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Public-Private Dialogue for Modern Industrial Policies: Towards a Solutions-Oriented Framework

1 Introduction

Modern industrial policies (IPs) or productive development policies (PDPs) are about identifying and removing constraints to the growth of productive sectors, which implies providing public goods and fixing market failures related to those sectors. In order to do this, policymakers need to access the knowledge held by private producers so they can learn about market failures, binding constraints, and formulate the right policies to address them. Likewise, private sector stakeholders may need governments to help solve systemic issues they face.

This publication examines the role public-private dialogue (PPD) mechanisms play in improving PDPs. It begins by briefly addressing the challenges of structural transformation, then explaining the rationale for PPD, and finally illustrating the policy tool that is the *Mesas Ejecutivas* (MEs), or Executive Working Groups, as implemented in Peru.

Created in Peru in 2015, MEs are a policy tool designed to implement PDPs utilizing public-private working groups focused on a specific sector or factor of production. The MEs identify the key bottlenecks that are holding back a particular sector or factor. They are aimed at simplifying procedures, adapting and updating laws and regulations, opening new markets, creating or improving needed government agencies, providing adequate infrastructure, ensuring sufficient incentives for innovation, and mediating between parties. The authors acknowledge that various PPD tools, methodologies, and institutional architectures exist. The aim of this publication is to enrich the debate and the literature on industrial policies and the relevant institutional collaborative mechanisms that can help improve their design and implementation.

The paper will conclude with an operational checklist summarizing key questions, with general and hands-on tips, intended for practitioners interested in designing and implementing public-private instruments such as the MEs.

2 PDPs and the Development Challenges

2.1 The traditional road to development: structural transformation

The conventional development process consisted in structural transformation: mobilizing workers from (low productivity) traditional agriculture or the informal sector into (high productivity) modern manufacturing. Because of this, economic development has historically been synonymous with industrialization; most countries that developed also industrialized. This naturally resulted in substantial increases in economy-wide productivity.

Structural transformation has historically been attractive for developing countries for at least two broad reasons. First, countries could initiate it without necessarily having reached high levels in the "fundamental" variables that are the most important for growth and development in the long term: strong institutions, high level human capital, great capacity to innovate and learn, etc. These are extremely important variables but they accumulate very slowly. Nevertheless, countries did not need, for example, German institutions to trigger structural transformation.

Second, developing countries have two characteristics that differentiate them from developed countries: (i) the large differences in productivity between the most and the least productive sectors (or even between companies/plants of the same sector); (ii) the large percentage of employment in low productivity sectors/activities. As a result, there is, in theory, significant room to increase economy-wide productivity by mobilizing workers from low to high productivity sectors.

In addition to being a high productivity (and high productivity growth) sector, manufacturing has historically had four other distinct advantages: (i) unconditional convergence (Rodrik (2013) has shown that the manufacturing industry tends to close the gap with respect to the world's technology frontier at a rate of approximately 3 percent annually, regardless of policies, institutions or geography); (ii) intensive unskilled labor, abundant in developing countries; (iii) intrinsically rich in the generation of "capabilities" that allowed the production of increasingly more sophisticated products, and in a broader range of activities. In contrast, natural resource activities like traditional agriculture involved repetitive tasks that did not generate capabilities (and required very sector-specific technical expertise not applicable anywhere else); (iv) a tradable activity, meaning it could grow without being limited by the size of the domestic market.

As countries succeeded and moved along the path of structural transformation, and to the extent that industrial policy was adequate, they could initiate virtuous circles towards development. Structural transformation-led growth could generate the resources and capacities that allowed the strengthening of the "fundamental" variables, determinants of long-term growth.[1] The strengthening of these variables, in turn, implied that growth could be sustained beyond structural transformation.

Indeed, countries that were able to break the middle-income trap started to rely less on structural transformation and more on within-sector increases in productivity. These "within-sector" increases in productivity depended on the accumulation of physical

[1] For example, structural transformation into sectors where significant learning is possible and where knowledge generated is applicable to other sectors will increase the economy's overall capacity to innovate and to enhance human capital, two of the long-term fundamental determinants of growth.

and human capital, the strength of institutions and, above all, on the ability to innovate and to learn to do things better.

2.2 The challenges to structural transformation in the 21st century

Very few countries have been able to break the middle-income trap, and thus the process of structural transformation has become more difficult. Diao et al. (2017) show that, in recent years, structural change has made no contribution to growth in Latin America. Growth in the region has been mostly the result of within-sector gains in productivity; the percentage of labor in high productivity sectors has not increased.

This result is similar to a previous study prepared in 2014 by the McKinsey Global Institute for the Mexican economy. They had two important findings: First, the low growth in average labor productivity in Mexico (0.8 percent) concealed a huge productive heterogeneity. It had, at one end, a modern world-class sector with an annual increase in labor productivity (in companies with more than 500 workers) of 5.8 percent between 1999 and 2009. On the other hand, it had a traditional sector, with micro-enterprises of 10 workers or less (many of them informal), that had seen productivity reductions of 6.5 percent per year in the same period. In the middle ground, there was a group of medium-sized companies with modest annual productivity gains (1.0 percent). Second, there was growth-reducing structural change: the percentage of workers employed in microenterprises increased from an already high 39 percent, to 42 percent. The modern sector, that had experienced significant productivity gains, had seen its labor share stagnate. In other words, there had been a reallocation of employment towards low-productivity companies.

This growth-reducing structural change could seem, at first, puzzling. In theory, workers should have been mobilizing from less productive to the more productive activities until the marginal revenue product of workers was equalized (Hsieh and Klenow, 2009). But this did not happen. There are obviously some country-specific factors that may be relevant, for example, in Mexico the authors of the McKinsey report include labor rigidities, problems with very restrictive zoning, high energy costs, and lack of financing. However, the fact that the phenomenon is generalized in developing countries suggests that there are some cross-cutting factors that also explain it.

In Africa, the Diao et al study argues that structural change had contributed positively to growth, but in an unsustainable way. In particular, there has been structural transformation but a reduction of labor productivity in the modern sector. The authors contend that this is consistent with a structural shift led by increased demand for modern commodities (as a result of increases in income from international transfers or improvements in productivity in traditional agriculture). This generated more demand for modern products and thus the increase in price. In the absence of autonomous improvements in the productivity of the modern sector, an increase in employment resulted in a fall in the productivity of the sector.

Why has manufacturing-based structural change become more challenging? There are some global changes that make manufacturing less unique as vehicle for development. First, most of the variables mentioned as potential explanations for the growth reducing structural change in the McKinsey report are cross-cutting/horizontal. It is very likely that a significant number of sector-specific/vertical problems need to be addressed as well.

Second, many developing countries are confronting what Rodrik (2016) has called "premature deindustrialization", a process in which the participation of manufacturing (both in employment and production) begins to decline at relatively low levels of income. This can be explained by the reduction of international prices of manufactures as a result of the combination of (labor-saving) technological changes in advanced countries and globalization. If such price reductions are not offset by domestic gains in manufacturing productivity, there will be a contraction in both employment and manufacturing output.

Third, in the past, industrializing countries had relatively low wages compared to industrialized countries at the time. However, this is not necessarily the case in countries not yet industrialized. China's significant presence in the manufacturing world has left less room for other countries, particularly those at an early stage of industrialization.

Fourth, vertical disintegration and global value chains in the manufacturing sector[2] have led to different phases of the production process occurring in different companies. Mass producers reduce the risk of having component suppliers that may become obsolete due to rapid technological change; they focus on what they do best. In turn, component suppliers are integrated into multiple global value chains. Incipient industrializers are likely to specialize in the phase of the manufacturing chain that requires repetitive tasks (assembly of components made elsewhere) and is more intensive in unskilled labor, in contrast to R&D, design or supply chain management. This implies more limited opportunities to acquire "capabilities", one of the historical advantages of manufacturing.

Fifth, "just-in-time" production and its short learning cycles means that many manufacturing companies now have a limited number of inventories. This way, they make problems in the production process costly (and obvious). This induces companies to make quick adjustments, correcting failures and generalizing successes. By itself, this characteristic is not a problem for manufacturing, but as we will see later it is now shared with other sectors.

The fact that development through industrialization has become more challenging probably implies that countries need to switch from an almost single-minded focus on manufacturing to relying on several sectors to increase productivity. Natural resource based sectors and some modern service sectors could, at least partially, compensate for the potentially reduced role of manufacturing.

[2] These two characteristics are highlighted by Sabel, 2016

2.3 The role of other sectors

At the same time, we are seeing changes in traditional manufacturing, some natural resources or modern service sectors are experiencing the short-learning cycles (that allow to correct failures and generalize successes) and the building of capacities that used to be unique to manufacturing.

Modern agriculture is perhaps the most emblematic. Modern agricultural orchards are now like factories, however, instead of producing cars, they produce grapes, oranges, avocadoes, blueberries etc. Through precision agriculture one can control the optimal amount of water, fertilizers, and pesticides that go to each tree, and in so doing limit, as far as possible, the impact of the vagaries of nature.

Likewise, modern orchards have substantially increased the density of planting. For example, while 100 avocado trees were traditionally planted per hectare, more than 1000 can now be planted. This means that, compared to traditional methods, trees must be watered much more often, with all the proper nutrients, and must be pruned more frequently and accurately. Planting density and pushing genetic boundaries also result in an increased risk of diseases and pests, requiring continued monitoring and the quick adoption of countermeasures.

Modern agriculture also makes use of biotechnological developments to adapt seeds to local conditions. In adapting to local conditions, domestic seed producers have the natural advantage. They can make use of their geographic proximity to buyers to make quick fixes. Also, modern agriculture allows the development of agricultural equipment adapted to local needs (and the development of the metalworking sector in general).

Similar changes are taking place in aquaculture, livestock and even modern forestry. They are all experiencing: (i) increased use of technology, limiting climate impact and increasing productivity; (ii) short learning cycles that allow for continuous improvement; (iii) the generation of a network of local suppliers that generate local capacities; (iv) abundant employment for unskilled labor (even more than modern manufacturing); and (v) the possibility of exporting which implies its growth is not limited by the size of the local market (and therefore growth does not significantly deteriorate the terms of trade).

Mining is undergoing similar developments, with the possible exception of (iv), since it is not intensive in unskilled labor. In particular, as they increasingly focus on their core business, mining companies incentivize the generation of autonomous world-class service providers and the development of local producers of manufacturing equipment.

Modern services are also experiencing important changes. There is a very significant increase in knowledge-intensive business services (KIBS). They do not massively absorb unskilled labor, but they have three advantages: (i) they are exportable, (ii) they can experience important gains in productivity, and (iii) they have an economy-wide impact on productivity.

This all leads us to a key insight by Sabel (2012): what really matters for development is not fundamentally the product per se, but the production process. An avocado produced by traditional agriculture may not be dramatically different from one produced by modern agriculture, but the productivity of the resources utilized to produce it is. As Sabel says, the obstacle to development is not the products themselves, but the adherence to traditional modes of production. Those traditional methods are not only low productivity but imply repetitive tasks that do not allow the acquisition of many "capacities" and whose mastering cannot be put to use in other sectors or activities.

2.4 A new road to development

The challenges and opportunities highlighted earlier suggest that the path to economic development will be different (and more complicated) from what has already been achieved by countries. If countries are to keep their chances to achieve economic development relatively intact, they will need to complement manufacturing-based structural transformation as the main path to development with a combination of three possibilities:

a) *Find other sectors that have the historical characteristics of manufacturing (high and convergent productivity, employment generation for unskilled labor and capacity building)*

These sectors are likely to be natural resources-based activities and modern services. It is not that manufacturing will not be a major engine of growth in the future, but insofar as it has lost part of its traditional uniqueness, it must not (and probably cannot) be regarded as the only (or even the most important) engine. The development process will require multiple engines/sectors, including manufacturing, but also natural resources and modern services.

b) *Achieve significant gains in productivity within sectors*

This will need a significant increase in resources allocated to innovation and technological transfer, and to increase the capabilities to learn (learning to learn). It will also require that the channels through which innovation maps into productivity are strengthened.

c) *Increase the pay-off in terms of (earlier and stronger) growth of the investment in fundamentals*

Fundamentals accumulate very slowly and only impact on growth over time. But there may be a way to accelerate that impact, for example with human capital. It is obvious that general-purpose education is an important contributor to this. However, it is also evident that on-the-job learning is at least as (and perhaps a more) important contributor to human capital, and with potentially greater impact on growth. Government policies that partially fund on-the-job training could be one way of increasing the growth pay-off (in terms of magnitude and speed) of investing in human capital.

2.5 Productive Development Policies

New Industrial Policy or Productive Development Policies (PDPs) are about identifying and removing constraints to the productivity and growth of sectors with latent or actual comparative advantages. Hence, they should help enhance the chances of the three possibilities mentioned above, particularly *(a)* and *(b)*.

Identifying those sectors with latent comparative advantage is exactly what the process of "self-discovery", as highlighted by Hausmann and Rodrik (2003), is about, i.e., to determine what one is good at producing. They say that traditional economic development policies limit the growth problem to "having good institutions and using imported technology", and indicate that this conventional theory is incomplete:

1. It is evident that, within relatively broad categories, much of what is exported is to some extent arbitrary; it occurs by "happenstance" - who meets whom. The typical example used by Hausmann and Rodrik is that Pakistan exports hats (knitted or from textile material) but not bed sheets or bedlinen. Bangladesh, with similar endowments, exports bed sheets but not hats.

2. The cost of adapting imported technology to local conditions is not lower than (and in some cases requires almost as much effort as) inventing new technology. Pioneers, i.e., the people who experiment and discover what the country can do productively, have a clear role.

3. However, the pioneer does not usually manage to appropriate all the benefits of his pioneering activity. Once the economic viability of their innovation has been demonstrated, imitators follow. As a result, compared to a social planner that has the same information, countries in the aggregate innovate very little and discover fewer products that have real potential.

The authors conclude that in order to solve the "appropriability" problems associated with imitators, steps must be taken to compensate the pioneers for these risks.

Sabel (2012) points out that Hausmann and Rodrik were correct in arguing that "self-discovery" is central to limiting economic development and difficult to overcome, but that their proposed solution is not optimal, since the difficulty of overcoming the problems of self-discovery has much less to do with problems of "appropriability" and much more to do with problems of coordination between a series of public and private actors. Accomplishing that process of "self-discovery" requires cooperation among diverse private and public agents to solve complex coordination problems. Solving those helps mitigate to a very large extent the problems of "appropiability" envisioned by Hausmann and Rodrik.

In cooperating, public and private agents will need to share information. They will also learn new information, previously unknown to both of them. This will help to identify the public goods that the government needs to provide and the market failures it needs to fix, so that sectors achieve their potential.

Some of those public goods or market failures are horizontal and need to be implemented at a national level. However, a large percentage are sector-specific and

need to be identified (and implemented) at that level. When it comes to resolving barriers and providing public goods that the private sector requires, particularly in incipient industries, it must be done at the sector level. Therefore, PDPs must be not only horizontal but also vertical.

The next chapter goes into detail into the coordination failures and the need for public-private dialogue to solve them.

3 Public-private dialogue supporting PDPs

3.1 The rationale for public-private dialogue

Recent literature concerning Modern Industrial Policies or Productive Development Policies, and interventions by development institutions such as the World Bank have stressed the significance of coordination and structured public-private dialogue mechanisms relating to economic policy as a way to develop and implement IPs.

As discussed above, Rodrik (2004) notes that "the right way of thinking of industrial policy is as a discovery process—one where firms and the government learn about underlying costs and opportunities and engage in strategic coordination designed to elicit information about objectives, distribute responsibilities for solutions, and evaluate outcomes as they appear". Devlin (2014) points out that "such alliances supporting problem-solving dialogue would constitute a more effective way in which to gather knowledge and understanding among market players to develop IPs than if governments, alone, were to select the policies and related initiatives".

Problems associated with productive development are formidable. They have been heightened by the combination of increased uncertainty and complexity on the production side and the bigger needs to fulfill environmental, labor, phytosanitary standards, etc. The solutions to those problems require significant coordination across numerous actors, but this seldom happens because the public and private sector habitually work in silos.

There are indeed serious public-private coordination problems. The communication between public and private sectors can be complicated (capture, mistrust, informational asymmetries, outright corruption, etc.). But in identifying and carrying out productive development policies, governments require information that private stakeholders hold about markets, opportunities, binding constraints, etc. Without such information, it would be impossible to understand the sector/factor, or to formulate the right policies to address the market failures. As Rodriguez-Clare (2004) puts it: "Even the best-intentioned government cannot succeed without a collaborative and motivated private sector."

Likewise, private participants know the systemic issues they face but they often require the public sector to help solve them. The public sector has information and a broader purview that complements the private one. According to Devlin (2016),

"governments can also have advantages in terms of assessing aggregate phenomena and proposing strategic directions and objectives, facilitating coordination of investments, and providing public goods to help firms overcome constraints". In some cases, the information is unknown to both of them and will only be learned through continuous interaction and attempts at implementing solutions.

This iterative adaptation method emanating from the "viable process and institutional framework of voluntary collaboration between government and business", as Rodrik (2004) argues, is the essence of modern IPs, rather than the policy outcome as such.

3.2 PPD prerequisites: public-public and private-private coordination

PPD presumes that you have at least two main actors who have decided to engage in fruitful collaboration in order to identify and solve specific problems. Indeed, "it takes two to tango" (Stein et al., 2016).

Unfortunately, a successful PPD recipe requires more than the usual ingredients, comprising the government, the private sector, a champion or two, and some resources. Intangible, or conditioning factors, as Devlin (2017) calls them, such as leadership, commitment, capacity of the public and private sector, coordination, and political will, are as, if not more, important.

Cornick (2013) presents a very useful distinction when it comes to public interventions. While the subject of this paper is focusing on the merits of vertical interventions (sectoral approach) versus horizontal ones (general investment climate or competitiveness of a country), Cornick tacitly adds the capacity dimension of the public sector by differentiating broad and narrow interventions required by the government. The latter distinction refers to inputs: "Whether achieving the desired policy impact will require mobilizing a large swath of the public sector, or whether the policy goals can be achieved through the focused action of one or more public-sector organizations". Public-public, or inter-institutional coordination, is not the public sector's main strength, so the narrower the intervention, the greater the chance of achieving positive outcomes.

However, policies sometimes require broad, vertical, and horizontal interventions that demand a high-degree of public sector coordination. The institutional architecture of the PPD mechanism will have to be designed in a way that the political leadership, at the right level of the administration, can ensure the effective and efficient delivery of results.

When it comes to the private sector, its lack of homogeneity, and subsequently coordination, can be a notable hindrance to PPD. Small and medium-size enterprises have different challenges and interests to larger corporations, state-owned enterprises may have a tendency to control the dialogue, and business associations, when they exist, may have weak capacity or stifling political party affiliations, etc. (Utterwulghe, 2014). Coordination failures are harmful to all economic activity and sectors, but they are particularly damaging for incipient and new sectors, which don't even have the (already imperfect) traditional channels for interacting with the public sector.

Private-private dialogue is therefore an equally important factor of the PPD equation. As we have seen, besides the risks of capture and rent-seeking, and the chronic lack of trust vis-à-vis the public sector (Utterwulghe, 2015), one of the most important challenges encountered while designing PPD institutions and mechanisms is the lack of cohesion and organizational capacity of the private sector, especially in middle or lower income countries.

To go back to Cornick's intervention model, vertical, or sectoral, policies can show results more rapidly, benefit a sector or some firms directly, and require less organizational capacity from the private sector as a whole. This approach should be more enticing to the private sector, but, according to Fernandez-Arias et al. (2016), it is also riskier because of the higher possibility of capture and rent-seeking. Indeed, vertical interventions are particularly risky when they take the form of market interventions (such as protection or subsidies, as they may improve a sector profitability without necessarily increasing productivity), but much less so when they take the form of public goods (Ernesto Stein et al., 2014). 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 that can coordinate across sectors".

With regards to capacity per se, unless development institutions - or governments, but with the risk of being perceived as meddling and influencing the private sector - address the issue, it will be hard to implement successful public-private collaboration. The concept of "open architecture" proposed by Hausmann and Rodrik (2006), which posits that "it is important that *whenever possible* the government not predetermine who it will deal with in terms of sectors or activities", is indeed not always possible or desirable. Sometimes, one will have to pick the sectors and private sector players who have the technical capacity and the willingness to engage in the complex game of productive development policymaking. This is all the more appropriate in developing countries, and fragile states, where governments have limited bandwidth and weaker institutions.

3.3 Public-private dialogue in lower income countries and fragile states

Recent research emphasizes the enormous potential of industrial policies to support structural transformation in developing countries. Furthermore, in recent years, as a direct challenge to the neoclassic market approach, "structuralist economic" studies have increasingly reiterated the central role that states need to play in order to create markets, improve the business environment, or alter the structure of economic activity. Yet, as Gisselquist (2015) points out, few of these studies dedicated to structural transformation have paid much attention to the realities of state weaknesses in poorer and fragile states. As discussed previously in this paper, modern industrial policies, or productive development policies, recognize the need to involve the private sector in policy design and implementation. However, the state retains a central position and its capacity to coordinate, self-organize, provide technical inputs, and deliver, matters.

In regions such as sub-Saharan Africa, where many states are weak and often fragile, Gisselquist reminds us that the (structuralist) approach to the state is "notably at odds with that in the literature on state fragility, which highlights the negative economic

effects of state patrimonialism, corruption, economic mismanagement, and weak capacity". The political economy of doing business in IDA countries and fragile states needs to be taken into account when contemplating PDPs in these countries (World Bank, 2011).

Work by development finance institutions (DFIs), such as the World Bank Group, in designing and implementing public-private dialogue mechanisms has proven successful in support of the traditional economy-wide interventions across the world. But addressing constraints affecting the investment climate through broad horizontal policy reforms does take time and, as discussed above, requires a higher level of inter-institutional and private sector coordination. In fragile states, time is of the essence and 'quick wins' can make a difference and restore trust in the authorities. The experience (Utterwulghe, 2014:2) shows that vertical (sectoral) interventions can be beneficial in IDA and fragile states in that sector-specific PPDs will deliver results more promptly and can overcome the inter-institutional coordination Gordian knot by working specifically with a line ministry. However, as mentioned previously and as discussed by Stein et al. (2014), this can't be a blanket approach for all countries and it needs to be implemented with caution because of the high risk of capture and rent-seeking associated with vertical interventions, especially the market interventions types. A more focused approach can also help create more quickly a critical mass of public and private sector actors who have learned how to dialogue and work together (discussion with Syed A. Mahmood). If more Ministers need to be involved for cross-sectoral dimensions, cabinet-level officials could be involved.

3.4 Multi-pronged PPD interventions by the World Bank Group

Today, DFIs, including the World Bank Group, recognize that a participatory, inclusive and transparent public-private dialogue mechanism is one of the key determinants for an effective industrial policy process (OECD 2013). Over the past decade, the World Bank Group has advised governments and the private sector globally on designing and implementing structured multi-stakeholder dialogue mechanisms that ensure sustainable development policy reforms, mostly at the national and sub-national level. The focus has primarily been on horizontal policies that could improve the investment climate and the competitiveness of a country as a whole. More recently, this approach has been complemented by sectoral interventions, mainly in the garment, agribusiness, and tourism sectors. Variations of the approach have included focusing on clusters and value chains, such as those described in the Tunisia example (Box 1).

Box 1. Tunisia Sector Competitiveness Diagnostics and PPD

The pilot project's development objective is to identify and help strengthen promising clusters in a new democratic Tunisia, based on cross-sectoral diagnostics and extensive public-private dialogue.

a. The case for cluster-specific PPD interventions

Competitiveness-focused PPDs are better organized around clusters or value chains because:

1. Grouping firms in high-level sectors (e.g. textile-garment) produces vague recommendations and little mobilization of change agents because the common denominator is too large, making conclusions too abstract and detached from daily business concerns. Instead, cluster/value chain specific PPDs are particularly informative on the concrete constraints firms face in their respective lines of business (which diverge significantly within sectors) and are more likely to achieve effective and sustainable engagement.

2. Such PPDs not only facilitate consensus around reforms and investments, but they also create awareness among firms of their own role in enhancing sector competitiveness.

3. The approach can be replicated on any cluster/value chain with motivated stakeholders. There is no need to limit it to so-called "strategic sectors".

b. Methodology

The PPDs were structured along three phases: (i) cluster diagnostics and prioritization of binding constraints on competitiveness; (ii) elaboration of cluster specific action-plans; and (iii) implementing short term actions or informing and adapting World Bank projects to meet PPD recommendations. Four pilot clusters (electronic components, pharmaceuticals, garments, and IT services) were identified to test the approach.

The methodology carefully wove fact-based analysis with participatory processes in a strategic sequencing. This was essential to mitigate risks of capture/consolidation of power by dominant actors.

1. The team started with a quantitative and qualitative analysis of the respective clusters and the corresponding market trends. Only then did it launch the participatory process (workshops etc.). This sequencing allowed the team to have an "educated" engagement in the PPD, with a stakeholder map at hand, and full awareness of predictable assumptions by dominant private (or public) actors. Without a market-based understanding of the value chain, dominant stakeholders could direct the PPD towards ready-made conclusions (which are not necessarily aligned with global market trends or value addition).

2. The PPDs were continuously informed by experts in the respective fields (recruited in consultation with the PPD participants), which allowed to keep assumptions in check, and contrast proposed solutions with international experiences.

3. Solutions were also designed in small groups that not only included influential actors but also champions of change. This reduced the risk of consolidating the status quo and increased the feasibility of implementation of difficult reforms.

c. Challenges and lessons learned

1. One of the key lessons learned was that putting the private sector in a co-leading position was essential to mitigating political risks. Tunisia witnessed six government reshuffles during the period of the project, causing repeated readjustments and delays. Having the private sector in the lead allowed the PPDs to survive the unstable context and maintain them on track.

2. Effective PPDs should dispose of investment funds at the end of the consultation process without time gaps or delays. To that effect, it is better to embed, or closely synchronize, PPD facilitation with investment operations, in a way that eliminates the time gap between design and implementation of policy recommendations. That time gap can be too long to sustain the engagement of stakeholders, and particularly private sector actors.

3. Getting things done through PPD requires a strong prioritization and narrowing down on concrete issues. The approach directed both public and private stakeholders to discuss the level of priority of constraints, and agree on three to five top constraints on short and medium-terms. This methodology smoothed the implementation by directing attention to transformative actions. Similarly, during the conception of strategies/solutions, work was organized in small groups focused on top priority issues. This helped secure engagement and buy-in by key actors.

d. Impact

Some of the most concrete impacts found in the pharmaceutical PPD, for example, include:

1. The administrative reform of the Medicine Authorization (MA) process. This led to the reduction of delays of the Medical appraisal review (a necessary step to put a product on the market) from 2.5-3 years in 2013 to 6-9 months in 2017.

2. A decree modernizing the regulatory framework of clinical trials in Tunisia. This was accompanied by an elaborate action plan and the participation of the Minister of Health in the World Economic Forum (2016) to promote investments in clinical trials in Tunisia.

3. An achieved consensus on a key reform of the medical pricing process between the Ministry of Health, the Ministry of Commerce & Industry, and the Ministry of Social Affairs. The reform led to the establishment of a more transparent, efficient and inclusive process incorporated in a single "Medicine Price Committee". This regulatory reform is currently being further articulated and expected by the end of 2017.

e. Sustainability

A common value chain development platform is currently being established to conduct all cluster/value chain specific PPDs in a cross-ministerial manner. The platform would bring together various concerned agencies (export promotion, MSME development or regional development agencies, etc.) and builds local capacity to conduct these PPDs and inform i) policy reforms; ii) public investments; and iii) support to private sector firms. World Bank-financed investment projects supporting value chain activities in Tunisia will finance this platform and the implementation of its recommendations.

Adapting from Rodrick, it is fair to say that institutional innovations and duplications do not travel well. Iterative adaptation grounded in contextual realities should be the modus operandi, while taking into consideration proven principles and lessons learned. The next chapter will look at an innovative and successful institutional and policy dialogue tool aimed at implementing productive development policies more effectively in Peru, the *Mesas Ejecutivas* or Executive Working Groups.

4 Executive Working Groups (*Mesas Ejecutivas*)

Mesas Ejecutivas (ME) is a policy tool that was designed in Peru to implement PDPs more effectively[3]. Its aim is to take concrete actions to enhance the productivity of a vertical sector (such as forestry, tourism, agro-export, etc.) or a horizontal factor (such

[3] *Mesas Ejecutivas* were designed and implemented at the Ministry of Production of Peru when one of the authors of the report (Ghezzi) was Minister of Production.

as logistics, capital markets, transit, etc.).[4] The tool institutionally works as public-private working groups.

It does not aim to replace ministries or public agencies. Instead, it draws in participants from across these public entities and the private sector stakeholders of a sector or factor to define and suggest solutions to problems that cannot be solved within existing structures. Naturally, as part of its work a ME may reform or create public sector entities, but the objective is to strengthen and improve the operation of the public sector, not to generate a parallel structure. Initially, MEs were thought to be temporary but the experience shows that coordination problems will continue to appear and the need for the ME will probably not diminish over time.

A ME is a space mainly for action and execution. It focuses on the identification of the constraints limiting the productivity of a sector (or factor), and in the implementation of solutions to remove them. It does not focus on high-level dialogue (although the focus on action can always lead to high-level discussion considerations that feedback into further action).

MEs try to avoid generic discussions about the competitiveness of the economy. The majority of the unresolved problems in developing countries are unique to particular sectors and activities, and can only be identified and resolved at that level.

4.1 ME Participants and institutional architecture

A typical ME has two levels of participants. A **ground level body** that is composed of participants that have better and earlier information on the details of the productive problems of the sector or factor of the production focus of the ME. This body has three types of participants:

- Representatives from the private sector stakeholders around the sector/factor.
- Representatives of public sector stakeholders around the sector/factor.
- A dedicated team appointed by the public sector entity in charge of coordinating the ME.

Private sector representatives are the principal actors in the ME and they are designated by the relevant business associations. It is necessary to have a combination of those with first-hand knowledge of the problems of the sector on the ground, and those with sufficient perspective to be able to identify its key challenges. It should certainly include business association managers and professionals that work with businesses but should not be composed primarily of them, given that their knowledge of the productive problems is mostly indirect. Crucially, the private sector representatives need to be able to help the rest of the ME participants, particularly from the public sector, to better understand the sector or factor. Continuous private sector participation in the MEs is a precondition for success. Naturally, it will only happen if the MEs show progress.

[4] Even though MEs were originally designed as a tool for PDPs, they could also be used to improve the functioning of government in general.

The representatives of public sector stakeholders relevant to the sector or factor have the formal responsibility to provide the public goods or correct the market failures that the sector/factor subject of the ME will need.[5] Some of these public stakeholders are regular participants of the ME; others will attend occasionally for specific problems.

The public entity that coordinates the ME appoints a dedicated team that will be in charge of running the day-to-day operations of the ME. This team is responsible for securing the continuous public-private interaction needed to uncover bottlenecks in the sector/factor productivity, identifying solutions and implementing them. In order to do so, they have to ensure the public sector stakeholders are receptive to the suggestions of the private participants (often they are not). Public stakeholders often become defensive, at least initially, given that necessary improvements are exposed during ME sessions. Due to this, the dedicated team needs to remain neutral and act as an honest broker. That neutrality requires that they do not have formal responsibility of the sector or factor subject to the ME. This neutrality is also the reason why one representative of the coordinating team needs to be the moderator of the periodic ME sessions. The dedicated team also needs to be highly capable in negotiating. They may or may not be public sector officials but will need to have a very good grasp of public sector management.

These participants of the ground level body attend the periodic ME sessions and directly scope and understand problems and work on solutions. This proximity provides them with more contextual information about the private sector productive challenges.

Because of its direct access to on-the-ground information, most problems are identified and resolved at the ground level body. However, there are occasions when they reach a gridlock because the solutions go beyond the purely technical, such as the capacity for convening, persuading, problem solving, dispute resolution or budget allocation that only ministers (or above) have. It is on those occasions when a **higher-level body** of the ME, which operates at ministerial level (or even head of state), intervenes. In this sense, both levels are complementary. The dedicated team serves as a link between the two.

4.2 ME Meetings typology

MEs have two types of meetings: the *periodic sessions* and the *inter-sessional meetings*. Representatives of the ground level body normally attend the *periodic sessions*, which are moderated by a representative of the dedicated team in charge of running the day-to-day operations of the ME. It is in these sessions when problems (and progress towards solving them) are presented.

Experience shows that weekly or biweekly meetings may be ideal, for at least two reasons. First, it allows continuity in the public-private interaction needed to improve the understanding of the sector/factor. Second, the session of the ME acts as a

[5] Some of these public sector representatives can be officials from cross-cutting Ministries like Finance, Transportation, Housing, Labor, etc. Many of the interventions needed for the sector need to be undertaken by these Ministries (or entities associated with them).

constant pressure mechanism for its participants, who know that they will need to report progress. Infrequent sessions could result in decreased interest and procrastination.

However, not everything has to be completed by the next periodic session; some actions may require more time. But the principle is the same: fixed deadlines and the need to report progress to the ME generates a strong incentive to come through.

As important as what happens in the regular periodic sessions of the ME is what happens between sessions, in the *inter-sessional meetings*. These are smaller (bilateral or multilateral) meetings in which the solutions to the problems identified in ME sessions are worked on and implemented. Often, inter-sessional meetings are held exclusively among public sector participants, and sometimes these meetings include members of the higher-level body.

The existence of an efficient dedicated team could well be the single most important determinant of success of MEs as a tool. This team leads the inter-sessional meetings and makes sure there is continuous progress from session to session. It significantly reduces the risk of ME sessions in which the same problems are discussed over and over again without becoming implementable (let alone implemented) solutions.

4.3 How can MEs help with coordination failures?

MEs can help with coordination failures in more than one way. By meeting regularly with private counterparts during sessions, the public sector improves its understanding of the bottlenecks affecting productivity of the sector/factor of production focus of the ME. This continuous public-private interaction allows the sharing of information as well as the learning of new information, previously unknown to all participants of the ME. Hence, they improve public-private coordination.

MEs also help with public-public coordination given that they include relevant public stakeholders of the sector/factor. Issues of duplicity (or more) of requirements by public sector entities, implementation gaps (where, for example, one local decentralized entity does not implement the national guidelines given by a Ministry or national entity) or the need for complementary public sector interventions (like infrastructure), are all made evident in MEs sessions.

Of course, MEs will not solve public-public coordination failures. For example, a hypothetical ME for Tourism may prioritize certain airports or roads over others, but nothing can guarantee that the Ministry of Transportation (formally in charge of building the infrastructure) will have the same priorities. But the fact that the Ministry of Transportation has a seat on the ME improves the information (bottom up) it has when making its infrastructure decisions.

MEs may also help with purely private coordination failures. Sometimes the ME can allow private sector participants to identify common problems or to generate incentives to formally or informally organize to solve them together. For example, a forestry ME may allow the private sector around plantations and the sector around

concessions in the forest, in principle two separate businesses, to identify more clearly their complementarities (in the production of structured wooden floors, for instance).

4.4 What does the government provide in a ME?

The government, with respect to the private sector, ideally differentiates between YPs ("your problems") and MPs ("my problems").

MPs (from the perspective of the government) are related to the provision of public goods or the correction of market failures where the government could improve the productivity of the sector/factor subject of the ME[6]. The objective to increase productivity can help align the public supply of goods and services and, hence, to alleviate the coordination failures mentioned in previous chapters. The following are potential "MPs":

- ✓ Reduction of red tape (norms and implementation)
- ✓ Regulation that is adequate to productive reality of the sector (norms and implementation)
- ✓ Fill in loopholes in regulation (norms and implementation)
- ✓ Help with complying with technical requirements to secure access to new export markets
- ✓ Complementary public sector interventions
- ✓ Creation of new public entities (or improve the functioning of existing ones) that are appropriate to the productive reality of the sector
- ✓ Public infrastructure suited to productive needs of the sector
- ✓ Incentives to promote innovation that are suitable to the sector
- ✓ Design of sector-specific training programs

In countries where the government is weak there is, by definition, a gap between what the government wants to do and what it actually does, between norms and their implementation. For that reason, its job does not end when it enacts a regulation. It needs to make sure it is complied with on the ground such that it has real effects (not just on paper). The ME is very useful to monitor effective compliance and the nuances of what is happening on the ground. This allows for adjustments when needed. [7]

YPs are things such as latent comparative advantages (which should be clearer once the public sector provides MPs), product design, pricing strategy and competitive pressures, as well as the private market-provided inputs to production. It is the private sector's job to identify attractive business opportunities in which they have the ability to compete and win, and to exploit them with the right strategies. MEs can turn potential opportunities into reality, but cannot make the impossible possible.

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[6] Public goods are clearly the government's responsibility to provide. Solution of market failures must be compared to the well-known risks of government failure in these interventions.

[7] It may well be the case that an intervention decided by the ME is properly implemented but it is not having the desired consequences. This information will normally be provided by private sector participants of MEs. As a result, the intervention needs to be modified with that new information. This is precisely the recursive feature of this model of implementation that is highlighted below.

4.5 Steps to operate MEs

Ideally the decision to start operating a ME or a group of MEs needs to be taken by someone relatively high up in government (President/Prime Minister or cabinet minister). This is important because the ME will need the support from someone with the ability to allocate budget, enact regulation, induce cooperation between private and public stakeholders, and solve disputes when they arise.

Some MEs could be initially requested by the private sector; other MEs could be the government's own initiative (provided, of course, that there is private sector demand for them). Regardless, the government will ultimately need to take the decision on which MEs to operate. Given its limited bandwidth, it will probably need initially to prioritize two or three sectors/factors of production. Starting with a few sectors before expanding the number allows the government to learn, and apply what has been learned to the next MEs. Over time, more sectors (or factors) can be sequentially added, in a process that could be called "sequential prioritization".

Below are the steps needed to operate a single ME:

a) Define the sector/factor candidate for ME

The obvious initial step is to define the candidate sector/factor subject of the ME, with the most broadly defined sectors possible, provided they are still narrow enough to be able to work with them.

The sector/factor subject of the ME needs to be narrow to be able to get into relevant sector specific details. Regulatory barriers or infrastructure needs need to be common enough among the actors in the ME. Once this is achieved, the broader the better to maximize its macroeconomic impact.

Sometimes the private sector will be self-organized around shared problems. This will make it easier to get the ME going and will naturally be preferable. But other times, the private sector may not be organized at the beginning of a ME. Experience shows that the functioning of a ME process generates incentives for the private sector to organize (formally or informally) over time.

b) Assess the feasibility of the ME

Not all candidates make it to a ME. The most important determinant of the feasibility of a ME is whether private sector stakeholders are internally coordinated (see section 3.2), open for pragmatic problem solving, and willing to devote significant time to work with the ME. It is also important to know if the sector has upside potential currently constrained by fixable coordination failures.

Almost all sectors could be helped by setting up a ME. However, there are some cases where the problems facing the sector could be structural (perhaps because its historical comparative advantage was based on low wages that are no longer low compared to its main competitors). In those cases, a ME may not be the ideal way to help the sector.

Based on this, it is important to have preliminary meetings with the most relevant stakeholders before the ME is formally installed, to make sure that chances of success are relatively high.

c) Launch it (if it is feasible)

Once the ME is launched, frequent regular meetings will be necessary. Frequency will vary depending on the ME, but experience shows that biweekly or weekly sessions are ideal so that they act as a constant pressure mechanism for the participants. Otherwise, there is a risk that momentum (and interest) is lost.

d) Generate an initial list of the main problems and their potential solutions (the "Matrix")

MEs are part of the family of PDP "recursive" tools that recognize that planning and execution are intertwined[8]. To that extent, MEs do not devote much time to generating a comprehensive list of problems and their potential solutions that must be implemented. Instead, initial sessions of a ME are dedicated to generating a preliminary list of problems and their potential solutions. Solutions that, more likely than not, will be revised during execution.

In generating that initial list, MEs make use of the obvious complementarity between their public and private sector participants. Normally the private sector actors are good at identifying their most pressing problems, but they are less good at identifying potential solutions. At the same time, public sector officials (as a group) are better at identifying potential solutions, but normally lack the detailed contextual knowledge of the sector/factor of production.

The initial list needs to go through some preliminary filtering to focus on the real problems. Often the private sector will ask for a tax exemption or a subsidy to compensate for an inefficiency, for example, they may want a subsidy because of high logistical costs or poor public infrastructure relevant to the sector. However, the ideal solution is unlikely to be the tax exemption.

Sometimes, the list of problems presented by the private sector may contain "problems" that are not such, or at least are low priority. For example, they may want a norm that declares the sector as a "national priority". In that case, the litmus test is to ask whether that would improve in practice the day-to-day operations of the sector. In most cases, the answer is that it is merely declaratory.

The filtering of solutions and problems that takes place in this step is purely preliminary. It is only during implementation that the real filtering takes place.

e) Prioritize problems from the initial list and start to solve them

[8] According to Sabel and Jordan (2015), "a recursive model of implementation … uses the output of one round of review and revision as the input for the next round of implementation".

MEs should rapidly move into trying to solve some three or four problems from the initial list (as opposed to try to enhance or to excessively refine the list). Those problems should be a combination of either particularly important or ones that can be fixed relatively rapidly (ideally both). This allows generating positive momentum and energizes (both private and public sector) participants who see their efforts paying off. This, in turn, enhances the chances of further success.

f) Based on execution, polish the initial list of problems and solutions

As mentioned above, it is during implementation that the ME goes deeper into the problems and is able to fine-tune the solutions. As a result, the list of problems and solutions (the "Matrix") is live and improved during execution.

Solutions are sometimes identified during the regular sessions; others are identified during inter-sessional meetings (when task forces deep dive into the problems) and presented afterwards during ME sessions.

It is normally the continuous interaction between private and public participants that leads to the solutions, often unknown to them beforehand. In that sense, beyond the "information-sharing" in a ME there are significant amounts of what Fernandez Arias et al. (2016) call "learning-sharing".

The ME allows to institutionalize that learning-sharing process; a process that takes place when both parties are trying to find the solutions to problems, and also when implementing the desired solutions.

Experience shows that many "good solutions" to problems fail at the very end of the chain, when implementation takes place. Very often, ground floor public sector officers in charge of implementation distort it or simply do not apply them in practice. The inclusion in the ME of participants closer to the ground helps to identify those problems during execution.

The ME needs short learning cycles to make quick corrections when policies are not having the intended consequences or when, in general, new information arrives. The relatively high frequency of the ME sessions and the monitoring mindframe that it encourages help those cycles to be indeed short.

g) Start solving other problems from the list and incorporate new problems to the list as they arise

Over time and once the ME has been able to make significant progress in some of the initial problems (or because they will take longer as they need time to mature), it can start solving other problems from the list.

The learning process that the ME encourages will increase its bandwidth and its ability to solve more (and more difficult) problems. However, it will increasingly be the case that the regular participants of the ME (those from the ground level body) will hit a wall. This will happen when solutions require budget allocation or a political

decision to move forward that are beyond their control. In those cases, the participation of the high level body participants is required.

Obviously, the live nature of the "Matrix" implies that new problems will be incorporated into the list. Sometimes those problems are new; at other times it will be because the learning process that the ME facilitates allows the identification of problems that participants had been unable to articulate (or even to identify).

The entire process is very agile and iterative. It is recursive, rather than linear, where, in an initial phase, all problems and their respective solutions are perfectly identified, and in a second phase, those solutions are executed. Instead, an initial diagnosis of problems and potential solutions is made, and three or four of them are executed initially. With the information from implementation the solutions are fine-tuned and the original list is, hence, polished. Also, as the bandwidth increases, the ME starts to implement solutions to other problems on the original list and that implementation, in turn, allows fine-tuning of their solutions. New problems are also incorporated as they appear. The ME goes back and forth continuously between the list of problems and the implementation of their solutions.

5 Experience with *Mesas Ejecutivas* in Peru

In the period between December 2014 and May 2016, the Ministry of Production of Peru created eight *Mesas Ejecutivas*. Six of them were sectorial/vertical:

- Forestry (December 2014)
- Aquaculture (May 2015)
- Creative Industries (August 2015)
- Textile (September 2015)
- Gastrononomical (December 2015)
- Agroexports (April 2016)

And two were Tranversal/Horizontal:

- Logistics (February 2016)
- High-Impact Entrepreneurship (May 2016)

All MEs operated continuously until July 2016, when a new government came in. Some had immediate success and hit the ground running; others were slower to take shape. But all MEs had an impact (in different degrees). The crucial difference was the private sector participants' ability to identify the main bottleneck to their sector's productivity growth and the feasibility to implement them[9].

The new government tried to change the methodology (for example, by significantly reducing the frequency of meetings and not having a dedicated team). As one would

[9] A more detailed description of the main achievements of the different *MEs* until July 2016 can be found in Ministry of Production of Peru, 2016

have expected, that change did not work. Due to private sector demand, the Forestry ME was reinstalled (including new actors) at the Ministry of Agriculture in February 2017. The Agroexports ME was reinstalled, also at the Ministry of Agriculture in April. There are expectations that new MEs will be installed over the next few months.

In this section, we will focus on the achievements of three MEs until July 2016. We also update progress in the forestry ME since February 2017.

5.1 Forestry

The sector has two major subsectors: plantations and forest concessions in the Amazon jungle. In plantations, 800 to 1000 trees are planted per hectare. They are usually harvested from years six to 20 (depending on the species). In forest concessions, approximately 4-5m3 of wood (well below the environmentally sustainable level of 25-28m3) is extracted per hectare every 20 years.

Peru's comparative advantages appear evident. Out of 7.9 million hectares of concessioned forest land, less than two million are operational. In addition, the Andes and Amazon hold approximately nine million hectares of "potentially reforestable" land. In the Amazon alone there are four million hectares that could be planted. However, less than 40,000 hectares have been reforested for industrial/commercial purposes.

Land is also relatively inexpensive. It can be obtained at between $1,000-2000 per Ha vs. $5,000-10,000 in neighboring countries. But perhaps the most important factor is climate: Wood in clonal plantations grows yearly at 50m3/Ha (the highest in the world together with Brazil), vs. 25m3 in Chile and 5m3 in Finland.

Despite its huge diversity and potential, Peru sells only approximately US$150 million worth of forest products abroad per year (and imports US$1.2bn), compared to Chile's US$5.5bn. Exports have been stagnant over the past 15 years.

A number of government entities are engaged throughout the sector's value chain in industry regulation, oversight or policymaking. The two most important government agencies dealing with the forestry sector are: SERFOR (*Servicio Nacional Forestal y de Fauna Silvestre*), which is in charge of policies and guidelines for the sector, and OSINFOR (*Organismo de Supervision de los Recursos Forestales*), which takes charge of supervision and overseeing compliance. Other entities include MinAm (Ministry for the Environment), Minagri (Ministry for Agriculture), Regional Governments, Ministry of Production, etc. Training and technical assistance organizations are also involved, including technological innovation centers (CITES), universities, etc.

Because the forestry value chain embraces various government agencies, as well as private companies, setting up the Forestry *Mesa Ejecutiva* helped address coordination issues within the public sector and between public and private sectors.

The ME prepared a preliminary industry diagnosis and identified three types of barriers: (a) poor regulation and overwhelming red tape, (b) lack of innovation and low productivity, and (c) insufficient financing.

After a few months of operation, it was able to regulate the Law for Forestry and Wildlife in September 2015. This had not been possible in more than four years (the law had been originally approved in July 2011) because of the large number of actors involved. These regulations allow, for example, those who have possession but not titling of their land to market their timber legally and use the possession certificate to request "contracts for the transfer of use for agroforestry systems" susceptible to mortgages. In addition, landowners can now register their forest plantations in three days, where it used to take six to 12 months. Wood from forest plantations can also now be extracted without a permit. The process used to last from four to eight months.

For concessions in the Amazon, procedures were simplified, and forest production can now be used as a guarantee for loans, while non-timber products and tourism have also benefitted. Likewise, following issuance of new guidelines from SERFOR, it is expected that the first tender for forest concession in 13 years will soon be launched, and the selection processes will be much shorter than in the past.

A new mechanism for accessing forest concessions, known as the "Abbreviated Procedure", has been created. In this case, it is not necessary for a regional government (GORE) to call for tender for certain types of land; private companies can submit their proposal and be granted the concession. Two regions (Ucayali and Loreto) launched this procedure in May 2017.

Perhaps one of the most relevant achievements is that the ME helped the newly created SERFOR to strengthen as an institution, as it learned quickly about the sector. This is obviously an ongoing process. Normally, new public sector agencies take a few years to fulfill the minimum requirements to do their job properly. That process has been significantly sped up in the case of SERFOR, which is, by now and in large part thanks to the ME, an extremely competent public entity.

In terms of management, OSINFOR and SERFOR now coordinate their data and publish on their websites information on concessions, operating permits, surveillance and sanctions, among other things; the procedures backlog substantially decreased from several years' worth to almost nothing; the export permitting scheme was dramatically streamlined; the five-year audits' management information system was rolled out, and improved regulation of infringements and sanctions. The Forestry Court was also formed, an action that had been pending for eight years.

In addition, construction of the facilities for the newly established Pucallpa Forestry CITE are likely to begin shortly to foster innovation in production processes, transfer technology to small and medium enterprises, and attract qualified foreign experts. Its laboratories will award quality certifications and the CITE will help to standardize manufacturing, improve wood drying and cutting (currently far from ideal), and significantly reduce the time for testing trials for wooden structured floors.

Due to the nature of the business, forest plantations ideally require financing for 10 years or longer, and provide long grace periods. This type of financing has not been

generally available for plantations. Financing for primary forest concessions was likewise restricted. Also, in the past, concessions were never accepted as collateral.

To begin addressing the issue of access to capital, a $200 million fund enabled the Development Finance Corporation (Cofide) to provide seed second-tier funding (i.e., through private or public financial institutions with a 70/30 breakdown) that is expected to spur larger private financing. Recent loans have been granted at low single digit rates in comparison to having no long term financing before the ME was launched. Conditions keep improving, and getting access to reasonable (albeit not subsidized rates) is very good. But it is also transformational, as it allows banks to begin to understand the forestry sector and to increase their exposure to it directly.

The challenges for the ME are clear. In plantations, there are two: to further reduce the cost of financing and to increase the supply of readily available land suitable for foresting. To that end, efforts are under way to prepare a forestry land cadaster with San Martin and Huánuco regions (states). Other regions (Loreto, Madre de Dios, Ucayali) are expected to join later. SERFOR is preparing a single integrated and systematized database.

SERFOR has already launched, for the first time ever, guidelines for concessions for plantations, which will help keep attracting large investors. Existing plantations imply fully owning the land. Concessions for plantations will provide an alternative where the private sector can plant but ownership remains in hands of the regional governments.

In forest concessions in the Amazon, over-regulation still exists. One clear problem is the forest authority at the regional (state) level is in charge of initial inspections at the origin (the forest) to make sure timber extracted is legal. But the authority does not have the ability to fulfill those functions properly. This deficiency impacts on the legality of the productive chain as there is no certainty about the legality of the timber at the origin.

When OSINFOR inspects wood later in the chain it does not necessarily recognize what the regional government has declared as legal (claiming mostly well founded concerns about corruption). As a result, it can generate criminal sanctions throughout the chain and could generate the closure of destination markets for all domestic producers.

It is clear that there has been, and there is, illegal timber trading, but in addition, a weak state (in this case weak local authorities at the regional level) imposes significant costs to private sector production.

The solution found at the ME is that OSINFOR will join local authorities to make inspections at the origin. This will significantly reduce uncertainty. ME private sector participants agreed that that was the ideal solution. OSINFOR refused for months given that it was not formally in its mandate but has agreed to do those early inspections following favorable opinion from SERFOR. This is a very important development that most likely would not have been possible without the ME. It is now in the process of implementation.

It is also necessary to improve management in regional offices, involving them in the certification of guides, and to clean up the process of concessions and put to tender what was never concessioned. Forest operators must also improve their productivity: Brazil extracts 20-27 m3 per hectare compared to our 4-5 m3 (and we only take commercial advantage of 30-50 percent, compared to 70-90 percent in Finland).

It is crucial to understand the obvious complementarity between plantations and forest concessions in the Amazon. Plantations are extraordinarily attractive, but if we neglect the forest, it could lead to forest fires, and replacing the Amazon with plantations. In order to avoid this, the forest must be given value, granting it to responsible operators. This is by far the best way to protect it, and to strongly support legal timber[10]. The consolidation of the legal timber industry would also allow the development of "mixed" products, such as glued boards or structured floors.

In the first year-and-a-half of operation of the Forestry *Mesa Ejecutiva*, the industry made very significant progress. One participant mentioned that more was done in the ME than what was achieved in the previous 200 years of Peru's republican history. But much more remains to be done, particularly at the regional and local government levels.

The change of government at the end of July 2016 resulted in some institutional upheaval. This included moving the ME from the Ministry of Production to the Ministry of Agriculture at the request of the private sector.

But it also brought some positive surprises. The new ME included smallholders, previously underrepresented. This was facilitated by the conformation of CONAFOR Perú, an association that encompasses 14 associations of small and medium size holders in the Amazon. The new ME also increasingly includes authorities of the six regional governments relevant to the sector. This significantly helps the process of monitoring developments in the field, using short learning cycles and making corrections when necessary.

Formalization has become an important objective of the ME especially for CONAFOR Perú. This makes eminent sense. Due to the threat of drastic charges against illegal timber, the costs of informality have increased. However, for them to be able to pay the costs of switching to the formal sector, they need to become more productive. The measures being developed at the ME (including recognizing in the law the existence of very small holders, an obvious loophole) are heading in that direction.

Investors and reforestation companies have also started a process to found, for the first time, a business association that represents their interest. By allowing the private sector to know each other better, the ME helped create that association.

The Forestry ME has become relevant in a number of dimensions crucial for development: economically, socially, politically and environmentally.

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[10] The main environmental threat to the Amazon rainforest is deforestation due to fires set up originally for agriculture and livestock breeding. It is precisely because of this activity, that there is currently a vast amount of available "reforestable" land for plantations. Those fires are not set up in areas concessioned to responsible operators.

5.2 Aquaculture[11]

Also in early 2015, the Aquaculture *Mesa Ejecutiva* was set up to identify and resolve barriers to growth in that sector. Peru's aquaculture industry has promising potential, and quite clear comparative advantages stemming from plentiful water (naturally in the sea, but also in the Amazon and Andes mountains), sunny skies, a flexible labor market and cheap energy. Aquaculture exports have grown annually by almost 25 percent, though starting from an extremely low base. Peru still lags far behind its more successful neighbors, with exports of approximately $250 million (Ecuador, with very similar underlying conditions, exports 10 times that amount).

The ME identified regulatory hurdles, bureaucratic roadblocks, and barriers to investment in research, development and innovation (R + D + i), as well as food health issues. One of the most important steps forward with respect to regulatory issues was the enactment of the Aquaculture General Law in August 2015, and its regulations, adopted in March 2016. The most important change to the rules results from having adopted an aquaculture-centered vision of the industry, rather than a fisheries approach, as reflected in the following developments:

- Unnecessary requirements were removed, such as wastewater discharge permits to be obtained from the National Water Authority.
- Research is now permitted on up to 20 percent of the concession without need for additional authorization.
- Applying for a marine reserve now requires posting a warrant bond to fight speculation in water areas good for aquaculture and help eradicate reserves that are endlessly franchised.
- An Aquaculture Register was set up in the Public Registries so aquafarmers can use their registered title as loan collateral.
- Obtaining a concession, which could previously take up to two years, now takes six months and efforts are under way to bring the waiting time down to 90 days. Moreover, the cost of franchising is now 70 percent lower.

As for management and bureaucratic obstacles, OEFA, ANA, Produce and Sanipes' duplicate procedures have been removed.

To encourage innovation, three new public aquaculture innovation and technology transfer centers -or CITEs- are planned in Piura, San Martin and Puno. Cayetano Heredia University (UPCH) already runs a private CITE in Tumbes region. A US$117 million World Bank (WB) loan has started to operate under the National Fisheries and Aquaculture Innovation Program – PNIPA, and Innovate Peru has set up a competitive funding scheme specifically focusing on aquaculture.

[11] The achievements of the Aquaculture and Logistics MEs borrow heavily from what was reported by Ministry of Production of Perú, 2016.

The National Fisheries Health Agency (Sanipes), operating since late 2014, has brought substantial changes to food health. As was the case of SERFOR in the Forestry ME, support from the Aquaculture ME has helped Sanipes to get very quickly up to speed.
Sanipes provides public services. It includes food health permits and certifications, laboratory assays, market opening, and other things that are indispensable for growing the aquaculture industry.

Sanipes is essential for obtaining sanitary agreements to open new export markets. It is called on to play a similar role to that of the National Agricultural Health Service (Senasa) for agricultural exports. Initially, it has targeted new markets, for example, it managed to open the Chinese and Brazilian markets for Peruvian frozen prawns and shrimp, and is negotiating a memorandum of understanding (MOU) for aquaculture products with the US FDA.

Additionally, some processes were simplified; for example, authorizations that previously took 45 days and were valid for one year now take 12 days and are valid for three years. Sanipes is also strengthening its infrastructure by:

- Remodeling and certifying its laboratories in Lima.
- Opening three new laboratories (Piura, Tumbes and Puno).
- Remodeling its seven existing decentralized offices.
- Opening seven new decentralized offices.
- Acquisition and implementation LC Mass-to-mass equipment.
- Implementing the TRACES system.
- Getting accreditation. In 2014, Sanipes had a single international accreditation. Today it boasts six.

5.3 Logistics

During its operations between February and July 2016, the Logistics Transversal *Mesa Ejecutiva* managed to address and unlock several logistical barriers to the development of value chains and added drive to the main engines of economic growth.

Logistic processes include all the operations needed to ensure goods are delivered, from the delivery of raw materials to product delivery to customers. Logistics involves processes as diverse as volume planning, designing goods' origin and destination networks, groupage and intermediate storage or distribution, multimodal transport, customs inspections and fees, and packaging, filling and quality control. The ultimate goal is to ensure timely product availability. Government members of the Logistics ME include officials from the ministries of Production (Produce); Transport and Communications (MTC); and Foreign Trade and Tourism (Mincetur), and also from the Public Transport Infrastructure Investments Regulator (Ositran) and APN, the National Port Authority. Industry is represented by the National Society of Industries (SNI), the Exporters Association (ADEX), the Foreign Trade Society of Peru (COMEX), the Lima Chamber of Commerce (CCL), the National Confederation

of Private Business Institutions (Confiep), the Peruvian Association of Port Operators (Asppor) and the Association for Infrastructure Advancement (AFIN).

The logistics chain, therefore, includes functions of various ministries and their agencies. The Transversal Logistics ME has helped to address coordination issues among them (and between them and industry) given the transversal nature of logistics' operations across industries and government roles.

The Logistics ME prepared a comprehensive diagnosis and identified four types of barriers: (a) inadequate port services by Callao Port's North Pier concessionaire; (b) inefficient traffic management; (c) dangerous roads, and (d) regulatory and red tape issues.

In a little over five months, the ME managed to coordinate various industry guilds to seek solutions to the problem of failure to meet contract-based service and productivity target levels (NSP is the Spanish acronym) the APM Terminals concessionaire had consistently failed to meet since 2012. The concessionaire committed to purchase the equipment needed to meet NSP indicators at an approximate cost of US$9.8 million before VAT (IGV is the tax acronym in Peru). In addition, the Port Authority prepared its draft APM Terminals Operating Regulations to clarify and improve the rules governing the port concessionaire's duties so as to meet the required NSPs. The improved regulations should fill existing voids and the lack of adequate information that result in unauthorized charges, in addition to improving key customer services including: (a) direct unloading and dispatch of clamshell solid bulk freight; (b) functions of the pre-operation and operation boards; (c) management of damaged and lost freight; (d) ship damage management, and (e) use of operational areas for loading and shipment of containers and general cargo.

As for the inefficiencies in traffic management, waiting time for inbound trucks at APM Terminals was cut from six hours to two, thanks to a pilot project prepared by a team consisting of representatives from the Ministry of Interior (MININTER), Provías, the National University of Trujillo (UNT), the National Police (PNP) and the Provincial Municipality of Callao (MPC), and led by the Port Authority.

To address various regulations and red tape problems, the Working Group called on various public agencies to coordinate efforts quickly and directly. At the request of the ME, Senasa prepared a Contingency Plan for Lima and Callao in case of a system crash of the Foreign Trade One Stop Shop (VUCE in Spanish), now live in Lima and Callao, and expected to be implemented soon throughout Peru. Before the contingency plan was in place, a VUCE system crash resulted in delayed inspections because the agency would not accept document hard copies.

The Occupational Safety and Health Law (LSST) required giving occupational safety and health induction to anyone entering warehouse premises even if already trained at another warehouse, with the resulting increase in warehousing costs. The *ME* invited the National Labor Inspection Office (Sunafil) to rule that one-year certification induction courses could be taught covering all warehouses across the country, provided they addressed all the existing risks at the participating companies. This measure saved money and time for warehouses and carriers, the warehouses' main clients.

Meetings with Sunat, the tax and customs administration, coordinated several red tape and regulatory changes within its mandate, including the publication for Working Group members' comments of the amended General Customs Law Regulations.

Sunat - Customs has drafted the "Inspection protocol for frozen, chilled, fresh, and cold chain freight" guiding inspections and actions at checkpoints for goods aimed at cold chain transport and thus requiring certain special treatment to protect them from inspection-related damage. The formerly mandatory Nautical Chart has been replaced by an affidavit, saving the three days previously needed to get a Primary Zone extension from the Callao Maritime Customs Intendent's Office.

To reduce error rates in the documentation submitted by users for final exports and correcting them, Sunat - Customs committed to do more training on the main reasons for rejection (scanning errors, bills of lading, etc.) and standardize customs officials' information requests.

To streamline carriers' port operations, Sunat has agreed to accept automated scale tickets in lieu of bills of shipment for merchandise bound for bonded customs warehouses. This procedure would eventually be extended to all cases (and not only apply to transport to a temporary storage or bonded warehouse) and would streamline filling out of bills of lading, as all processes would be automated.

Finally, work was needed to achieve a comprehensive solution to the problems of transport and road realignment in Callao and Metropolitan Lima. The Working Group was coordinating with representatives of transport associations, MTC, Provías and the Metropolitan Municipalities of Lima and Callao, and seeks to solve issues carriers face, due to the need to comply with the Weights and Measures Regulations approved by MTC. Efforts are likewise under way to take account of objections made by the Andean Community to the Regulations under the General Customs Law.

6 Lessons Learned

The experience of running *Mesas Ejecutivas* provides some useful lessons:

1. More important than having long periods of consultation and studies with the private sector is to start solving problems from the beginning. This enables "positive momentum" that encourages continuous participation which, in turn, increases the probability of solving more problems.

2. MEs need to be demand-driven. Obviously the public sector may take the initiative to create a ME, but it should not be created if there is not real demand from the private sector. A crucial ingredient of a successful ME is to have a capable and committed group of private sector participants; their continuous participation can be used as a metric of success when it is still too soon to show tangible results. The existence of private sector champions will help in gaining overall public attention for the sector. Beyond their commitment, the private sector participants in the ME need to be able to understand and articulate the main problems of the sector/factor.

3. There should be eventually no limit to the number of MEs but, instead of a big bang approach where many MEs are launched at the same time, it is preferable to start with just a few, probably a combination of those that can "hit the ground running" and/or those with biggest overall potential. Over time, as the public sector bandwidth expands, then increase the number of MEs.

4.The key differentiating factor between the MEs that can "hit the ground running" and those that cannot appears to be how proactive and well organized the private sector is participating in the ME and how feasible it is to remove the bottlenecks limiting the sector's productivity. Experience shows that a ME success requires perseverance and the ability to show results and get things done.

5. Experience shows that because the private sector is so interested in the success of the ME, and because misleading information can eventually be detected, private sector participants provide truthful information (or that at least they believe it is correct) to the public sector during ME sessions and inter-sessional meetings.

6. Even well-meaning ground level public sector officials will be naturally reluctant to the installation of MEs. They will see them, at best, as interfering with their regular day-to-day work and, at worst, as an indication of their own poor performance. But over time they will realize that the learning process that MEs encourage will help them become better at what they do. It is important to ensure that they "own" the achievements of the ME. The MEs require solving coordination problems within the public sector; this is difficult to achieve. Beyond other incentives (or punishments) to secure cooperation, public sector participants should not feel overshadowed by the team that coordinates the ME. This coordinating team needs to be an honest broker between private and public stakeholders.

7. MEs require relatively frequent sessions. Experience shows that weekly or biweekly sessions are ideal to keep constant pressure on everyone to deliver. Private sector participants very happily attend frequent sessions as long as the ME achieves results.

8. As important as the regular sessions are the work inter-sessions, which are bilateral or multilateral. Progress made in these meetings is reported in the regular sessions. It is difficult to believe that MEs would be as effective if it were not for the inter-sessions meetings.

9. There has to be a day-to-day team dedicated to securing progress between sessions. Sometimes, the dedicated team needs to coordinate the implementation of solutions found in the regular sessions. But more often than not they will need to find solutions during inter-sessional meetings. The fact that there is a dedicated team to make sure there is continuous progress could well be the single most important determinant of success of MEs as a technology.

10. The focus on productivity of MEs is a useful disciplinary device. The private sector, when asked for the solution to their problems, will automatically prefer a subsidy or a tax exemption over the more "time-consuming" solutions aimed at increasing productivity. This makes sense for the private sector to ask, but it does not necessarily make sense for the ME to focus on that. For a subsidy one does not need a ME. The objective should be to increase productivity, not to compensate low productivity with a subsidy.

11. Transparency is an intrinsic part of a ME by virtue of the way it is constructed. Transparency is crucial due to the traditional mistrust that exists in society regarding public-private dialogue. It will reduce the risk of capture (because of manipulation of private information or outright corruption).

12. MEs must receive support from the very top of the government. Otherwise, they will sooner or later hit a wall. However, it is not an absolute necessity to have them depending on the President or Prime Minister, which is the standard solution. Indeed, one remarkable feature of MEs is that they were not part of a fully designed top down government program. The MEs in Peru started to operate first and, over time, support from the very top came through.

13. In policymaking there is a tendency to build institutions for delivering. It is only a slight exaggeration to say that MEs work the other way round. They start delivering using a relatively simple institutional set up and capabilities already present at the Ministry of Production, and the positive momentum generated by delivering helped "within-government-institutionalization" of MEs as a tool. More so than writing it into law, continuous commitment from the private sector is likely to be the best guarantee that the ME will survive the necessary political cycles. It also strengthens public sector institutions that learn how to do their job better.

14. MEs not only strengthen public sector institutions, but also help the private sector to self-organize better, and to move from generic claims or requests into more down-to-earth realistic ones.

15. Even though MEs were originally designed as a PDP tool, its methodology encouraging public-private collaboration and the use of short learning cycles to make adjustments can be utilized for a variety of problems involving public sector management.

7 MEs operational checklist

This chapter is a generic checklist with initial questions to start a public-private dialogue process using the ME methodology, and a summary of the general and operational tips for those who may wish to implement MEs. It is very difficult to have all the conditions fulfilled from the outset, but certainly some minimum requirements are necessary. Over time it will be necessary to build all of these conditions and adapt to the local conditions and stage of development of the country.

A. Initial Questions

1. "The Convener"

- Is there a convener high up in government willing to move forward with a ME?
- Is the convener capable of inducing cooperation?
- Is the convener capable of resolving disputes?
- Is the convener capable of enacting regulation?
- Is the convener capable of allocating budget?

Alternatively, the convener could have very solid access to someone who can do all of the above.

2. Public Sector

- Is there a public sector bureaucracy in charge of the sector/factor subject of the ME?
- Is the public sector willing to participate?
- Are they capable of delivering?

3. Dedicated Coordinating Team

- Do they have knowledge of public sector management?
- Do they have negotiating skills?
- Are they capable of delivering (problem solving)?

4. Sector of factor subject of the ME

- Is the sector well defined and macro-economically relevant?
- Is the ME tool ideal to identify/remove barriers affecting productivity of the sector?

5. Private sector stakeholders

- Are they self-organized?
- Are there visible private sector leaders?
- Are they willing to commit time?
- Are they capable of articulating their problems?
- Are they open to pragmatic problem solving?

B. General tips (chapter 6)

1. Get things done
2. Be demand-driven
3. No limit to number of MEs but start slowly
4. Not all MEs are equal
5. Private sector has incentives to be truthful (if subsidies excluded from discussion)
6. Public sector initially reluctant but will get ownership
7. High frequency of meetings
8. Importance of inter-sessions
9. Dedicated teams
10. Focus on productivity
11. Transparency
12. High level support
13. Bottom-up "institutionalization"
14. Private sector organization
15. MEs useful beyond PDPs

C. Operational Tips (Section 4.5)

1. Define the sector/factor candidate for ME
2. Assess the feasibility of the ME
3. Launch the ME
4. Identify the main problems and solutions
5. Prioritize problems and start solving 3-4
6. Polish the initial list of problems and solutions
7. Solve other problems

8 Conclusion

In this paper, we have taken the view, as Rodrick (2004) did more than a decade ago, that new industrial policies or PDPs are about enticing public-private collaboration to

allow economic self-discovery. That discovery process is no longer the sole realm of governments, as structuralist economists would argue. Recent academic literature and research have highlighted the role played by business actors in policy debate and design.

Structured public-private dialogue mechanisms have shown the benefits of private actors' involvement in policymaking to help improve PDPs. This eliciting process by which public and private actors enter into strategic collaboration, brings forth information about market constraints that help create better policies to address them.

While we acknowledge that many different PPD policy tools exist, we decided to present the very practical and results-oriented case of the *Mesas Ejecutivas* in Peru to emphasize the impact that well-structured public-private collaborative instruments can have on productive policies.

The checklist offered at the end of the paper is meant to help and inspire practitioners as they design their own tool to improve PDPs, while adapting the lessons and general principles to the realities of their operational environment.

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