

**Global Prosperity Initiative**

WORKING PAPER 33

**DIAGNOSING BARRIERS TO ENTREPRENEURSHIP  
AND  
ASSESSING THE CHANCES FOR IMPLEMENTING REFORM**

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Development by the Mercatus Center at George Mason University**

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**DIAGNOSING BARRIERS TO ENTREPRENEURSHIP  
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**INTRODUCTION**

Entrepreneurs and entrepreneurial actions are pivotal in the economic development process. Recognizing this, USAID is consistently focused on alleviating barriers that impede entrepreneurial initiatives and working to channel entrepreneurial behavior into productive directions.

This field guide offers a framework for:

- (a) Identifying barriers to entrepreneurship<sup>1</sup> and
- (b) Assessing the implementation potential of different policies aimed at removing those barriers and channeling entrepreneurship in economic development-inducing directions given the political economy of the implementation environment.

This tool is intended as a resource for USAID Field Mission representatives charged with identifying and overcoming such barriers and should serve as a complement to existing tools and strategies. This guide combines three different tools that are typically used separately to prepare economic development policy initiatives:

1. Entrepreneurship environment analyses;
2. Stakeholder mapping;
3. Policy implementation environment assessment.

By using this field guide, Field Missions charged with facilitating Small and Medium Sized Enterprise development in less developed countries should expect to be able to:

- More realistically diagnose specific barriers to entrepreneurship,
- More accurately assess the implication of those barriers for the entrepreneur, and
- Increase their ability to assess the feasibility of reform efforts given the political realities and constraints of the situation in which the Mission operates.

Finally, this approach identifies the necessary conditions for building the premises to generate political participation and commitment on behalf of the local stakeholders. While this using this guide will generate some potential reform solutions, this is not its primary purpose. This guide will be most valuable when combined with other resources intended to generate specific reform initiatives.

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<sup>1</sup> For the purposes of this field guide, entrepreneurship can be thought of as the process by which an individual is able to bet on an idea and subsequently to locate the financing to bring that bet to life. Those entrepreneurs that will provide the most useful information for a specific diagnostic will vary based on the goals of the specific task at hand. For example, if a Mission is concerned with a lagging small and medium sized enterprise sector, relevant entrepreneurs will be owners/operators of small and medium sized enterprises, etc.

Fieldwork conducted alongside USAID Missions in three countries informed the approach detailed in this guide. It incorporates insights from:

- New Institutional Economics;
- Literature on economic development policy making;
- USAID efforts in implementing various programs and projects in this area, with an emphasis on the local expertise of the Mission representatives and the local knowledge base.

This composite tool is intended to assist in performing the following functions:

- To reflect, integrate, and build upon the perceptions and experiences of the social actors directly involved in the issue at hand;
- To capture the multilayered institutional complexity of each development problem;
- To map the relevant political and institutional situation in which the problem exists and reform is to occur;
- To lead to the generation of solutions that are both *technically* and *politically* feasible;
- To facilitate solutions that generate “policy ownership” among the decision makers and social actors involved in conjunction with other solution-generating resources.

In order to accomplish this, the guide is structured in two sections:

- I. Outline of the elements of the interview-based institutional mapping approach
- II. Step-by-step overview of political feasibility analysis and implementation assessment process

The process defined by this guide includes the following steps:

- Interviews with entrepreneurs meant to unlock local knowledge and the entrepreneurs’ perception regarding the barriers in question and potential reforms.
- Interviews with bureaucrats, administrators, and political decision makers intended to enhance the mapping in Step 1 by including the perspective of political actors.
- Integration of the information collected in Steps 1 and 2 in order to develop:
  - a) A stakeholder map, and
  - b) An assessment of reform feasibility given the identified political realities.

## **I. INTERVIEWS AND INSTITUTIONAL MAPPING: INTRODUCTION TO FRAMEWORKS AND APPROACHES**

One of the strengths of the approach suggested by this field guide is its ability to capture and organize for analytical and policy purposes the local and situational knowledge defining a specific problem area. As such, the questions that will be appropriate to any given Mission will vary based on the particulars of both the specific goal of the Mission and the particular context in which the assessment is undertaken. This field guide should not be seen in isolation from other approaches and techniques but rather as a framework for integrating them. Therefore, it is important to note that other sources of data and analysis, including broad-based quantitative data, should not be neglected. The tool should be seen as a complement, and not a substitute, to other tools and analytical frameworks.

The field guide depends on a series of “structured interviews” as opposed to “standardized surveys.” Qualitative responses should be recorded and organized using a series of frameworks and grids that facilitate not only the interview process but also the analysis of the data. Topic areas, such as those outlined in the following frameworks and grids, should be chosen or formulated before beginning the interview and are intended to guide free-flowing discussion around specific topics. Rather than “yes” or “no” answers, the tool is equipped to capture the richness of experience (this can often have a significant impact on the resulting policy decision) while keeping within a structured analytic framework.

The goal of the interview is three-fold. First, to generate a list of barriers to entrepreneurship as identified by those who have actually experienced them. Second, to generate a list of the perceived sources of the problems (institutional levels, individuals, organizations, agencies, etc.). Third, to generate a list of potential solutions. This information is sorted according to a series of criteria such as: (1) Who said it. (2) To which level the problem/solution is attributed. (3) On which stage of the entrepreneurial process the problem/solution is acting. (4) The type of problem/solution to which the information refers.

### **1. Preliminary Definition: A Working Conceptualization of the Entrepreneurial Process**

One can view entrepreneurship as a process that occurs over time. At any point in time an entrepreneur is in some stage of the process. The way the entrepreneurial process is conceptualized and segmented for diagnostic purposes will have an effect on the resulting policy recommendations.

A four-stage framework of the entrepreneurial process is presented for the diagnostic assessment:

*Existence of Entrepreneurial Situation and Identification.* This is the stage at which the entrepreneur identifies a profit-making opportunity. Mapping this stage involves examining the impact of the various action arenas or institutional level variables on the existence of an entrepreneurial situation – do the variables prevent or promote the existence of such situations? Assuming that such a situation exists, the process of identification by the entrepreneur is then analyzed. How do the factors impact the entrepreneur’s identification of the opportunity?

*Planning, Financing, Assessment/Decision, Resource Mobilization & Project Launch.* This stage involves the development of a business plan by the entrepreneur, as well as the process of seeking, meeting and pitching the plan to potential investors. Based on the availability of funds, the entrepreneur assesses his prospects for obtaining funding and makes a decision about whether or not to proceed. If he does decide to proceed, the entrepreneur begins the process of mobilizing resources – taking possession of and investing funds and securing physical resources – leading to the launch of the enterprise. Mapping this stage involves analyzing the steps an entrepreneur takes and how they are affected by variables located at different institutional levels.

*Organization, Consolidation & Operation.* This stage involves the organization of the start-up firm with the main focus on human capital – hiring labor and determining its various roles and wages, as well as the general management structure of the firm. It is in this stage where the business plan (created in stage two) comes to fruition through the operation of the firm. Mapping this stage includes studying the impact of the various institutional levels on human capital (labor laws, etc.) and the structure of the firm (regulations, etc.).

*Reassessment of Plan.* This stage involves two key aspects. The first is an assessment by the entrepreneur of actions he or she has taken to this point. Analysis requires one to ask how the variables from different levels impact the ability of the entrepreneur to evaluate the past performance of his or her venture. Did some specific variable(s) cause the entrepreneur to incorrectly undertake the venture? What information is now available for the entrepreneur to judge his or her performance? Closely connected to this is a second aspect of plan reassessment which involves looking into the future and forecasting future conditions – should the entrepreneur expand or contract his or her business? As in the former case, mapping involves studying the variables as they impact the entrepreneur's ability to consider his or her future position.

The analysis of the impact of the institutional, cultural, and political environment on entrepreneurship could be done separately for any of the stages, or by focusing on the entire sequence as a whole.

## **2. Different Facets: Interviews, Analytical Framework, and Grids**

Entrepreneurial action takes place in a multileveled system of institutions and in overlapping diverse social, cultural, and political settings. The shape, dynamics, and success of entrepreneurship are significantly determined by the levels at which they operate and the configuration of those settings. For each level, or setting, it is important to keep in mind the specific arrangements, configurations of relations, and sets of *de facto* rules that are in effect. The task is to identify:

- (a) The relevant actors,
- (b) At which institutional level they are operating – the “action arena” – and the significant institutional, and socio-cultural settings,
- (c) The significant interactions between these arenas/settings,

- (d) Which institutional level is causing the problem that is being examined, and at which institutional level a potential solution would need to be implemented.<sup>2</sup>

The linkages between the institutional levels (local, national, regional, etc.) and/or the various domains (taxation, property rights, credit markets, etc.) are crucial. One of the major advantages of approaching these issues from this perspective is that the framework can illuminate these linkages and clearly identify that although a problem may manifest itself at one level or domain, it often originates at another and this recognition should therefore inform any potential solution. Thus, identifying how specific rules or decisions from one level or one domain have consequences for the structure and dynamics of another level or domain is an important part of the analytical effort.

Given the complexity of the situations to be investigated, several frameworks need to be used in order to generate clear perspectives. It is not necessary to introduce all possible frameworks in every case, and the goals of the specific task will determine which levels or domains the diagnostic will examine.

The remainder of this section will present several such frameworks.

#### **A. Governance, Institutional Levels, and Entrepreneurship**

This framework is aimed at locating major barriers to entrepreneurship, with respect to the institutional levels at which problems manifest themselves and, separately, at which interventions should be made:

The *local level* is the lowest governance unit or administrative unit: the town in urban areas and the commune in rural areas. Sometimes in rural areas such political-administrative units are equivalent to the anthropologic notion of “community.” (In some cases, the *county/region level* intervenes between the local and national level. In that

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<sup>2</sup> This tool is designed to “operationalize” institutional analysis and to extend, in an applied direction, the New Institutional Economics approach. For the purposes of this tool, the working definition of “institutions” is that articulated by Douglass North: “institutions are the rules of the game and the mechanisms for their enforcement,” and the notion of (rational) social actors acting within levels and meta-levels of decision making rules, articulated by Elinor Ostrom. From this perspective an institutional analysis is predicated on a vision of a multileveled system of “action arenas” or governance levels defined by constitutive, collective choice, and operational rules. “Constitutive” rules and decisions are the most fundamental because they are decisions about rules governing future collective decisions. They determine the rules to be used in crafting the set of collective choice rules that in turn affect the set of operational rules. They also determine who is eligible to do that crafting, and so forth. The collective choice level is nested within the constitutive level, and the operational level nested within the collective. Given this understanding, the “actors” are defined both as individual participants within the institutional process given rules and enforcement configurations or following the analysis of James Coleman, as collective/organizational units (a bureau, a ministry, a corporate entity, etc., as long as they display unitary decision making capability.)



case, it may be necessary to include an additional institutional/governance level in the analytical framework.)

The *national level* is composed of central government units and activities that generate nation-wide rules and behaviors, affecting the entrepreneur's opportunities, barriers, and environment. This is typically the epicentre of taxation, regulation, financing, legislation, etc., and the major action arena for special interest groups.

The *international level* isolates factors originating outside of a country that affect the entrepreneurial space within it, such as international agreements (WTO, for example), subsidies and protectionist measures in other countries, or conditions resulting from international aid organizations.

There are also some cases when one may add:

The *individual level* consisting of personal features and resources and the social context that immediately influences entrepreneurial choices and possibilities. Important factors at this level include education and social networks/social capital.

By combining the institutional level with the entrepreneurial stages, one obtains a two-dimensional framework for analyzing the impact of various action and decision areas on the entrepreneurial process. Given this understanding of the entrepreneurial process it is easier to identify how various institutional variables pertaining to the international, national, and local, levels impact the various stages of entrepreneurship (the existence of entrepreneurial situation and its identification, planning, financing, assessment/decision, resource mobilization & project launch, organization, consolidation & operation, reassessment of plan). This provides insight into which reforms might be initiated and what results can be expected, at which stage of the entrepreneurial process.

**Framework A: Governance, Institutional Levels, and Entrepreneurship**

<p><b>International</b></p> <p>International agreements, Free trade/ Protectionism, Customs, etc.</p>				
<p><b>National</b></p> <p>Regulations, Legislation, Administrative offices, etc.</p>				
<p><b>Local</b></p> <p>Administration, Regulations, Approvals, etc.</p>				
	<p>Existence of Entrepreneurial Situation &amp; Identification</p>	<p>Planning, Financing, Assessment/Decision, Resource Mobilization, &amp; Project Launch</p>	<p>Organization, Consolidation, &amp; Operation</p>	<p>Reassessment of Plan</p>

The following frameworks, aimed at adding new layers of information, can be constructed on the same principles. They provide a way to better organize the data gathered through the interview process. Each of the following frameworks examines the effects of different domains (listed on the left side of each grid: taxation, property rights, credit markets, etc.) on the entrepreneurial process. The domains were constructed to best capture the factors of interest for each individual grid topic, however these factors are not exhaustive. The impact analysis within each grid should be combined with the analysis of the other grids to gain a full picture of the situation facing entrepreneurs. Once the data is organized, each grid offers specific perspectives on distinctive facets of the complex factors and processes affecting entrepreneurship in specific contexts, and combined, the overall picture becomes clear.

## B. Governance Functions

Using the same principles as the Institutional Levels Grid, the Governance Grid provides a framework for assessing the impact of various components of governance (governance functions, listed on the left side of the grid) on the different stages of the entrepreneurial process. The grid below facilitates the identification and mapping of the impact of domains such as infrastructure, law and courts, monetary order (inflation and exchange rates), and property rights (definition and enforcement) on the entrepreneurial process.

It facilitates the identification of how these factors impact the various stages of entrepreneurship (listed along the bottom of the grid) and provides insight into which areas should be targeted by reforms, what reforms might be initiated, and what results can be expected at which stage of the entrepreneurial process.

**Framework B: Governance Functions**

Law and courts				
Property rights (definition and enforcement)				
Infrastructure				
Monetary order (inflation and exchange rates)				
	Existence of Entrepreneurial Situation & Identification	Planning, Financing, Assessment/Decision, Resource Mobilization, & Project Launch	Organization, Consolidation, & Operation	Reassessment of Plan

### C. Industrial Organization and Economic Structures

Adding another level of inquiry to the mapping process, the Industrial Organization and Economic Structures Grid maps the structure of the economic environment as well as the industrial organization structure of the market, or sector, entrepreneurs are acting within (i.e. competition and monopolies, concentration in the specific market, credit markets, labor markets, service, supply chains/distribution chains/transportation, government interventions in the specific market (subsidies), etc.).

#### Framework C: Industrial Organization and Economic Structures

Credit markets				
Labor markets				
Service, supply chains/distribution chains/transportation				
Government interventions in the specific market (subsidies, etc.)				
Competitions and concentration in the specific market				
	Existence of Entrepreneurial Situation & Identification	Planning, Financing, Assessment/ Decision, Resource Mobilization, & Project Launch	Organization, Consolidation, & Operation	Reassessment of Plan

In addition to the frameworks structured along the lines given by the entrepreneurial process, two other frameworks that capture information from a different perspective may be useful to include, depending on the task at hand.

Information gathered during the interview process will be useful in fleshing out the following tables. However, this is an opportunity to “triangulate” that data using existing information and analysis (national surveys and statistics, opinion polls, media analyses, and other studies relevant to the specific country and specific task at hand).

As with the previous tables, it will not always be necessary to consult each template. The specifics of the issues to be addressed will determine which areas of inquiry will be most beneficial to pursue.

**D. Informal Institutions/*De facto* Institutions/Actual Practices**

The table below will facilitate the identification of the *de facto*, as opposed to the *de jure*, practices that define various areas of entrepreneurial concern (payment, recruitment, taxation, inspections, authorization, law enforcement/property rights, financing).

**Framework D: *De facto* Institutions**

<b>Identify Practices Regarding...</b>	<b>Official Practice (<i>De jure</i>)</b>	<b>Actual Practice (<i>De facto</i>)</b>	<b>Nature of Impact on Entrepreneurial Process (Facilitates/Hinders, etc.)</b>
<b>Taxation</b>			
<b>Payment</b>			
<b>Recruitment</b>			
<b>Inspections</b>			
<b>Authorization</b>			
<b>Property Rights Enforcement/Contract Enforcement</b>			
<b>Sources of Financing</b>			

## E. Economic Culture and Economic Operational Codes

The table below facilitates the identification and maps the most important aspects of the cultural environment of entrepreneurship that directly define the way economic activity is perceived.

### Framework E: Economic Culture and Economic Operational Codes

	Description	Nature of Impact on Entrepreneurial Process (Facilitates/Hinders, etc.)
<b>Traditional economic values and attitudes regarding <i>Economic processes</i></b>		
Entrepreneurship		
Production (work)		
Exchange (market)		
Consumption/Savings		
<b>Traditional economic values and attitudes regarding <i>Economic governance</i></b>		
State and Taxes		
Property		
Corporations and Firms		
Management		
Social Change/Reform Process		
Corruption		
Foreign Investors		
<b>Media coverage of entrepreneurship *</b>		

\*Depending on accessibility, it may be appropriate to consult an existing media analysis to enrich this stage of assessment. The analysis might be structured on lines similar to Framework E, focusing on the way the media is shaping the public attitudes on economic processes and economic governance.

The grids will be used to organize the information gathered in the interview process. It should be noted that the grids are instruments designed to enhance the analysts' ability to make an *informed judgment* about the situation and, as a consequence, proper reform efforts. They should not, however, be taken as formulas from which exclusive solutions arise. The context and specifics of the situations are such that one-size-fits-all algorithms cannot adequately deal with them and this approach reflects that understanding.

The topics that one should consider, and the combination of grids employed, will vary depending on the goal of the assessment. The existing structures could be further developed or adjusted to fit those needs. For instance, if the project is to determine the nature of a specific type of barrier to entrepreneurship, one might need to formulate interview questions that target specific topics at each institutional level that may be different from those formulated to identify barriers broadly. In this sense, the tool included in this guide is flexible and adaptable based on the task at hand.

### **3. Examples of Pre-Selected Topics and Interview Questions**

*EXAMPLE 1: Pre-selected Topic A: Identifying the role of corruption in the first stage of the entrepreneurial process.*

*Questions trying to determine ...*

1. How important were friends and family in starting up the business? How were they important?
2. How important were "strangers" in starting up the business? How were they important?
3. How well connected is the interviewee in community? Did connection to community help or hurt his or her ability to start up the business? How?
4. How would the interviewee describe his or her relationships with competitors?
5. Was the payment of bribes (or, alternatively, "the use of special favors," depending on the sensitivity of the issue) an important consideration affecting which line of business the interviewee would enter?
6. How significant of a role did the payment of bribes play in setting up the business?
7. Do competitors pay bribes? How does this effect the interviewee?
8. How expensive was it to gain the authorization required to set up the business?
9. How important were connections to government authorities in setting up the business?
10. Do some lines of business benefit from political corruption more than others? Which ones? Why? Did this influence which line of business the interviewee entered?

*EXAMPLE 2: Pre-Selected Topic: Identifying the role of regulation in the first stage of the entrepreneurial process.*

*Questions trying to determine ...*

1. How strong is the competition in the interviewee's line of business? Does the interviewee personally know his or her competitors well?
2. Are competitors trying to avoid regulations? If yes, how are they doing it?
3. Were national or local regulations influential on the decision regarding which business the interviewee entered? Which ones? Why?

4. Has any recent change in the enforcement of government regulation helped or hurt the interviewee in starting up the business?
5. Are some lines of business hurt more than others by the specific regulation and or their selective enforcement? Which ones? Why? Did this influence the interviewee's decision regarding the line of business he or she would enter?
6. Did any industry-specific regulations help or hurt the interviewee's ability to start his or her own business? Which ones? How?
7. How expensive was it to gain the authorization required to set up the business?
8. Has the interviewee hired anyone to obtain the necessary licenses and approvals?
9. What role, if any, did local regulation play in helping or hurting the start up of the business?
10. What regulation, if any, did the interviewee find most onerous in setting up his or her business? Why?

Some topics will be more important than others given the specific task at hand and these will need to be pre-selected accordingly. It is not usually the case that topics of concern (corruption, for example) are unknown prior to investigation, this tool illuminates in detail the source and implications of the topics.

Note that in the sample questions above, the range of potential responses might extend beyond the first stage of the entrepreneurial process and beyond the scope of Grid A. This can be sorted out from the notes after the interview and the responses entered in the appropriate grids. Also important to note is that the questions are formulated to allow responses that indicate the level (International, National, Local, Individual) at which corruption or the enforcement of regulation, for example, has impacted the stage of the entrepreneurial process in line with the organization of Grid A. All responses should be recorded and noted accordingly on the appropriate grid after the interview. Similar sets of questions could be constructed using the other frameworks provided.

It is important to emphasize that care should be taken in crafting questions for each specific task/Mission project. It is not possible to craft the questions without first knowing the specific issues and context in which these issues are to be addressed. The questions will be used to provide some standardization to the conversations, however the best interview will be a conversation that leads to information not previously conceived as central to the issue at hand.

Sometimes, when permissible, it will be useful to record conversations so they may be organized into the appropriate grids after the interview is complete. Other times this will not be feasible and detailed notes will suffice.

In the next section, a step-by-step explanation of how to use this diagnostic tool is provided.



## II. STEP-BY-STEP DIAGNOSTIC ASSESSMENT

### Step 1: Interviews with Entrepreneurs

**Objective:** To identify barriers to entrepreneurship at each stage of the entrepreneurial process as perceived by entrepreneurs themselves, and begin to generate a political and institutional map of the possible solutions.

**Tool:** Structured interviews. The interviews will be guided by pre-defined topic areas based on the goals of the specific task at hand, framed by the relevant entrepreneurial grids and tables presented in Section I, and conducted with entrepreneurs identified in advance of the interviews. These interviews will provide data to be organized using any combination or all of the preceding grids and tables. Selection of the relevant grids and tables will be determined based on the goals of the specific project.

#### Step 1.A, 1.B, 1.C: Pre-Selecting (A) Topics and (B) Actors, and (C) Formulating Example Questions

(A) At each institutional level and stage of the entrepreneurial process, topics of interest should be pre-defined (See the above examples in I.D). They can be made more general or specific depending on the case.

(B) Actors should be chosen based on the sector and area with which the project is concerned. Regarding the appropriate number of interviews, the interviewing process should continue until it reaches a “saturation point:” the answers are repetitive, the information is redundant, and no new relevant information is revealed. (When choosing individuals to interview, consider a “snowball strategy.” Begin by identifying three or four sufficiently distinct entrepreneurs and conduct interviews with each of them. At the end of the interview ask them whom they would suggest you speak with and continue to do so as you move from contact to contact. This is especially effective in small sectors that operate largely through social networks. If the initial interviewees are sufficiently distinct, this method may effectively cause saturation very quickly, while yielding a good range of responses.)

(C) For each topic addressed, questions should be formulated to guide the discussion toward identification of:

- (a) Problem/Barrier (*I have found it difficult to keep up with changes in the applicable laws issued by the mayor. If I grow too large, I'm afraid of the licenses I might need.*);
- (b) Specific political source of the problem (*The mayor's office.*);
- (c) Possible solutions (*If only the local newspaper would print the new laws each week, I would know whether or not I was in violation.*).

Given the objective articulated above, three sets of questions should be asked on each topic:

1. A set of questions asking for barriers encountered at each stage. What is the entrepreneur's perception/definition of the problem they encounter? Using the grid and following institutional levels and potential issue areas will help in structuring the answers and inquiry process. (For instance, given the example responses above: *How easy is it to*

- comply with new laws that are enacted at the municipal level? Did this effect your decision to expand your business?)*
2. A set of questions about the sources of the problem. These questions are aimed at determining the political economy/institutional context of the problem. What is the actor's perception/definition of the political dimension of the problem encountered, and the role of politics in generating/maintaining/aggravating that problem? *(Do you experience similar problems with laws at the national level, or is it mainly a function of the mayor's office?)*
  3. A set of questions about possible solutions to the problem. What are the actor's suggested solutions? The questions asked during this phase include who will support, and who will oppose the various options, which alternatives will be easier to implement, and what types of additional analysis might be needed. *(What would allow you to more easily comply with the laws? Has the newspaper ever tried this before? How do you think the mayor would react?)*

Each interview should last between 30 minutes and 1 hour. It is best to conduct interviews at the home or business of the entrepreneur rather than in an official setting, in order to encourage honest and candid responses.

It may be necessary, especially when confronting sensitive issues such as corruption, to guarantee the anonymity of the interviewee. If this is the case, make sure to:

- (a) Record the time, date, and location (city or town),
- (b) Type, sector, and size of business (producer/manufacturer/service provider; technology/food/agriculture; micro/small/large)

After Step 1 is complete, three lists of information should emerge. These lists can be organized according to level of impact, stage of impact, and topic using the entrepreneurial grid:

1. A list of problems/barriers and their respective positions in the grid. (A relative order of significance may emerge based on their clustering in the grid.)
2. A "political economy diagnostic list" that identifies some political and institutional mechanism (licensing procedures, lack of transparency/availability of information) involved in the problem and some stakeholders (names or positions that either benefit from the current situation, or would benefit from reform).
3. A list of potential solutions suggested by the entrepreneurs.

## **Step 2: Interviews with Bureaucrats, Administrators, and Political Decision Makers**

**Objective:** To enhance the assessment generated in Step 1 by adding the perception of political actors, and to gather the elements for an analysis of the political feasibility of the possible reform solutions.

**Tool:** Structured interviews based on the three lists generated in Step 1.

### **Step 2.A, 2.B, 2.C: Pre-Selecting (A) Topics and (B) Actors, and (C) Formulating Example Questions**

(A) The topics to be addressed will be the same pre-selected topics used in Step 1. However, this list may have expanded as a result of new issues discovered in the interviews with entrepreneurs.

(B) A list of political actors to interview should be gleaned from the second list generated in Step 1 where entrepreneurs identified the political/administrative actors and offices they perceived to be the source of the problem (stakeholders identified within the political process and bureaus or agencies responsible for mechanisms identified). Additional names should be added to this list based on the particulars of the situation. (For example, if the target is streamlining customs, someone from that agency should be included on the list of political actors to interview, whether or not they were mentioned in Step 1.) The snowball technique can also be effective here.

(C) The questions should cover the same three areas that were included in Step 1:

- a. Problem/Barrier: A set of questions asking about barriers that were identified by entrepreneurs in Step 1. What is the political actor's perception of the problem?
- b. Political economic sources of the problem: a set of questions about the sources of the problem. These questions are aimed at determining the political economy/institutional content. What is the political actor's perception of the political dimension of the problem encountered and of the role of politics and specific political institutions in generating, maintaining, and/or aggravating that problem?
- c. Possible Solutions: a set of questions about the potential solutions to the problem. What are the political actor's suggested solutions? The questions asked during this phase of analysis should include: Who will support and who will oppose the various options? Which alternatives will be easier to implement? What types of additional analysis might be needed?

Given the fact that those interviewed in Step 2 are political actors, and sometimes part of the political component of the problem, their answers need to be interpreted with care. Direct contact with them will give a sense of the political environment and dynamics that surround the issue and notes to this effect should be included as qualifiers in the resulting lists.

At the conclusion of Step 2, the following lists will have been generated:

1. An enhanced list of problems/barriers in light of the political actors' comments,
2. A list of perceived sources of the problems/barriers,
3. A list of potential solutions and the political actors that support them.

At this stage, the information from the various grids may be used to build detailed assessments of specific perceived barriers to entrepreneurship. These should be organized in the following manner to create three lists (perceived problems, perceived sources of the problem, suggested solutions).

	Nature of the Problem	Source(s) of the Problem	Suggested Solution of the Problem
<b>PROBLEM 1</b>			Solution 1
			Solution 2
			Solution 3
<b>PROBLEM 2</b>			Solution 1
			Solution 2
			Solution 3
<b>PROBLEM 3</b>			Solution 1

### Step 3: Political Feasibility Analysis and Implementation Assessment

**Objective:** (1) To use the information and conclusions drawn from the three lists generated in Steps 1 and 2 (perceived problems, perceived sources of problems, and perceived solutions) to identify potential solutions to specific problems by creating individual “policy files;” (2) To gauge the political and implementational feasibility of these solutions.

During the problem-definition phase, based on the results from Steps 1 and 2, the necessary information should be available to make a judgment as to whether the problem to be overcome is (a) technical, (b) political, or (c) both. If the problem is technical (e.g. it involves a lack of appropriate physical or technical equipment: computers, software, etc.), then the next step is outside the scope of this tool and requires a technical solution. If the problem is determined to be political, or both technical and political, this tool provides a means for further assessment.

#### Step 3.A: Creating a Political Stakeholder Map with respect to a Specific Problem/Barrier

If the problem has a political element, then it will be necessary to further examine the political economy in which it is embedded. Using the following political feasibility analysis, one should be able to make a better-informed judgment about:

- Which technically feasible potential solution is politically feasible and therefore implementable,

- Whether intermediate actions need to be taken in order to prepare the relevant political actors to take responsibility for the reform and implement it. (The scope of possible actions here will greatly depend on the specific situation. Potential intermediate actions include: raising public awareness of the problem, working within the incentive frameworks of the authorities so that solving the problem is net beneficial for them, altering the institutional framework in which a solution would take root by building political coalitions, etc.) This tool will provide useful information for moving forward with such efforts. However, as with the ultimate reforms, this is not the primary purpose of the tool and additional resources will need to be consulted to generate these efforts.

Questions that arise when considering the political feasibility of a reform include questions about the political, social, and organizational constraints on the set of possible solutions:

- Who “wins and loses” as a result of the current situation and, therefore, who might “win or lose” as a result of the proposed reform?
- Who supports or opposes the proposed solution?
- How have relevant actors responded to similar proposals in the past?
- What is the disposition, or community climate, toward new ideas in general?

In Step 3.A, the political analysis is conducted based on information gathered during the problem definition stage by compiling and analyzing responses and observations gathered from interviews in Step 1 and 2 about perceived problems, the sources of the perceived problems, and potential solutions.

### **Step 3.A.1: Isolating and Defining a Specific Problem/Barrier**

First, isolate a specific problem or barrier to a specific stage of the entrepreneurial process (for example, registering a firm; obtaining or renewing an operation license; corruption in courts/litigation process; costs to market products, etc.). This could be determined by the significance to the Mission goal or by clustering on the diagnostic grids indicating a particularly salient barrier.

### **Step 3.A.2: Creating a Stakeholder Map**

Next, create the stakeholder map with respect to a specific problem by answering the following questions from the lists compiled in Steps 1 and 2: Who are the actors (groups and individuals) that:

1. Perceive the issue at hand as a problem?
2. Do not perceive the issue at hand as a problem?
3. Have suggested they would support an alternative arrangement?
4. Have suggested they are satisfied with the current situation and/or would oppose an alternative arrangement.

Group the answers in the following manner:

- *Vested Interests*: Those who are benefiting from the status quo (Those actors identified in 2 and 4 above).
- *Constituency for Change*: Those for whom the status quo is detrimental (Those actors identified in 1 and 3 above).

From the list of sources of problems/barriers created in Steps 1 and 2, identify from which level(s) the problem stems and revise the groups of *Vested Interests* and *Constituencies for Change* to include only those actors who have influence or act within that/those levels.

The result is a *stakeholder map*, which should be used to analyze the political feasibility of creating change – overall.

That is, if the vested interests are greater, both in number and in terms of influence on the political process, the chances that *any* reform will be “owned” by a political actor and implemented, let alone sustained, is small. In this case, any reform strategy must undertake the types of intermediary efforts described above (reorganizing the institutional environment until the constituency for change overwhelms the vested interests) before attempting any solution that attempts to overcome the problem/barrier.

If the constituency for change is greater than the vested interests, then a window of opportunity has been identified and consideration of specific reforms (solutions to the problem) is appropriate. In this case, it is appropriate to consider the implementation potential of specific reforms as demonstrated in Step 3.B.

### **Step 3.B: Assessing the Chances that Reforms will be Implemented**

#### **Step 3.B.1: Analyzing the Actors**

Take the list of actors identified as *Constituencies for Change* in Step 3.A.2 and, from information gathered in Steps 1 and 2, compile the following information on each of the actors:

1. Individual objectives of reform: beliefs about the situation, motivations for desiring change, expected results.
2. Non-negotiable positions (what each actor is unwilling to do, no matter what).
3. Ability to influence the political process at the relevant institutional level: This can be analyzed in terms of the *actor’s resources*: What does each actor have, or have access to, that can be used to get what is wanted? The list is completed with the resources that actors might muster:
  - a. Power, influence, or authority to control events, to modify procedures, and to affect the actions of other actors.

- b. Financial resources to support analysis, litigation, and communication.

### **Step 3.B.2: Analyzing Potential Solutions in Light of the Actors**

Next, isolate and consider each potential solution (both those suggested in the interview process that are in line with Mission goals, and those preferred and developed using additional resources) in light of the characteristics compiled in Step 3.B.1. The resulting analysis should present information about the prospects of specific reform solutions. For example, if a reform effort/solution can be identified that originates with an actor who favors change, has an appropriate level of influence in the political process (or can mobilize such influence), and does not violate an overwhelming number of the non-negotiable positions of the other actors in this group, the prospects for the reform are favorable. Policy ownership can be assigned and incentives are aligned to encourage a sustained effort to see the reform through.

The information compiled in Step 3 can be organized into a *problem file* that contains the following information on a specific policy problem/barrier:

1. Definition of the problem to be addressed.
2. Source(s) of the problem, including political actors and the level(s) at which the problem is caused.
3. Stakeholder map with respect to the problem.
4. Potential Solution A.
5. Potential source of Solution A, including political actors and the level(s) at which the solution could be implemented.
6. Assessment of the relevant actors (from Step 3.B.1)
7. Repeat steps 4-6 for each potential solution considered.

Repeat Step 3 for each problem/barrier the Mission seeks to address.

### **CONCLUSION**

It is important to stress that this tool *frames and guides* the analytical and assessment process. In this respect, it can be used to identify problems and possible solutions, and map the environment in which reforms would be implemented. While in the assessment phase this tool will yield possible policy solutions, this is not the intended function. This tool will not generate ready-made solutions that, once mechanically applied, automatically produce optimal conditions. Desirable reforms will need to be drawn from local perceptions corroborated with expert analysis and historical and comparative conclusions and matched with broader USAID goals. Once these solutions are conceived, this tool provides a technique that helps the process of understanding their chances for being implemented.

This tool relies in all aspects on the informed judgment of field operatives with access to local knowledge, and therefore requires their attention and effort. Given this, the tool is flexible and may be applied to very different contexts and it can be expected to account for those differences and particularities in ways that alternatives cannot.

This tool will produce the best results when paired with complementary techniques such as broad-based quantitative analysis. The richness of information this tool helps capture is invaluable to any effort at reform, however, by its very nature, it limits the number of individuals tracked. Given this, it is useful to “triangulate” the information gathered herein with other sources to ensure consistency in overall trends. If inconsistency is found, this needs to be explored to determine if the error lies with the outside data, or if efforts using this diagnostic tool need to be improved.

A visual representation of the process of executing the entire assessment using this tool is included on the following page.



**DIAGNOSING BARRIERS TO ENTREPRENEURSHIP AND  
ASSESSING THE CHANCES FOR IMPLEMENTING REFORM**



**PROBLEMS/BARRIERS**

1. PROBLEM A
2. PROBLEM B
3. PROBLEM C
4. PROBLEM D
5. PROBLEM E

**SOURCES AND  
CONDITIONS FOR...**

1. ...PROBLEM A
2. ...PROBLEM B
3. ...PROBLEM C
4. ...PROBLEM D
5. ...PROBLEM E

**SUGGESTED SOLUTIONS  
FOR...**

1. ...PROBLEM A
2. ...PROBLEM B
3. ...PROBLEM C
4. ...PROBLEM D
5. ...PROBLEM E

Organize the data gathered in the three lists into individual Policy Files

**ENHANCED/REVISED  
LIST OF BARRIERS**

1. PROBLEM A
2. PROBLEM B
3. PROBLEM C
4. PROBLEM D
5. PROBLEM E

**ENHANCED/REVISED  
LIST OF SOURCES AND  
CONDITIONS FOR...**

1. ...PROBLEM A
2. ...PROBLEM B
3. ...PROBLEM C
4. ...PROBLEM D
5. ...PROBLEM E

**ENHANCED/REVISED  
LIST OF SUGGESTED  
SOLUTIONS FOR...**

1. ...PROBLEM A
2. ...PROBLEM B
3. ...PROBLEM C
4. ...PROBLEM D
5. ...PROBLEM E

**POLICY FILE**

- Definition of the problem to be addressed.
- Source(s) of the problem including political actors and the level(s) at which the problem is caused.
- Stakeholder Map with respect to the problem.
- Potential Solution (A).
- Potential source of Solution (A), including political actors and the level(s) at which the solution could be implemented.
- Assessment of the relevant actors (from Step 3.B.1)
- Potential Solution (B), etc.