

RENT SEEKING AND INSTITUTIONAL ENTREPRENEURSHIP AT COLOMBIA'S CAUCA VALLEY CORPORATION

**ERNESTO SANCHEZ TRIANA (WORLD BANK) AND
PASQUALE L. SCANDIZZO (UNIVERSITY OF ROME
«TOR VERGATA»)**



Principal-Agent

Rent Seeking

Centralization-
Decentralization

Institutional
Entrepreneurship

Endogenous
Dynamics

Basic Concepts

Principal – Agent Misalignment

Rent Seeking as search for power and influence for leading stakeholders

Institutional Entrepreneurship

Re-interpreting and promoting the mission by changing rules and policies

Endogenous Development

Focusing and extending the mission of the corporation

From Rent Seeking to Endogenous Development

- The *Corporación Autónoma Regional del Valle del Cauca* (Cauca Valley Corporation, CVC or “the Corporation”) was founded in 1954 as a regional entity dedicated to developing water resources. In addition to building hydroelectric power, irrigation, flood control, and drainage projects, CVC has also been involved in managing and conserving natural resources. It was the first regional autonomous corporation established by Colombia's national government.
- CVC was originally opposed by the landed class as an instrument of the urban-industrial bourgeoisie to force innovation on the traditional local elite.
- Only after a fierce political and social struggle, the landed elite succeeded in capturing the institution by gaining major power in its governance.

A brief History of the Institution (1)

- Between 1968 and 1993, CVC had a major influence on the development of Colombia's decentralized environmental management system. The performance of CVC indicated that a decentralized approach in Colombia could have advantages over traditional centralized environmental management schemes.
- During the 1980s, CVC pioneered work in EIA in Colombia. In that decade, CVC also designed and implemented Colombia's most successful industrial water pollution control program.
- The water pollution control regulations adopted in Colombia in 1984 and the water pollution charges established in 1993 were modeled after the CVC's regulations on wastewater discharge standards and water pollution charges

A brief History of the Institution (2)

- Current narratives aimed to explain CVC's environmental regulatory activities center on the following: (1) the Board of Directors' sense of social responsibility; (2) the leadership and charisma of Raúl Arias, Chief of CVC's water pollution control unit; (3) the influence of international development assistance organizations; and, (4) "organizational slack" at CVC.
- Counter-narratives: CVC's EIA and water pollution control programs in a first phase are instruments of "rent seeking" by coalitions and individuals affiliated with CVC. In a second phase, they evolve to influence the regulatory environment and CVC role within it (institutional entrepreneurship). In a third phase, they reflect CVC maturity as a regulatory institution bridging the government with civil society.

Contrasting narratives

Conventional Narrative

CVC' Board
Social
Responsibility

Leadership of
Raul Arias

Influence of
Aid
Organizations

CVC's
Organizational
slack

Counternarrative

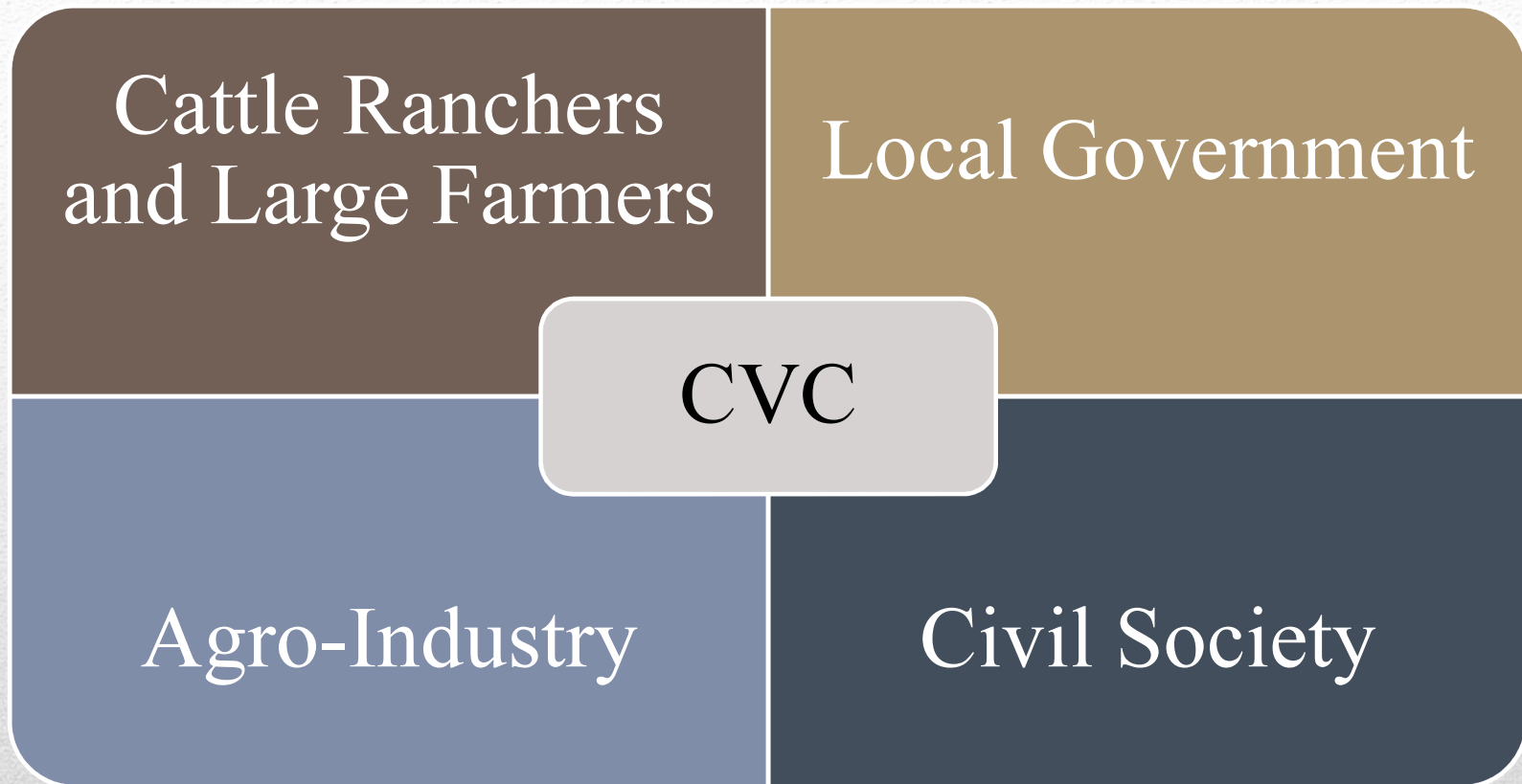
Rent seeking

Institutional
Entrepreneurship

Opportunistic
Behavior

Maturity as a
regulatory
institution

The Interpretation of CVC's evolution

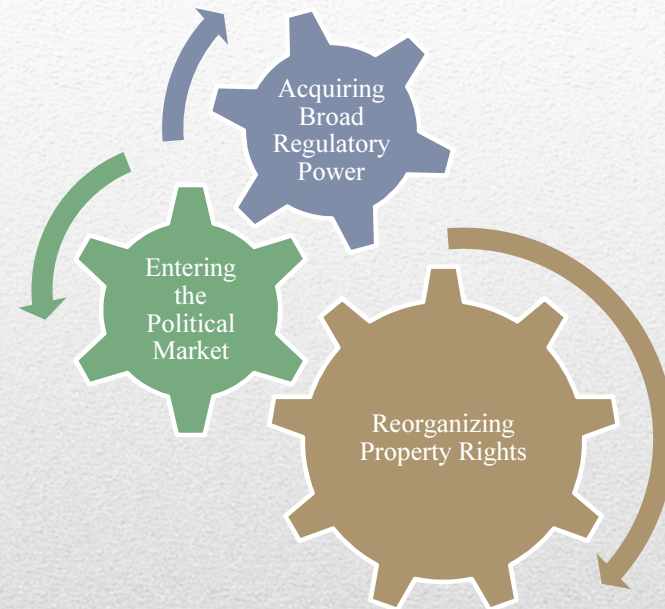


CVC Power Base

Rent Seeking



Institutional Entrepreneurship



Rent seeking and Institutional Entrepreneurship outcomes

- Rent seeking may be a necessary activity for a public organization to secure the consensus of key stakeholders and economic and political sustainability
- But rent seeking creates institutional dissonance. It thus tends to evolve into institutional entrepreneurship to internalize and reduce negative externalities by re-structuring property rights and by seeking a wider and more solid ownership basis in the civil society
- In turn, institutional entrepreneurship may eventually create the framework for regulating environmental goods through good governance and collective action.

What Implications for Institutional Economics?

- Decentralized government may evolve through innovative institutions, with a local base, which may grow from embryonic units of survival to recognized leaders of governance and collective actions.
- Institutional dynamics and appropriate incentives to evolve toward a broad based representation of collective goals, may be more important than strict democratic rules.
- In spite of the original pitfalls in its design and power base, CVC evolved from rent to legitimacy seeking, and from opportunism to political awareness and loyalty.
- Institutional design is thus a potentially powerful instrument of public policy, but more research is necessary to understand how to balance the organizational capabilities , the internal and external incentives and the stakeholders' interests.

What Policy Implications?
