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Overview: Public-Private Collaboration on Productive Development Policies[1]

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In the traditional view of productive development policies (PDPs), the roles of government and the private sector are completely separated. Market forces are powerful, and largely lead to desirable outcomes. When a market failure does arise that requires government intervention, a public sector entity identifies the problem and designs a solution. Government sets the rules and conditions, pursuing some collective goals, and firms act within those rules and conditions, attempting to maximize profits. If the rules are well designed, the individual and profit-seeking behavior of the firms leads to good results. In that context, with very well-informed governments, there is limited room for public-private interaction in PDPs. Each side can do its part independently of the other. An important advantage of this separation is to reduce the risks of capture, which is the danger that, whether government knows it or not, the collective objectives that it pursues are supplanted by individual rent-seeking by the private participants through self-interested manipulation of informational asymmetries or outright corruption.

[1] This multi-country research project was prepared as input for the Inter-American Development Bank's flagship publication *Development in the Americas: Rethinking Productive Development: Sound Policies and Institutions for Economic Transformation* (IDB, 2014). This overview chapter draws in part from the analysis conducted in Chapter 11 of that publication.

The approach and findings of this study of 25 PDPs in Argentina, Colombia, Costa Rica, Chile, and Uruguay depart from that view. Following newer developments in the literature, we assume that under current conditions the public sector cannot hope to have all the required knowledge to assess the needs for intervention and design appropriate policy, for the fundamental reason that some of that information is held by private firms (Rodrik, 2004). In such cases, government needs to extract the information, yet the profitability of those firms is affected by the shape and size of the resulting policy. At the heart of this informational asymmetry lies a classic principal-agent problem: the challenge for government as the principal is to conduct this interaction in a manner that induces firms to provide their information completely and truthfully, rather than manipulating it in order to bias the policy design in their favor. More generally, in many cases, each policy phase needs the involvement of the private sector. The design, implementation, feedback, and redesign of policy cannot be done by the public sector without some cooperative interaction with private agents. The problem of lack of trust due to differing motivations of public and private agents is only one of the impediments to their interaction. This process is further complicated by other issues such as communication, coordination, and the manner in which private agents interact not only with government, but with one another. Using a common conceptual template, the investigation of the 25 cases accordingly focuses on these issues and how they were, or were not, resolved.

A key finding of the study is that this working assumption is valid. We found no cases where government, disappointed with the difficulties of collaboration, chose to sever ties or could make meaningful policy in isolation. More importantly, many of the most interesting and successful policy efforts proved to be dynamic processes by which new questions and challenges emerged and were solved, and the relevant information was learned gradually by all participants. There was ample scope for fruitful and sustained collaboration, and some of the PDPs with more potential actually *required* private engagement for success.

This process of acquiring knowledge and using it jointly is an integral part of the policy question. In this sense the study's findings support the view of Hausmann, Rodrik, and Sabel (2008, 5) that a government should evaluate its PDP framework by asking if it has "set up the institutions that

engage the bureaucrats in an ongoing conversation of pertinent themes with the private sector...[and] has the capacity to respond selectively, yet also quickly and using a variety of updated policies, to the economic opportunities that these conversations are helping identify." This approach turns on its head the traditional focus of PDP analysis, shifting it from static policy design in isolation to a discussion about PDP institutions and, in particular, their ability to interact with the private sector.

Nonetheless, this interaction might be expected to increase the risks of capture. Before this project started, the research prior was indeed that the key matter at hand would relate to capture, the issue that has received most attention in economic theory. The working hypothesis was that successful policies would be associated with strong provisions to avoid capture.

However, in a second departure from the conventional understanding, we found that in most cases the private sector was so keenly interested in the implementation and success of policy—which benefits them directly—that the exchange of information that took place was direct and frank, without the strategic considerations that were anticipated. Of course, problems did not go away by magic, and some of the cases did exhibit the capture that was feared: the potential risks are still very much real. In particular, unsurprisingly, designing and implementing appropriate PDPs in declining sectors is much more difficult than in growing sectors that aim to compete in international markets. Nevertheless, while it stands to reason that how well things work out regarding capture depends largely on approach and design, the study did not identify the precise institutional features that in the best cases encouraged forms of dynamic collaboration that also checked capture.

One plausible explanation for the observation of relatively infrequent instances of capture, and the scarce countermeasures to control it, may simply be that the case studies in this volume consist of mostly safe policies. Perhaps riskier policies are not being implemented out of prudence, precisely because the capabilities to keep them under control are not in place. Or perhaps the cases are not representative of actual practice because riskier policies are hidden from view and tackled in more obscure arenas where policymakers have ample space for arbitrariness and the private sector can influence policymaking covertly. But despite all

these qualifications supporting the idea that there is a latent risk of capture that if effectively suppressed would enable better PDPs, the crucial finding remains that there is no inevitable trade-off between fruitful collaboration between the public and private sectors and increased risk of capture. Successful policy designs are both more productively collaborative and less prone to capture, even if we do not yet fully understand how to institutionalize this complementarity.

The cases of public-private collaboration reported in this book span the following sectors and countries:

- The fashion, software, biodiesel, and sugar industries, along with an entrepreneurship program, in Argentina;
- The tourism, global services, and aquaculture clusters, along with innovation programs in healthcare and fruits, in Chile;
- The "umbrella" setup for competitiveness issues and productive transformation programs in the cosmetics, cleaning, business processing, and palm oil industries in Colombia, as well as the workings of the Private Council for Competitiveness, a unique private institution that plays an important role in all aspects of PDPs in this country;
- The rice, tourism, fisheries, and coffee sectors, and experience with attracting foreign direct investment, in Costa Rica; and
- Beef, blueberry, biotech, tourism, and shipbuilding industry programs in Uruguay.

The use of a common lens to examine these 25 diverse cases yields useful knowledge about the promise and risks of public-private collaboration. The reader can find the details of the analysis in the subsequent country chapters, which are followed by an analysis of experiences outside the region—mainly from the Czech Republic, Finland, Ireland, and New Zealand—that may contain lessons transferable to Latin America and the Caribbean, and serve as well to put the experience in the region in perspective. As an introduction to the more detailed analysis in the country chapters, this opening chapter presents the conceptual framework supporting the research effort and summarizes some of the overall lessons.

The Case for Public-Private Collaboration

There is substantial uncertainty in the public sector about both the *what* and the *how* of appropriate PDPs. Contrary to the private sector, the public sector does not have readily available signals to guide its performance in fulfilling its objectives or a process of competition to automatically weed out ineffective decisions. In contrast, the private sector receives information from prices, feedback from profitability, and benefits from the natural selection of the most efficient initiatives and firms through market competition. Identifying and carrying out socially beneficial PDPs requires elaborate information that the government usually does not have, including detailed knowledge about the production, trade, and usage of goods and services.

The private sector often has such knowledge, mainly in firms and industry associations that own and use the technology in the market. They know from direct experience the problems they face or the costs such problems impose, and are better positioned to evaluate the repercussions of alternative conditions. The public sector still needs to validate and integrate the pieces of information it may gather in a fragmented fashion from private sector sources, so there is clearly much to be gained by directly engaging the private sector in public policy issues. The process of identifying policies and then implementing them through all the policy phases (design, execution, monitoring/evaluation) can substantially benefit from public-private collaboration, if only to guide the process during each phase. What is more, the private sector may be interested in proactively putting forth PDP proposals to the public sector. For example, most activities require the provision of sector-specific collective inputs (such as worker training, certification, or specialized infrastructure), and the private sector has an interest in demonstrating the need for such inputs to the public sector.

Likewise, the private sector also sometimes has incomplete information, and information from the public sector can complement that of the private sector. The private sector benefits from the comprehensive public perspective on issues that are relevant for business but are outside the direct realm of individual firms or the sector. In some instances, the basis for collaboration may not even be information-sharing, but rather

"learning-sharing." In these cases, the motivation for public-private interaction may be the need to engage in co-exploration of new directions unknown to either the public or the private sectors, to their mutual benefit.

Private sector active engagement is important to keeping the public sector accountable for effective policy delivery. What is more, it may contribute to mutual cooperation by the relevant public sector units, often isolated in their own functional silos in the public administration. By posing demands that call for an integrated response, the private partner may be a coalescing force for the public sector. It may also help to protect PDPs from undue influences of the political cycle. This engagement may bring a long-term perspective to policy by providing a safeguard for the policies to survive changes in key public officials and, especially, election-induced reshuffling. Public-private collaboration can help create a consensus above the political fray (Stiglitz, 1998), and can substitute for the stability that a grand political agreement on state policies in this area could provide. It is not uncommon for governments to engage the private sector simply to help preserve their policies over time. In the right proportions, engagement of the private sector can provide the balance between stability over the political cycle and healthy flexibility to make room for the policy perspectives of new government administrations.

The Perils of Private Sector Engagement

For all its important benefits, private sector engagement in PDPs also involves serious perils that need to be contained. The challenge is that those parties with the information that the government needs also have a profit motive that may distort the information they are willing to share. While good PDPs are, for the most part, presumably also in the interest of the private sector subject to them, other inefficient but self-serving policies may be even better for their private bottom line. In that case, private sector engagement may not help and may hinder policy quality. In some cases, this contradiction is particularly salient. For example, the information advantage of the private sector may lead to biased information or half-truths that impede the discovery and implementation of the best policies. In the extreme, private sector engagement may end up being a mechanism for seeking privileges, or rent-seeking, rather than any kind of information-sharing. In other words, the policymaker may be subject to

capture due to the informational asymmetry that governs the public-private relationship.[2]

The risk of capture ranges from occasional opportunistic behavior to private parties assuming complete control of policy instruments by political maneuver. Other potential problems arise not from capture but, on the contrary, from the private sector never engaging or developing sufficient trust in government agents to even participate, which is not necessarily counterproductive but can nevertheless impede PDPs. Lack of trust may stem from a firm's lack of information (for example, it may doubt the intentions of the government, or fear that a competitor may end up being the main beneficiary at its expense), or its pessimism about the effectiveness with which government acts, especially if it requires coordination.

The risk of capture and rent-seeking by a private party at the expense of the policymaker, and the risk of limited engagement due to trust issues, depends on the type of policy in question.[3]

By design, vertical (also known as sectoral) policies can create benefits for some firms at the expense of others, and are therefore more prone to rent-seeking. They also make capture more likely in the long run, since a concentrated impact on a few agents gives them strong incentives to try to influence decision-makers, because for them the stakes are very high. In this regard, vertical policies tend to incite private sector interest (as long as the public sector is able to deliver) but be riskier than horizontal policies. Market intervention policies such as subsidies are also risky because, by directly impacting firms' financial bottom lines, they create a strong constituency against discontinuing promotional instruments even if they do not work. For this reason, these policies are riskier than the provision of public inputs, which usually fulfill a permanent production need

[2] The engagement of multinational corporations may add further political economy complexities to this government-business relationship that this publication does not explore.

[3] PDPs can be usefully classified according to their scope as vertical (specific for an economic sector) or horizontal (for all sectors). They can also be classified according to the type of instrument used in the provision of productive inputs (such as infrastructure) and market interventions that affect the profitability of the private sector (such as subsidies). These classifications determine four classes of PDPs. See IDB (2014, Chapter 2), for a detailed analysis of a PDP typology based on these two analytical dimensions.

and can be cost-shared with beneficiaries. It follows that vertical market interventions are doubly risky. Riskier policies require institutional capabilities to run them well (IDB, 2014, Chapter 10). Conversely, horizontal public inputs are both the least controversial and the least-risky policies, but may fail to foster active participation unless the private sector is well organized in high-level associations than can coordinate across sectors.

There are other margins along which this tension may rise or fall. Consider a case where a government is trying to assess the size of the transfer to a particular sector to compensate for a negative externality that prevents the sector from growing to its optimal size. In this case, the objective of the firm could be to provide incorrect information that inflates the size of the externality and thus of the subsidy it will receive. Alternatively, consider a government trying to figure out the technical specifications of a necessary public input, or a precise question that requires some research. In these examples, the best interest of the firm would be for the government to obtain information that is as accurate as possible, and there is no tension.

These perils are real because opportunities for capture abound. The widespread skepticism about industrial policy hinges, in equal parts, on legitimate doubts about government's ability to know what policies ought to achieve and on the likelihood that such policies will be used to transfer rents to private groups with privileged access to power, rather than to increase productivity (Rodrik, 2008). Public-private collaboration needs to successfully deal with both concerns, demonstrating that it is an effective tool to discover and implement successful policies. As the country studies in this volume demonstrate, important improvements have been made, but an antidote for capture has yet to be found. Capture remains an important peril for more ambitious PDPs that would invite more opportunities for abuse. It would be naïve to assume that the risk of capture has disappeared and thus feel free to open the floodgates to private engagement without appropriate institutions to keep tabs on it.

The Private Sector Counterpart

It takes two to tango. Public-private collaboration requires strong counterparts with compatible characteristics. The success of PDPs is in good measure dependent on the quality of the counterparts. In particular,

successful public-private collaboration requires appropriate private sector capability. If the private sector has weak capability, fails to trust the government counterparts, lacks enthusiasm about the possibility of success, or is represented by the wrong parties, it will be difficult for effective policy to emerge. The key policy questions in this regard are (1) how to select the most suitable private counterparts, and (2) how to best foster the capability and expertise of the private sector for this purpose.

In practice, motivation is a key problem. How can individual firms be encouraged to develop expertise and become involved in costly engagement with the public sector that will benefit all firms in the sector? Even if the private sector were to trust the public sector to put the collaboration to good use and deliver the needed policies, which is not always the case, individual firms would like to free ride on the others to support information-exchange. Industry organizations have multiple ways to solve this coordination problem among member firms and to assess the quality and intentions of government, and for this reason are often suitable counterparts. The government may want to help such organizations "upgrade" so that they become better counterparts for collaboration. Doner and Schneider (2000) provide numerous examples of business associations that have contributed significantly to economic development both by pushing for better market-supporting institutions, such as property rights, and by participating in the provision of market-complementing services, such as setting standards and coordinating joint efforts to upgrade quality.[4] Following the preparation of this chapter, Schneider (2015) analyzed the conditions for effective cooperation between government and business in Latin America concerning industrial policy.[5]

On the other hand, this optimistic picture contrasts with the view, usually associated with Mancur Olson and others, that business associations are rent-seeking interest groups. There are plenty of examples of industry

[4] Asocolflores, the association of Colombian flower exporters, is a clear example of an industry association that has been very effective in dealing with coordination failures and promoting collective inputs that have allowed the sector to take off as a competitive exporter (Arbelaez, Meléndez and León, 2012).

[5] The study by Schneider, which grew out of a series of papers and projects sponsored by the Inter-American Development Bank, discusses many of the cases included in the country chapters of this book.

associations that focus on lobbying for short-term benefits. Executives of such associations are sometimes less aware of the long-term issues than individual firms themselves. Lack of expertise may also limit the usefulness of business associations. For example, industry associations play a constructive role in some trade agreements, but the truly detailed information useful for developing negotiating positions must come from individual firms themselves.

The strength of business associations is certainly important for their effectiveness in reaching their own objectives—but not necessarily for their socially beneficial contribution to PDPs. Strength is defined in terms of their degree of representation and capacity to execute different actions by inducing their members to commit resources and abide by association rules and decisions. Strength derives mostly from the ability to provide crucial benefits only to members, thereby making membership valuable and making exit costly. It is precisely this ability that allows associations to resolve the free-rider problem and coordinate collective actions—a critical feature of an effective counterpart in PDPs. However, strong business associations can direct their efforts to productive development activities or to lobbying for rents.[6] In summary, institutional capability is neutral: associations can use it for good or ill depending on the circumstances (Doner and Schneider, 2000).

What leads some associations to serve constructive roles while others engage largely in rent-seeking activities? Why do traditional industry associations in some countries serve as important government counterparts in deliberations on PDPs, while in other countries "representative" firms or individuals are preferred? The countries analyzed in this book offer an interesting variety of examples. The answers to these questions are important in order to understand the role of business associations in public-private collaboration. The behavior of industry associations may actually be shaped by public sector capabilities. Associations may fail to be geared toward constructive PDPs when they have little confidence in the public sector's ability to deliver. Perhaps associations are organized

[6] The negative example of Costa Rican rice, described in Chapter 2, is the result of a strong industry association. So the characterization of strong associations as the best counterpart is not always applicable.

for rent-seeking because they have found too few opportunities for constructive interaction and too many for capturing rents. The bottom line is that the public sector may hold the key to orienting strong business associations toward collaborating by being more responsive to legitimate demands and by not offering channels of communication for undue demands. The paucity of collaborative business associations in Latin America may be a reflection of low public sector capabilities.[7]

The question of how to interact with the private sector is key for modern PDPs. One option is for the government to adopt an "open architecture" (Hausmann and Rodrik, 2006) that gives greater latitude to the specifics of the organization and relies on the self-selection of private sector participants, which are supported in their technical capability and encouraged to take the initiative. However, notwithstanding a government's best efforts to pursue an open process, in some cases it may have to pick the sectors or actors that have the required capability to interact with the public sector. In other words, the priority in terms of which sectors/policies to engage first may be influenced not only by the value and urgency of the actions involved, but also by recognizing the agents that can get things done. Priority may need to be given to sectors with a less confrontational history, stronger leaders, a more concrete knowledge of their problems and opportunities, better coordination and communication skills, or stronger relations with academia and other institutions.

On occasion, private-private coordination may be a problem that the public sector can help solve. Firms in an industry often vary widely in terms of their interests and levels of access to policymakers, which makes it difficult to create a cohesive private counterpart that reflects all views. The public sector may play a role in helping the private sector articulate a unified view.[8]

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[7] This is consistent with the successful experience of East Asian countries in granting benefits to associations in return for enhanced economic performance by their member firms and sectors, a grand bargain based on the ability to impose discipline on business associations if they do not hold up their end of the bargain.

[8] A good illustration is the case of the tourism cluster in Colonia (Uruguay), where public officials in charge of the program spent much of their initial energy overcoming differences and grudges between the private sector actors (see Chapter 6).

The appropriate modality of interaction with the private sector also depends on the type of policy it is meant to support. Horizontal policies call for private counterparts cutting across sectors, be they broad collectives (such as chambers of exporters), or well-selected representative individuals from various industries. By contrast, vertical policies call for sector-specific or subsector-specific private counterparts that match the selectivity of such policies. These councils or ad hoc consultation groups are often regional rather than national, which further helps to focus policies on specific objectives.

Vertical policies concerned with solving coordination problems often related to the provision of public inputs typically rely on narrow public-private councils delimited by the type of coordination problem that the policy is designed to address. These public-private councils (*mesas productivas,* as they are called in many countries) can deal with the group of firms to which the vertical policy is applicable, either through parallel links (as in similar firms in need of a collective input) or backward/forward links (as in the case of a productive chain), or they may facilitate investment coordination to resolve a "chicken-and-egg" problem. Which public-private councils are worth forming? The process must contemplate listening to private demands and setting up specific councils to deal with problems that may require policy solutions. At the same time, the public sector may unilaterally identify certain councils that appear to offer good opportunities for PDPs. Vertical market intervention policies, however, may call for broad private counterparts when they involve strategic bets, typically designed to foster new sectors that are not yet established. These kinds of transformational policies may call for private counterparts such as the successful public-private alliances outside the region analyzed in Chapter 7 and in Devlin and Moguillansky (2009). This high-level collaboration may validate criteria used for selecting priority sectors to be promoted and generate consensus around a development strategy.

Making the Public Sector a Better Partner

Given the importance of the private sector for PDPs, the public sector needs to adapt in order to engage constructively with the relevant private sector actors. While always keeping in mind their public mandate, it

is useful for the leading public sector managers to understand the culture and be able to "speak the same language" as their private sector counterparts. Beyond the ability of public sector managers to engage their private counterparts effectively, it is important to understand that solving complex private sector problems may require the participation—and cooperation—of various public sector agencies. Thus, public sector managers must also possess the capability to elicit cooperation from other public sector agencies that are needed to provide integral solutions to the most pressing problems.

For example, the ministry of tourism may lead the engagement with the tourism industry in order to develop a new tourist destination, but in order to deliver the public inputs that are needed to unleash the project's potential, the ministry may need to elicit the cooperation of the public works ministry to pave access roads and of the labor ministry to train the workforce. The tourism minister is not in charge of road construction or worker training, and does not have authority over other ministries, so a system needs to be put in place to ensure that the needed public goods are actually delivered.[9] The country studies reveal that in many cases this is the Achilles' heel of public-private collaboration.

The case of emerging sectors is perhaps the most demanding in terms of the public sector fine-tuning its ability to engage, because these sectors suffer from weak representation and low visibility. At the same time, providing public inputs to help them establish themselves and develop may offer a very high productivity payoff. This case may merit creating a specialized intelligence unit charged with searching for information and identifying promising emerging sectors with which to conduct a dialogue.

[9] This may require a special institution in charge of ensuring public-public coordination (like PEMANDU in Malaysia), a budgetary process in which the tourism minister receives a budget allocation that can be used to contract services from cross-cutting ministries (as suggested in Hausmann, Rodrik, and Sabel, 2008), or the assignment of responsibility for productive policies to someone above the ministerial level (such as the Prime Minister, Vice President, or Chief of Cabinet) who can then use his or her authority to enforce cooperation when it is not forthcoming.

Making the Partnership Work

Relationships are never easy, and public-private collaboration in PDPs is no exception. A system abused by capture and riddled with rent-seeking—as has often been the case in many countries in the past—is clearly faulty. But avoiding these risks by severing the private sector from the process of PDPs would also be a failure. Both public-minded and rent-seeking behaviours can be rational responses by private counterparts, so the key for government is to create an environment that favors the former and discourages the latter. In this regard, the first task is to determine whether existing institutions for public-private interaction offer a good foundation upon which to build.

Ideally, the incentives for collaboration on the part of the private sector would be self-enforcing—meaning that the environment for interaction is shaped in such a way that it is in the self-interest of the private sector to collaborate in the design of sound PDPs and then support their adoption. This section will discuss a number of ideas that may help align public and private incentives in this manner. Alternatively, monitoring and rewards (or punishment)—depending on observed behavior—may be needed to stimulate private sector collaboration. This section also offers ideas in this regard. Together with the quality of the public and private counterparts discussed above, these issues of institutional design for public-private collaboration were the basis of the working hypotheses used by the researchers who conducted the country studies to analyze the degree of success of public-private collaboration in practice.

Abstain from Riskier Policies

As discussed, in well-conceived PDPs, firms benefit from public sector input only to the extent that they use it in production, and in so doing increase productivity. In other words, firms reap benefits only from succeeding in the marketplace. A market intervention policy, in contrast, may yield profits for the firms without productivity gains or any effort at all on their part. By barring or discouraging the demand for risky policies, risk can be controlled and the incentives for collaborating on sound policies increased. For example, countries with weak institutional capabilities may need to restrict vertical public-private councils to a discussion of

productive bottlenecks and coordination problems that can be addressed through public sector input and refuse to consider market intervention policies that would open up the discussion to subsidies.[10]

Share the Burden

Some policies may impose a bigger cost on the government than the benefit perceived by private agents. That makes them inefficient, yet firms may still demand them. If a cost-benefit analysis is conducted to guide decision-making, firms may have the incentive to exaggerate the benefit. Given their informational advantage, they stand a good chance of convincing the public bureaucracy. While this may not be the prevalent case, it is important to address this risk.

The incentive-compatible solution to this problem is to ask the private counterpart to engage and contribute to the costs or sacrifices necessary to adopt the policy, thus confirming its worth. While cost-sharing also saves fiscal resources, the argument here is not so much about fiscal costs but rather about how to align incentives to ensure that only sound policies are implemented. Ideally, the share of the cost that the private counterpart would contribute should correspond to the benefit that counterpart would enjoy. If benefits are concentrated and the private sector counterpart covers the main beneficiaries, the input should be mostly paid by the private sector. This cost-sharing principle can also be applied to signal the intensity with which firms may demand a variety of alternative public inputs and in this way prioritize their provision.

The key problem with burden-sharing is coordination. Individual firms benefiting from a collective input ("a club good") would rather not contribute and instead let other firms pay for the cost. The private sector can participate in cost-sharing only if it is able to get its firms to agree on this collective action, because otherwise no individual firm would be willing

[10] The Productive Transformation Program (PTP) in Colombia, which organizes public-private collaboration in a number of selected sectors, is an example of preventing capture by excluding risky policies from consideration for such collaboration (see Chapter 3). The program requires that the conversations relate to public inputs, coordination problems, and other initiatives that contribute to the sector's productivity. By design, subsidies and protectionist measures are not part of the conversation.

to pay. If individual firms can be excluded from the benefits of a collective input (such as certification of product quality), cost-sharing can be implemented through user fees or a "members-only" restriction. If that is not the case (for example, a research center), then an external incentive is needed to compel individual firms to contribute. The authority of the government may provide a solution to this coordination problem by imposing a tax on a sector, at its own request, that is earmarked for the provision of the collective input in question.[11]

Cross-examination and Prior Scrutiny

The private sector party has better knowledge than its public sector counterpart, but does not share the same objective. In economics jargon, the private sector party is a "biased expert" (Grossman and Helpman, 2001). Thus, it is critical to devise methods that encourage the flow of knowledge while controlling for biased distortions. One possibility is to utilize peer-to-peer monitoring, including additional experts with opposing biases, so that they check on each other. Additional experts may be from competing sectors, academia, or perhaps the same sector in other countries (or even individual firms or individuals within the sector that may have particular reasons to collaborate with the public sector). In particular, the establishment of cross-sectoral programs introduces checks and balances by bringing in sectors with different interests, making collusion between the private sector and the authorities more difficult.

Conditionality and Performance-based Policies

The social value of a PDP may be enhanced if private beneficiaries of the policies are induced to maximize the social benefits. This may be achieved by aligning incentives of the private parties with policy goals. For example, PDPs to boost firm innovation and spark positive spillovers are more effective if beneficiaries actively engage in dissemination, which may be

[11] An excellent example is the case of rice in Entre Rios, Argentina, where the tax on rice sales was used to finance public sector research to develop a new, more productive rice variety well adapted to local conditions (Crespi et al., 2014, 48–49). This idea can be generalized to set priorities through self-financing, industry-specific investment boards, as proposed by Romer (1993).

induced by the use of conditionality or incentives to make dissemination more attractive.

Another approach to induce better outcomes could be to devise mechanisms to hold the private sector counterpart accountable for its claims when making policy demands. The private sector could be invited to make policy proposals that are justified by their social returns and include performance goals that the private sector commits to attain and which would be reviewed ex post. For example, if the policy demand is justified based on expected positive spillovers, the proposal should provide indicators of spillovers after the policy is put in place. Such an approach would facilitate ex ante evaluation of the proposed policy, conditioned on the information provided, and would also facilitate testing the accuracy of such information based on ex post performance. Unbiased experts would conduct the ex post examination and reach a conclusion about the adequacy of the information provided in the proposal. If the test is favorable, the private counterpart could be rewarded with continued collaboration; if the test is not favorable, future interactions would be more guarded, and less accommodating. This "trust but verify" approach would in turn provide better incentives for less-biased proposals, since highballing benefits would be costly.

Evaluation: Good Performance before Renewing Policy

Even without any biases or impediments to collaboration, it is technically difficult to select the right policies. Thus policymakers willing to try PDPs ought to be prepared to fail sometimes. However, it should be more feasible to spot failed policies after the fact. It is important to define evaluation methods that are suitable to assess the degree to which the original policy justification was verified in actual performance and how the policy could be improved. All too often, there are no clear, evaluable goals or evaluation criteria for PDPs, let alone actual evaluations. A sound system would allow a reasonable number of policy experiments to go wrong and also have a systematic way to weed them out (Rodrik, 2007).

Policies involving market interventions such as subsidies tend to generate "addiction"—that is, an interest in prolonging the promotional policy forever, regardless of performance. Evaluation is key to stopping those policies that are not justified. One solution is to apply sunset clauses so

policies expire unless reapproved.[12] For this system to work, both the process of evaluation, and acting upon evaluation, need to be systematic. It is important to include all policies in this system so that those policies benefiting private interests do not find refuge in loopholes to avoid scrutiny. In practice, the policies more hidden from scrutiny are often those that provide implicit subsidies in the form of tax exemptions, a favorite of rent seekers. Sunset clauses should apply to both explicit and implicit benefits. These evaluation checks may be critical to contain the risk of capture because the benefit of rent-seeking diminishes in a system in which only sound policies survive over time.

Evaluation must be strict and binding. Independent participants are often needed to ensure there is no conflict of interest to cover mistakes, or, worse, capture. Negative evaluations should have consequences: it is critical that evaluation be a learning experience that leads to redesign. Beyond the technical aspects of evaluation, stronger collaboration requires the political capability to ensure that evaluation is not pro forma, but rather a strict and credible instrument to effectively separate the wheat from the chaff.

Checks and Balances

Appropriate internal controls in the public organizational structure may be useful to check capture. The distribution of authority across agencies, such as separation between design and implementation or regional delegation subject to central oversight, may provide desirable checks and balances. At the same time, there is a trade-off between controls and effectiveness. These mechanisms should not take forms that excessively weaken the public sector, impede action, or make the already challenging public-public coordination problems unmanageable.

Transparency and Accountability

All of the steps described above would greatly benefit from transparency. Exposing policy proposals, how policies are chosen and costs shared, and performance evaluations to interested parties and the wider public would

[12] This assumes a permanent need for policy. If not, policies should consist of one-off incentives rather than recurring benefits. For example, policies to attract foreign direct investment could involve up-front grants, rather than tax exemptions that may generate expectations and lead to pressures for continuity.

shine light on issues worth probing and allow scrutiny from adversarial viewpoints. Ideally, transparency standards for PDPs would be established, and an independent agency would regulate and monitor them.

However, informal consultations may in some cases be necessary, either as a preliminary step to more formal collaboration or as a complement to formal processes. In fact, complete openness is not always the best environment for exploratory dialogue. So caution is necessary: the tension between probity in the use of public resources and responsiveness versus discretion on the part of bureaucrats is especially high in these instances. Since responses to specific problems of productive sectors cannot be codified in advance, authorities need room to maneuver and react, albeit at the cost of some risk. This kind of flexible interaction will be accepted as legitimate and incorporated in mainstream policy-making only if it is known and transparent. This requires well-known rules and procedures for participation in the dialogue and for receiving policy benefits, as well as transparency in their application. Transparency should not be confused with an undue formality that impedes fluid dialogue, or with inclusiveness with no clear purpose.

Accountability is a necessary complement to transparency. The results of the interaction process should be evaluated credibly, and the evaluation should be disseminated to key stakeholders and the public at large. Every collaborative scheme ought to make sure that there is a mechanism for the private sector to hold the public sector accountable for following up on the decisions that are reached and for receiving feedback during the implementation of policies in response to perceived needs.

Public-Private Interaction in Practice

This section summarizes some of the main observations and lessons about public-private collaboration derived from the cases studied in Argentina, Colombia, Costa Rica, Chile, and Uruguay. It serves as an introduction to the detailed analysis in the country reports. The 25 Latin American experiences studied in this book display an interesting diversity not only because of the different country settings but also because they span successes and failures. Some feature task forces to address a very specific problem in a limited time period, while others involve permanent

development programs. Some are umbrella efforts spanning the entire economy with involvement at the highest level, while others address horizontal policies, and yet others address industry-specific projects.

Wide Variety of Types of Private Sector Participation

Perhaps the most interesting contrast across our cases is the degree of engagement of the private sector in the process. In some, especially those in countries where the relationship between policymakers and private agents has traditionally been distant (even when cordial), the degree of involvement of the private sector is very limited. At the same time, and especially in places where the private sector is used to being more engaged, our cases stretch along several types of collaboration.

In some instances, the private sector assumes a consultative role in which government informs the private sector about its policy choices and decisions in a dialogue-based and participatory process, but private agents have a limited role that simply involves validating (or not) what they hear and perhaps volunteering some information. Deeper involvement by the private sector may include its participation in the joint design of the policy instruments. In this case, government engages private agents in the discussion about what to do, instead of just requiring information. This implies that the private sector plays more than an informational role. This broader participation may even include joint implementation, and perhaps also joint assessment, validation, and redesign. In some interesting instances—perhaps the most successful—public-private collaboration is a dynamic process that involves joint learning and a long-term effort, with evolving policies and objectives. In the extreme, private participation brings to mind the notion of policy outsourcing, as we documented in some cases where policy management is delegated to private actors, or at least to public-private institutions dominated by private actors. Such is the case of rice policy in Costa Rica, which is dominated by CONARROZ, the association of rice producers and processors. Depending on the circumstances this can be interpreted as an extreme form of capture.

The degree of private sector engagement in the policymaking process seems to be influenced not only by the nature of the policy, sector, and problem, but mostly by political traditions and expectations. In some places, business is expected to be near the policy design process

on matters that affect it directly, while in others government (especially high-level officials) keeps a distance. In some examples—such as those documented cases in Chile—mere access to a high-level official seems to be infrequent for even the large entrepreneur, and thus direct contact between them is itself a valued result of their interaction. By contrast, there are other more "corporatist" situations—among our cases the extreme is Costa Rica—where access to government is taken for granted. In these settings, it is difficult to even validate policy initiatives if the affected private parties have not been consulted or have not participated in a significant way, sometimes even supplanting government altogether and, in the extreme, fully capturing the policy and the institutions involved. As a result, policies in Chile tend to be top-down while policies in Costa Rica tend to follow a more participatory, bottom-up approach.

Public-Private Collaboration Brings Additional Indirect Benefits

The value of collaboration may stretch beyond the resulting PDP and affect intangibles such as trust, market expectations, or disposition for future policy engagement. Dialogue in itself is valuable, and in some instances the public-private collaboration regarding one or many industrial policies may simply be the mechanism, or the pretext, through which deeper interaction between the two parties can start.

For example, the public-private collaboration in Argentina's Empleartec, a training program for the IT sector designed by the Software and IT Services Chamber of Commerce (CESSI) and the Ministry of Labor, Employment and Social Security (MTEySS), was greatly facilitated by the history of prior collaboration in the design of other training programs between these private and public actors. The program expanded its focus over time from training human resources in specific technologies defined by sponsoring firms (Microsoft, Oracle, Sun, Cisco and IBM) to include free and open-source programs and applications. This is one of a number of cases where part of the success derived from actions that were not envisioned at the outset, and where the flexible engagement of the parties allowed for responses to expand or modify the original purpose to address other problems.

Another example is the fashion industry collaboration between the textile chapter of Argentina's National Institute of Industrial Technology (INTI-Textiles) and Pro-Tejer, a nongovernmental organization created

to advocate on behalf of the country's textile and apparel industry. The Street Design Circuits (SDC) program, which aimed to attract attention to the country's signature design phenomenon and which was the main program that came out of this collaboration, led to the creation of a forum called *Las cosas del quehacer*. Signature designers from all over the country were invited to the forum to discuss the country's fashion design issues. Interestingly, while the original SDC program lost momentum, *Las cosas del quehacer*, which was not part of the original program goals, grew into a new public-private collaboration initiative.

The international experience analyzed in the final chapter of this volume also shows that meaningful public-private dialogue with an open agenda, and in the spirit of co-exploration and consensus-building, has been important for some of the successful "catch-up" stories such as Finland, New Zealand, and Ireland.

Public-private collaboration efforts often play the simple role of providing a long-term perspective to policy. Engagement by private actors with long-term horizons may generate demands for policies to survive changes in key public officials and, especially, election-induced reshuffles. It is not uncommon that government seeks cooperation with the private sector simply to make sure that certain valuable initiatives are preserved over time. The case of the entrepreneurship program in Buenos Aires is an example: participants valued it, and despite contrary initial inclinations, a new government kept it going because of this interest. Of course, this is not the case in all political transitions, as Chile's Cluster Program illustrates.

Collaboration Free from Capture Is Commonplace

Before this project started, the research prior was that the key matter at hand would relate to capture, the issue that has received most attention in economic theory. The working hypothesis was that successful policies would be associated with strong provisions to avoid capture. However, in most cases analyzed here the private sector was so keenly interested in the implementation and success of policy—which benefits them directly—that the exchange of information that took place was direct and frank, without the strategic considerations that were anticipated. Examples are the very constructive and un-strategic cooperation and exchange

of information that took place in the software and the textile cases in Argentina, or the successful Uruguayan cases. Of course, there are examples to the contrary as well. The manner in which collaboration unfolds in this regard depends largely on approach and design.[13] The key aspects of public-private collaboration that determine success or failure usually relate to practical problems of organization, communication, and trust.[14]

By and large, provided some basic conditions, firms appear willing to engage. As long as there is trust in the public sector's intentions and abilities, private agents commit significant costs and human resources, even when their direct reward is not obvious. Our cases include examples of private agents truly opening up their information and devoting key human resources to a surprising extent. For instance, in Chile's Clusters Program, when there were clear changes to be expected from their work, private agents engaged significantly with no apparent interest in free-riding.

Payoffs to such constructive efforts can be high—collaboration leads to virtuous circles by which private and public actors bring out the best in each other. Because of the frequent mistrust in the past, especially in times of greater interventionism, many barriers can only be removed if there are constructive attitudes on all fronts. For example, in Uruguay, the innovativeness of the private sector in proposing new solutions in the shipbuilding and biotech industries raised the quality of the government's involvement.

Other Unsuspected Major Constraints to Collaboration

One key constraint to collaboration is insufficient public sector capabilities. In particular, a recurrent problem appeared to be insufficient public-public cooperation. The organizational structure of most governments

[13] The textile case in Argentina is interesting in this regard. Pro-Tejer, as the name suggests, has traditionally advocated for protection of the sector. During a period when protectionist policies were off the table, Pro-Tejer came up with an interesting initiative to incorporate design into the textile and apparel sectors in Buenos Aires that, if successful, would result in more demand for the sector's products. Once more protectionist policies were on the table again, a number of participants gradually lost interest in the design project and reverted to their roots.

[14] At the same time, there may be some selection bias in our choice of cases to study, as the sample is geared toward learning lessons from what actually works. In fact, it is the case in the region today that riskier policies, such as those promoting strategic bets with subsidies, are often left off the agenda precisely to prevent capture.

impedes an integral approach to the private sector. Small, industry-specific ministries and institutions are in charge of interaction with private agents in a given industry, and tasked by mandate with the industry's progress. However, the policy instruments they need to carry out that mandate are not available to them, but rather are at the disposal of larger, more powerful ministries (transport, education, finance) that do not focus on particular industries. The authors of the Uruguayan cases attribute the success of the Meat Traceability Project to the fact that, due to the nature of the problem, the entire responsibility fell on a single ministry. Therefore, the inter-institutional communication problems that often arise in other cases were not present there. By the same token, the authors argue that the multiplicity of institutions involved in the innovation cabinet explains the difficulties faced in the Biotech Cluster.

This complication gives the private sector an additional role: its support or political pressure may be the tool that the weaker, industry-oriented institution in charge of *designing* the PDP uses in order to influence the stronger, more broadly oriented institution that holds the purse strings necessary for *implementing* the PDP. In some cases, public and private agents focused on the industry band together, so that the former uses the political value of the latter to leverage action in other parts of the public sector over which the public agent does not exercise direct control.

The quality of the public sector staff in charge is particularly important when the private sector is involved. Collaboration often breaks down if the private sector perceives that the government officials involved, either because of their lack of training or rank or their attitude, are either incapable or lack the authority to deliver their end of the bargain. In Chile, the problems of some consortium efforts stemmed from this issue. Low-level public officials prompted the participation of low-level officials from firms and chambers, and in the end the capacity to make decisions was curtailed.

As a solution, it is not uncommon for governments to set up special teams comprised of professionals of higher quality than regular bureaucrats and who earn better pay and do not belong to the civil service, and for this reason are freer to hire, fire, or reassign. One example of this approach, in Colombia, is the transfer of responsibility for the Productive Transformation Program from the Ministry of Commerce, Industry and Tourism to Bancoldex, a public bank whose management reports to this

ministry but that operates under a private law regime, and thus has more flexibility to hire and fire personnel. Despite the obvious coordination problem this may create between these teams and the rest of government, bodies of this kind often are better able to deliver results.

In Uruguay, a source of problems was the tension between the civil service—which did not have the capability needed to foster collaboration—and the capabilities that were created outside the bureaucratic structure. The insiders resented and impeded progress by the outsiders, and the latter had more knowledge about the matters at hand but less political and administrative savvy. When this problem was well managed—as in the meat-industry case, where the necessary capabilities eventually were assimilated by institutions within the Ministry of Agriculture—good results emerged. It is often the case that the expertise of a key individual can make a disproportionate difference, as in the case of tourism in Chile, where the resignation of a single person completely changed the results of the program, or the case of shipbuilding in Uruguay.

Another key constraint is private-private cooperation. Often, firms in an industry are widely heterogeneous and have opposing interests and disparate levels of access to policymakers. For example, in the Costa Rican cases of fisheries and rice, large firms appeared to be in control of the interaction with policymakers, to the detriment of small producers.

Hence, because it is difficult to create an articulated private counterpart, it is also often the case that the public side has the mandate to make sure that the unheard voices and undisclosed information on the weaker end of the private side get heard and addressed. A nice illustration is the Tourism Cluster in Colonia, Uruguay, where much of the initial efforts of public officials in charge of the program was directed toward overcoming differences and grudges among the private sector actors. Their success at smoothing these troubled relationships is portrayed as one of the most important and durable benefits of the program, as it enabled future collaboration. Some of the actors involved in the Uruguayan case, such as the *Buquebus* transportation company, the Hotel Chamber, and the Gastronomy Chamber, were well-established and organized, and some had good access to local and national authorities. However, other cluster participants, such as the association of handicraft artisans and the rural tourism providers, were not being heard. The public sector was

instrumental in making sure that the interests of these weaker actors were taken into account.

Interestingly, the engagement of the public sector can be the reason why private-private cooperation or academia-private sector cooperation emerges. In the case of consortia in Chile, the key actions in the more successful cases were not policy actions but rather efforts undertaken by private agents that in theory could have made those efforts without government participation. The role of the public sector was to act as a catalyst that brought those actors together in a constructive manner.

Last but not least, the rules and organizational structure for public-private collaboration matter. Our cases revealed a variety of mechanisms that worked, from large consultative bodies in Colombia to structured mechanics that determined participants and representatives in the coffee sector in Costa Rica, and to open mechanics about who engaged in the tourism board of the same country. While the actual organizational details vary widely, what is common is that the clearer the rules and the representation, the better the results. All the authors attribute negative results to some form of unclear rules, especially the absence of measurement and evaluation procedures (Chile, Uruguay). This is perhaps the key conclusion from some of the relatively unsuccessful Chilean cases that were analyzed. Despite the very high level of institutional capital in the country (arguably the highest in Latin America), the lack of a tradition of joint public-private learning and decision-making took its toll. Arms-length relationships were the norm, and few public officials had been in the private sector or spoke its language, and vice-versa. The lack of assessment mechanisms suitable for the clusters projects in Chile, and the frequent rotation of individuals in charge of the consortia projects, were partly responsible for the huge swings with the political cycle.

The Risk of Capture Persists

While the studies revealed that collaboration without capture is commonplace, they did not identify policy features designed to control capture that could account for this finding. The observation of relatively scarce capture in this set of case studies may simply indicate that the cases consist of mostly safe policies. Perhaps riskier policies are not being implemented out of prudence, precisely because the capabilities to keep them

under control are not in place. Or perhaps the cases are not representative of actual practice because riskier policies are hidden from view and tackled in more obscure arenas where policymakers have ample space for arbitrariness and the private sector can influence policymaking covertly.

A closer look reveals a latent risk of capture. Some of the cases analyzed involved capture to various degrees and are an important reminder that the risk of capture needs to be controlled. In these cases, capture sometimes took a subtle and strategic form stemming from asymmetric information, while other times capture was more obvious, as when it resulted from the outright abuse of political power. The cases of rice and fisheries in Costa Rica clearly illustrate how private producers are ready to seek rents and protect unproductive activities if they are given the opportunity to succeed at it.[15] The agenda for institutional design outlined in the previous section remains central to seizing the potential for public-private collaboration for successful PDPs.

One general lesson in this regard is that designing and implementing appropriate PDPs in declining sectors is much more difficult than in growing sectors that aim to compete in international markets. When a country has a (real or latent) competitive edge in a particular activity and the need for policy emerges from the desire to exploit, enhance, or take advantage of that edge, the gains from doing so are potentially large enough to concentrate all the attention of the participants, who then engage with fully aligned objectives. A good example is Empleartec, a collaborative program between Argentina's Software and IT Services Chamber and the Ministry of Labor. This program focused on overcoming this rapidly growing industry's most salient constraint: the lack of adequately trained human resources. In this case, policy successfully addressed a specific shortage of skills in the sector and even managed (once public-private cooperation got going and trust was generated) to move on and target other skill gaps involving different types of firms and target populations.

[15] The worst example is perhaps the case of rice and CONARROZ in Costa Rica (see Chapter 2). One of the consequences of the policy has been the reduction of aggregate agricultural productivity. But the main implication is taxing away from the poorest 20 percent of the population as much as 6 percent of their real income, only to channel nearly two-thirds of that revenue to around 30 large landholders who also control the processing and commercialization of the product.

However, when an industry is declining, uncompetitive, or phasing out, even though there may be policies that increase productivity and reduce or minimize problems, it is far more tempting for the private sector to seek transfers or distortions that help this industry at the expense of others, rather than efficient solutions. Costa Rican cases illustrate this disparity clearly: competitive sectors like coffee and tourism prompted constructive collaboration while declining sectors, such as fisheries and rice, bred rent-seeking.

Another important observation is the corroboration that different types of PDPs involve different risks of capture. Market intervention instruments that transfer public financial resources directly, or the design of regulatory policies compliance with which may be costly to producers, can often lead to capture. This is in contrast to PDPs based on public inputs, especially those that address specific problems, where collaboration appears to flow naturally without the need for restrictive institutional designs to align incentives. The Street Design Circuits program in the fashion design sector in Argentina is illustrative in this regard. The program, which created a series of urban tours centered on fashion design stores, brought together the textile chapter of the National Institute for Industrial Technology (INTI) and Pro-Tejer, a nongovernmental organization created to promote the interests of the country's textile and apparel industry. Pro-Tejer initiated the program and provided a substantial portion of the funding for what turned out to be a constructive and successful collaboration. However, once the government increased its protectionist stance through a stringent system of discretionary import licenses, the behavior of Pro-Tejer shifted to lobbying for protection. Similar issues emerged when dealing with the entrepreneurship program, which allocated public funds. Meanwhile, other cases from Argentina, or the blueberries, shipbuilding, and meatpacking cases in Uruguay, did not present similar distractions or temptations due to the type of policy instrument and objective.

The cases analyzed in this book tend not to venture into risky policies. Perhaps for this very reason they do not exhibit most of the sophisticated institutional features designed to control capture described in the previous section. As mentioned, abstaining from risky policies is a way of making the partnership work. The Program for Productive Transformation in Colombia, which organizes public-private collaboration in a number

of selected sectors, is a good example of preventing capture by excluding risky policies from consideration for public-private collaboration. The program requires that public-private conversations relate to public inputs, coordination problems, and other initiatives that contribute to the sector's productivity. By design, subsidies and protectionist measures are not part of that conversation.[16]

[16] Unfortunately, this does not preclude rent-seeking from taking place through other, sometimes more informal, channels.