these cases—both despite and because of their immense differences with respect to size, endowments, populations, cultures, and pre-existing politico-institutional traditions and settings—it was the role of local leaders in both public and private sectors who negotiated and shaped the locally appropriate institutions that created the environment for growth, and sooner or later, poverty reduction.

Of course, a parsimonious theory of political, institutional or policy change is never likely to be developed, and it would be ridiculous to attempt a single factor explanation of institutional change which hinged solely on the role of agency. The social world is too complex, differentiated, and shaped by accidental or contingent events, as Francis Fukuyama has pointed out recently (Fukuyama, 2011: 23). However, the way local actors or agents may be helped to explore and exploit whatever structural space is allowed to them is important, and therefore understanding that local context is crucial.

Thus, if the international community is looking for innovative ways of working for progressive institutional or policy change that can promote growth and political stability, reduce poverty, and extend inclusion, then there is no better place to start than where, when, how, and under what circumstances

it can act (in the short, medium, and long term) to support the emergence or activities of local *developmental* entrepreneurs, leaders, and coalitions rather than supine, collusive, or predatory ones. This book offers an important set of illustrations of just how that has been and can be done.

In conclusion, if aid is to be more effective, the international community may need to focus far less on externally concocted policies and formal institutional advice. Rather, donors and other organizations may need to work out how they can connect with individual and collective indigenous developmental agents and agencies—at national and sub-national levels and in all sectors and issue areas—so that the locals who will really make history happen are better empowered, supported, and encouraged.

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Abstract

Built on Dreams, Grounded in Reality: Economic Policy Reform in the Philippines

The challenge of changing institutions that structure human interaction to produce better development outcomes is a central problem for development thinkers, development agencies and practitioners.

This volume of case studies on Philippine economic policy reform contributes to the discourse on institutional change a better understanding of how human actors engender change. The cases trace the political battles involved in five successful and two unsuccessful reform efforts in telecommunications, sea transport, civil aviation, water privatization, property rights legislation, tax administration and the grain sector.

The cases highlight that 1) the reform is an iterative, non-linear and highly context-specific process; 2) technical analysis is insufficient to achieve reform; 3) political economy analysis and political action are equally important; 4) committed local leadership is the principal reform driver; 5) development agencies can play critical supportive roles but need to move towards less rigid and more locally-owned projects.

The volume concludes with an operational approach for achieving institutional change referred to as *development entrepreneurship*. The approach consists of 1) a recognition of the iterative process of change that calls for a combination of technical analysis, political economy analysis and political action; 2) local leaders, referred to as development entrepreneurs, who take personal responsibility for achieving development outcomes; and, 3) a project structure that allows development agencies to support local partners through grants and not contracts.

Development Entrepreneurship provides one compelling pathway for development agencies to incorporate politics, manage risk, improve aid effectiveness, and more importantly, improve the lives of people in developing countries.

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