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Empirical Evidence from Mexico

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Institutions for Development Sector

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Abstract[*]

In recent years, there has been renewed interest in the use of industrial polices. The need for modern industrial policies has been increasingly acknowledged in the literature and by the praxis of developed and developing countries, including much of Latin America. Whether a country should have an industrial policy is no longer in question; rather, the issue is how to do it right. Nevertheless, research is still incipient on the experience with the specific institutional arrangements and governance structure required for effective modern industrial policy and the form that such institutions should take. This is especially true in large countries with developed subnational governance structures. One institutional mechanism considered vital to effective modern industrial policy is the modality of public–private dialogue and problem solving that supports a search for obstacles and solutions to agreed development objectives. This paper addresses industrial policy in general, but especially at the subnational level, with new empirical evidence from a large federal state—Mexico. It presents a detailed analysis of the governance of 32 newly created public–private State Productivity Commissions (Comisiones Estatales de Productividad, or CEPs). The analysis also is informed by new research on the longer experience of subnational public–private councils in Colombia's national system of competitiveness and innovation.

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1. Introduction

Despite the opening of the Mexican economy after it joined the GATT in 1986 and NAFTA in 1994 and a privileged geographic position vis-à-vis major world markets, Mexico has been an economic underperformer. Between 1981 and 2012, the economy grew by just over 2 percent per annum (2.7 percent since 1990) and per capita income by only 0.6 percent annually (McKinsey Global Institute, 2014). By any standard, this is poor performance, especially given Mexico's many growth-enhancing structural reforms since the region's debt crisis in the early 1980s. More recently, economic growth has hovered between 2 and 2.5 percent (ECLAC, 2015), and the IMF has projected 2.1 percent growth for 2016 (IMF, 2016).

There are many reasons for this poor performance, some of which are widely cited in the literature. One frequently mentioned reason is that despite an impressive expansion and diversification of exports, in large part due to implementation of NAFTA, imported content is high; thus, value added is low, and there are insufficient linkages to the domestic economy (Beteta, 2014; Blyde, 2014; ECLAC, 2008). Another factor that has been gaining increasing attention is low productivity. According to the McKinsey Global Institute (2014), between 1990 and 2012, labor productivity grew by an average of only 0.8 percent per annum. Estimates of total factor productivity (TFP) vary, but Guillén Martín (undated) of Mexico's National Institute of Statistics and Geography estimated that average annual TFP growth was –0.39 percent between 1990 and 2011. Meanwhile, relative TFP levels at purchasing power parities have been stuck at about 40 percent below those of the United States, which contrasts sharply with the relative levels achieved prior to 1980 (Figure 1). This decline in productivity is responsible for the expanding gap between Mexico's per capita gross domestic product (GDP) and that of the United States. Mexico is not alone; productivity growth in Latin America has been generally meager since the 1980s (Crespi, Fernández-Arias, and Stein, 2014; ECLAC, 2012; IDB, 2013; Pagés-Serra, 2010).

Notwithstanding an exogenous boost in the growth of some Latin American countries during the 2003–08 commodities boom, uninspiring economic growth has been a general characteristic of the region since the 1980s. Many countries began to address this problem in the 2000s by focusing on their lack of "international competitiveness" and the policy measures needed to improve it. However, competitiveness is an imprecise concept, as reflected in the myriad indicators used to calculate it; for example, the widely consulted World Economic Forum's Global Competitiveness Index has no less than 115 indicators (WEF, 2015).[1] Mexico's current administration recognized the amorphous nature of the concept and decided to focus on

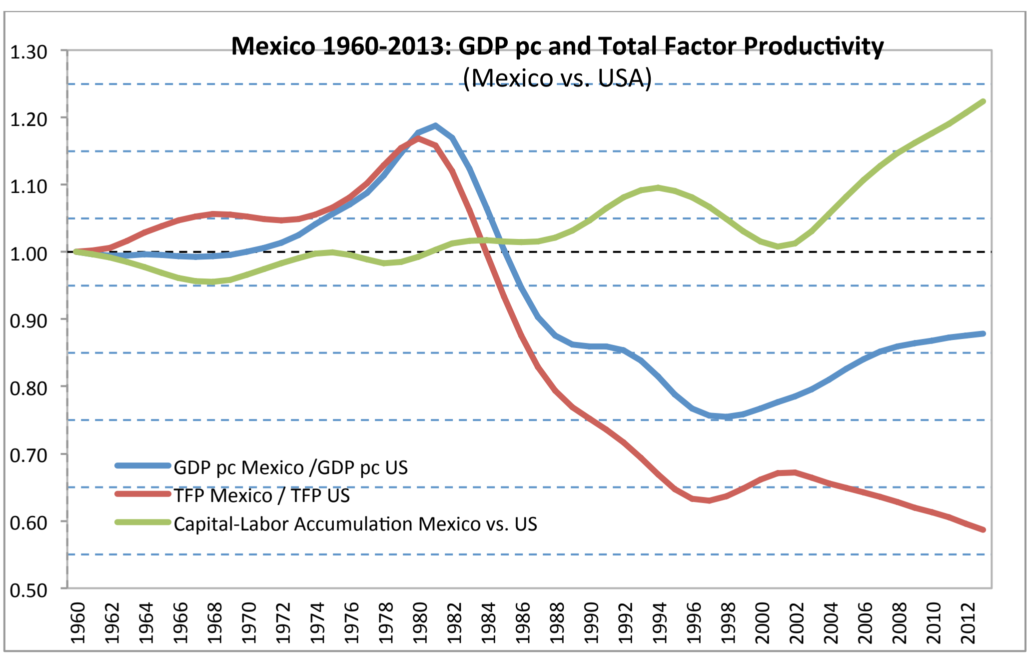
[1] For discussions of the conceptual weakness of the WEF rankings, see Devlin (2013a) and Lall (2001).

the core determinant of so-called competitiveness, that is, productivity. Productivity is a narrow quantitative measure that targets a precise goal, yet has broad implications for competing in markets; moreover, it serves as a unifying concept that focuses the mind when searching for, and prioritizing, the binding obstacles to achieving more robust market outcomes.

In addition, Mexico integrated the concept of productivity with the idea of its "democratization" so that the benefits would be spread more evenly and thus reduce the severe income and regional disparities in the economy (Stezano and Padilla, 2013). Official statistics show that 20 percent of the population lives below minimum levels of welfare, US$4 per day in urban areas and US$2.9 per day in rural areas. In another broad official indicator of social privation, 60–70 percent of the population in states such as Chiapas, Oaxaca, and Guerrero live in poverty compared to the national average of 46 percent and rates of 20–30 percent in the most economically advanced states.

It is against this backdrop that the government launched a number of initiatives. First, in November 2012, the National Congress approved a reform of the Federal Labor Law. The reform's Articles 153K and 153Q promulgated the creation of a National Productivity Committee (Comité Nacional de Productividad, or CNP) along with homologous State Productivity Commissions (Comisiones Estatales de Productividad, or CEPs) in 31 states and the Federal District of Mexico. The CNP and the CEPs would have formal stakeholder representation from the public sector, business, labor, and academia.

Figure 1: GDP per capita and Total Factor Productivity in Mexico, 1960–2013



Source: IDB (2016).

Meanwhile, in August 2013, the government launched by decree the Program to Democratize Productivity (Programa para Democratizar la Productividad) 2013–2018, which contained an assessment, a strategy, and actions for productivity growth in Mexico that will be achieved with an equitable distribution of benefits (Government of México, 2013). This was followed in May 2015 by the Law on Stimulating Sustained Growth of Productivity and Competitiveness in the National Economy (Ley para Impulsar el Incremento Sostenido de la Productividad y la Competitividad de la Economía Nacional) and Article 21bis in the Law on Planning (Ley de Planeación) (Secretariat of Finance and Public Credit and Secretariat of the Economy, 2015).

The latter established that the national policy on promotion of economic growth would include a Special Program for Productivity and Competitiveness under the authority of the Ministry of Finance, which "will be mandatory by dependencies and entities [of the federal government] in their respective competencies." The law also expanded the duties of the CNP to include coordination and agreements with the CEPs with respect to the design, execution, and evaluation of policies, programs, rules of operation for projects, and regulations needed to support productivity in sectors or regions. Article 21bis established that the six-year National Development Plans, and the projects derived from it, will have a long-term vision of up to 20 years and be consistent with the Law on Stimulating Sustained Growth of Productivity and Competitiveness in the National Economy. Multilateral organizations, notably the IDB and the World Bank, supported these efforts with technical assistance.

The need for modern industrial policies is largely acknowledged in the literature and in policy practice (Chang 2009; Esteban, Stiglitz, and Lin, 2013; Hausmann, Rodrik, and Sabel, 2008; Lall, 2004; Rodrik, 2000). Likewise, the need to include the private sector in this process and develop smart forms of collaboration with the government sector (e.g., Hausmann and Rodrik, 2003; Rodrik, Subramanian, and Trebbi, 2004) has been established. However, less is known about the specific institutions required for modern industrial policy, their organization, and their internal governance. Exceptions are the recent work undertaken by one of the authors of this paper (Devlin, 2013b and 2016; Devlin and Moguillanski, 2011 and 2013; see also Fernandez Arias et al., 2016; Ross-Schneider, 2016; Sabel and Zeitlin, 2011; World Bank, 2006).

One area that has often been neglected is the analysis of the institutional dimension at the subnational level: what form and governance structure should development institutions take, and how should they be related to and interact with national (federal) institutions? This is less clear, and very little systematic empirical evidence is available.[2]

This paper attempts to address this issue, so relevant for the success of modern industrial policies in countries with a formal national-subnational dialogue framework. We study the detailed public–private institutional mechanisms and set-up required to put in motion a social process aimed at enhancing productivity and growth at the subnational level. This is done with specific reference to the case of subnational institutions aimed at promoting competitiveness and productivity in specific regions and states using novel empirical evidence gathered in Mexico.

This evidence was derived from two questionnaires on the institutional governance of the newly created CEPs, sent to the presidents or secretaries and the appointed representatives in the public and nongovernmental sectors, respectively (Devlin and Cabezas, 2015a and b). The questionnaires focused on key governance issues and perceptions of the participants about the key factors for productivity enhancement in their states. The questionnaires were distributed in 2014, and the responses were delivered by February 2015. In addition, we draw on two detailed case studies carried out on the CEPs of Jalisco and Chiapas (Devlin 2015a and b) and a policy-relevant auxiliary input to the Mexican research (Gomez and Mitchel, 2016) on Colombia's National Competitiveness System, which incorporates public–private councils of the central government and subnational departments.

The structure of the paper is as follows: Sections 2 and 3 review international experience on public–private policy councils and their governance. Section 4 focuses on Latin America, and Section 5 describes the experience and lessons of Colombia with subnational councils. Section 6 presents the new evidence on Mexico's CEPs, their governance and the preliminary results obtained. Section 7 explores the detailed cases of the states of Jalisco and Chiapas, and Section 8 summarizes and concludes.

2. International Experience of Public–Private Policy Councils and their Governance

Modern industrial policies, sometimes called productive development policies (PDP) (Crespi, Fernández-Arias, and Stein, 2014), are geared toward identifying and relieving binding constraints on rising productivity, structural transformation, and sustained high rates of economic growth needed for catch-up with rich countries. The aim is to promote enhanced productivity and competitiveness of existing industries, as well as—directly and indirectly—new domestic commercial and technological capabilities of a higher order to attain economic

[2] For a recent exception in Latin America, see Gomez and Mitchell (2016).

diversification and upgrading at a pace and a quality beyond what the autonomous play of market forces would be expected to provide. PDPs have also been deployed for “orderly deaths” of sunset industries. When applied pragmatically to align dynamically with markets, PDPs are seen as enablers rather than substitutes for market forces. Thus, PDPs have historically been a key success variable in the structural transformation and productivity growth that underpin processes of economic catch-up with developed countries.

The contemporary literature on industrial policy has, inter alia, emphasized the importance of public–private strategic economic policy alliances (or councils) as a tool for the formulation and implementation of industrial policies. These alliances represent a social dialogue and search process, from which can emerge more knowledge and agreements among market players for the formulation of PDPs than if the government were to “pick” policies and related incentives on its own. They can also be an agent of consensus building and continuity of PDP strategies across political cycles.

In terms of strategies for economic transformation and development, these public–private councils can function at various levels and timeframes. One level is public–private dialogue that supports relatively broad national strategic objectives for economic transformation and development of the economy as a whole. This is the role of Mexico’s CNP. Others can support mid-level strategies for specific sectors or national thematic objectives, such as innovation. These types of alliances also can be mirrored in lower-level councils at the regional, state, or even municipal levels. Mexico’s CEPs are organized at the state level, although some have municipal participation. The different levels of public–private dialogue, moreover, should have open channels of communication with each other to promote coordination and synergies reflective of a national project. In principle, national-state coordination is the role of the CNP. Until mid-2015, that coordinating role was only incipient and there was little or no communication between CEPs for specific cross-state regional issues. The time horizons of councils can be short, medium, or long, or some combination thereof.

Public–private policy councils can be analyzed from the angles of (i) process/governance and (ii) impact. A complete picture requires analysis of both dimensions. We focused only on process/governance, since the CEPs were new. The challenges to fully exploiting the opportunities of economic catch-up are many and varied. Developing medium- to long-term strategies coherently across political cycles to directly and effectively tackle obstacles at the macro, meso, and micro levels is the challenge of PDPs. That is why Mexico’s aforementioned new Article 21bis of the Law on Planning is welcome and unique in Latin America, where strategies often lose continuity between governments.

During the interwar period and the early decades after World War II, mixed capitalist developing economies were characterized by a State with a strong presence in markets. Some States were successful in catch-up, and others, such as the countries of Latin America, were less so. Hence, the governance of the market was quite hierarchical: political systems and state bureaucracies dominated, exercising this authority through state enterprises and/or formal and informal directives to the private sector of varying degrees of intensity.

Today's world is a different place for economies aiming to catch up. Globalization has set economies on a path of expansion after shedding the effects of the Great Depression and war. Liberalization of national and international markets has been pervasive, and privatization has pushed back direct state participation in productive activities. The private sector is now the undisputed engine of growth. Technological change, innovation, and global competition are increasing exponentially. Globalization is creating centripetal forces of world integration. Policy space for state action is circumscribed by the rules of the World Trade Organization (WTO), which have many gray areas. Hence, today more than ever, "all views are partial" in assessing market developments.

Governments must formulate development strategies to navigate a complex global economy and identify primary binding constraints on productivity and growth at home. They must also design and deploy micro-level public instruments and programs that incentivize private sector experimentation, learning, and capability building needed for structural transformation and upgrading in areas where markets and their actors may not be efficiently functioning for that purpose. Not only must governments ensure that there are no gaps in programs designed to supplant binding constraints; they must also design those programs in ways that are functional to the contextual needs of firms and the country's heterogeneous technological domains and production structure. All of this points to an information problem for a government's effective formulation and implementation of industrial policies and associated market interventions.

In a globalizing world economy, firms have much contextual information about markets, opportunities, and the binding constraints they face, including government failures. Governments do not necessarily have better market information, but they can have advantages in terms of assessing aggregate phenomena and proposing strategic directions and objectives, facilitating coordination of investments, providing public goods to help firms overcome constraints and, of course, overseeing public welfare.

Ultimately, governments must choose among different policy options that enable the private sector to take advantage of market opportunities. Thus, the idea is that by working together in a socially constructive way to resolve problems, an alliance of government and business can contribute to the development of more intelligent strategies and more effective public programs to enable market-based productive transformations than if each addresses challenges individually (and possibly in a context of mutual distrust). In other words, the whole can become more than the sum of its parts in a joint governance of the market.

The essence of modern industrial policies is not the policy outcome per se, but rather finding a viable social process and an associated institutional framework that permit fruitful voluntary collaboration between government and business to generate a policy outcome without the public sector being captured by special interests or vice versa.

Other social actors may potentially contribute valuable insights and information depending on the issue(s) in question. Due to this and to potential veto points in the aforementioned social process, councils typically incorporate other actors, especially labor and academia. In modern democracies, nongovernmental organizations (NGOs) have also become powerful players, both as advocates and as a potential veto point for new policy. As mentioned earlier, Mexico's CNP and CEPs have representatives not only from the business community but also from labor and academia.

Public–private policy councils originated in Europe in the interwar period to ameliorate tensions between government, business, and labor. This was classic corporatism, sometimes with nasty overtones of authoritarianism and the granting of monopolies to bodies for representation to the exclusion of others. This was followed, in the post-war period, by neo- or democratic corporatism that promoted a notion of partnership, aiming to insert group interests into a broader notion of public interest and compromise. Second, democratic corporatist structures relied on centrally organized and concentrated group representation of business and labor via formal "peak" associations. The third characteristic was continuous bargaining and coordination of divergent group interests. A fourth characteristic was the support of technical experts that provided credible analysis and data to ground debate in a more rational, fact-based discourse.

These characteristics still partly characterize many of today's modern councils. However, depending on the country and the objectives, they can be less concentrated in terms of participation, less based on formal social representation, and less exclusively oriented to bargaining. Moreover, many countries give more attention to methods that attempt to minimize risks of state capture by special interests. In Mexico, representation in the CEPs is generally composed of formal stakeholders' associations. Preliminary information suggests that in most

CEPs technical support is only incipient at best. As for safeguarding against risks of capture, CEPs do not seem to have mechanisms in place to protect against this possibility.

Today's modern strategic public–private policy councils may have as their aim the simple transmission of information or points of view to governments for policy development, through an advisory model in which the government has no obligation to accept the advice. Another primary role of councils may be the horizontal coordination of main actors regarding agreements on policy and implementation. At a still higher level are councils that formally or tacitly constitute a social partnership or co-programing modality for policies and programs, with rights and obligations for the participants. We will see that the aim of most Mexican CEPs is to advise and coordinate the main actors.

3. The Governance of Public–Private Councils

Several characteristics of good governance should be highlighted at the outset. First, intangible and tangible dimensions of governance are equally important; they must work in tandem for success, as weakness in one will negate good practice in the other. Second, effective governance involves many tradeoffs between which a delicate balance must be struck. Third, while councils must necessarily be *sui generis* in their governance given different cultural, historical, political, and economic settings, international experiences imply certain principles. Indeed, the principles discussed here and some others will inform the evaluation of the CEPs presented in subsequent sections of this paper. Fourth, governance's central objectives are the presence of public leadership/commitment at the highest relevant level, frank, policy-relevant, problem-solving dialogue and exchange of information underpinned by provision of quality technical support,[3] coordination among agents, mobilization of resources for agreed objectives, monitoring and evaluation, and avoidance of rent seeking. Fifth, behind these central objectives are many governance details involving the structure and process of a council, any one or combination of which can be a determinant of effectiveness. Finally, public–private councils are complex human endeavors involving interaction of multiple actors in fluid democratic political and economic settings. Not surprisingly, even in highly developed democracies, councils are far from perfect in their governance and outcomes. The best public–private strategic policy councils are by nature a product of trial and error, where governance practices must continuously evolve and be refined according to formal evaluations of the council's goals and its impact on these objectives.

[3] For some principles of effective dialogue, see Karlsen and Larrea (2015).

Among the most important factors is political leadership and government commitment. An alliance council will work effectively only if the government is politically committed to making it work, and if that commitment is reflected in the resources committed to implement the agreed objectives (Schneider, 2015). A typical problem that can occur is that the government's launch of a council is merely political window dressing disconnected from day-to-day policy and program implementation, or that the initially sincere leadership behind a council wanes in the course of its term. Another problem that arises is that there may not be a ministerial champion on the council with the political power and prestige to ensure that agreements are implemented by the relevant offices of the executive branch. Political leadership can also dissipate between a country's political cycles because the new government simply views the alliance as a creature of the last administration. For a policy council to survive as an effective tool throughout the political cycle, *its raison d'être* must be shared across the political spectrum. That will be more likely if it does not appear to be a narrow political tool of the incumbent government. In summary, councils must be councils of state and not a council of government. This is a challenge that Mexico will face when the administration changes in the next six-year term.

Clarity of purpose is an important intangible. When an alliance council is set up, the government must be clear about what it wants to achieve, effectively communicate the objective to participants so that they and the public at large internalize it, and construct a governance structure that is aligned with that purpose. Goals should be relevant to the participants and society, realistic and achievable in principle, and mostly measureable in terms of impact to ensure accountability.

A government must also be clear about the degree to which it wants the alliance council to be a primary channel of communication for stakeholders rather than more traditional bilateral consultations and lobbying by social groups and firms. If the government is not clear about that, then the public bureaucracy could become so porous as to erode the legitimacy of the council as a relevant forum of interface with government officials. The aforementioned balancing of many tradeoffs is another intangible. For instance, having a large number of council members maximizes potential information gathering and wards off rent seeking, but also could inhibit problem-solving dialogue. A very restricted council membership would be conducive to frank dialogue, but restricts information flow, could undermine political legitimacy and raises the risk rent seeking. There are no strict formulas for managing tradeoffs but a balance must be struck through good judgment aligned with the particular context.

Culture is another intangible that influences the nature of governance. Some aspects of good governance can reflect cultural habits. For instance, in a country that has a culture of honesty and transparency and/or everybody knows everybody, as appears to be the case in Scandinavia, formal codes of conduct and financial disclosure may not be necessary for the good governance of the council. Other countries have a culture of strong distrust between social groups; in such countries, governance should include instruments that would not be necessary in a country with strong social cohesion. Mexico would seem to be in the latter category.

Context will influence the nature of good governance as well. For instance, addressing principally long-term challenges or time-bound ones and the emergence of economic crises or major political or economic transitions will have implications for the effective configuration of the governance of a council.

The tangible aspects of good governance are related to concrete institutional characteristics. Useful outcomes of a public–private policy council will be strongly linked to the institutional design, which involves deciding what the primary mandates will be, who should participate in light of these mandates, the structure and processes of the council, the types of discourse that will be encouraged, and others. Getting the right institutional design should be considered a process of discovery involving trial and error in an idiosyncratic environment. Hence, local adaptations and redesigns are part of the good governance equation. There are many details related to tangible governance. In the case of Mexico's CEPs, they were grouped under topics such as mechanisms of coordination with other existing public–private councils with mandates that overlap or compliment the CEP; the relevance of the CEPs' work agenda vis-à-vis productivity and the available budget to support it; the number, level and relevance of public and private sector representation; the role of alternates; the existence and effectiveness of formal rules for procedures and overall operation of the council; the organization of subcommittees; the organization and budget of the Secretariat and its functions for process and technical support; mechanisms of public outreach; evaluation of the council; and coordination with the CNP.

4. Public–Private Policy Councils in Latin America[4]

Latin America was a practitioner of PDPs during most of the 20th century. However, the debt crisis of the 1980s and the era of the Washington Consensus witnessed a wholesale retreat from state industrial promotion and PDP. PDPs reemerged in the 2000s in response to the relatively poor growth of the previous 20 years and a perception that international competitiveness was lower than it should be in an increasingly competitive world. The old top-down PDPs were largely abandoned for the more modern precepts that had been emerging in

[4] This section draws from Devlin (2016).

the economic literature and gaining currency in the minds of policy makers and the public. At the heart of this modern PDP was the aforementioned collaborative search for information and joint problem solving embodied in public–private policy councils. Today most countries of the region have national public–private policy councils to support competitiveness, innovation, and productivity. They are often complemented by sectoral and regional councils (see Table 1 for some examples).

Table 1. Recent Selected Public–Private Policy Councils in Latin America

Field/ country	Alliance	Type of alliance	Structure
Brazil			
National	Economic and Social Development Council (CDES) Advisory body to the president on state reform and on medium/long-term issues	Formal, structured	Representatives of workers, businesses, social movements, and the government organized in thematic groups. More than 100 council members chosen by the president
	National Industrial Development Council (CNDI). Supervises industrial development polices	Formal, structured	23 ministries, 14 representatives of industry and the president of BNDES
Sectoral	Sectoral and state-level councils and forums for public–private alliance dialogue on the implementation of the productive development program (PDP)	Formal ad hoc But were in the process of being structured	Sectoral and thematic business associations and representatives of sectoral and thematic public agencies.
Chile			
Sectoral	Productive Development Forum – Council for Productive Development (1994–99)	Formal, structured	Tripartite partnership: government-unions-business 24 council members chaired by the Minister of Economy
National	Various alliance forums set up at different times on different issues	Formal ad hoc	
	National Innovation Council for Competitiveness (CNIC) Defines the innovation strategy and advises the Presidency on innovation policies.	Formal, structured	25 representatives from government, business, academia, and NGOs
	National Productivity Commission Provides independent advice to the president on pro-productivity policies	Formal, Structured	10 representatives from government and academia
Colombia			
National	National Planning Council Consensus building on the National Development Plan	Formal, structured	Composed of representatives of civil society groups
National	National Competitiveness Commission	Formal, structured	Chaired by the president with the participation of business, academia and unions, public agencies, private organizations. System includes sister

	Development and oversight of the strategy for productivity and competitiveness		department-level competitiveness commissions
Costa Rica			
National	Presidential Council for Competitiveness and Innovation	Formal, structured	Four representatives from government and three from the private sector
Dominican Republic			
	National Competitiveness Council	Formal, structured	President, Ministry of Economy, Planning and Development, eight representatives from ministries or sectoral associations and eight from the private sector
El Salvador			
National	Economic and Social Council	Formal, structured	24 business associations, 24 representatives of social groups, five government representatives
Ecuador			
National Sectoral	The National Council of Production with its Consultative Council Sectoral Councils	Formal, structured Formal, structured	Business associations that comment on government plans. 14 tripartite councils to identify and overcome productive constraints and negotiate wage pacts
Mexico			
National	Consultations by the Presidency National Productivity Commission	Formal, ad hoc Formal, structured	Private sector participation through consultations and negotiations with business associations, unions, and other members of civil society. Government, business, labor and academic representatives (five from each sector) with sister councils in 31 states and the Federal District
Panama			
National	National Concertation for Development Preparation of national development strategy National Competitiveness Center	Formal, structured Formal, Structured	Council with 58 representatives of business, unions, the Church, social sectors, indigenous groups political parties and the government at the central and local levels. Government and business representatives that also supports an annual dialogue forum with government and civil society.
Peru			
National	National Accord	Formal, Structured	More than 40 members made up of political parties, business, labor, farmers, universities, churches, regional representatives, government ministers and chaired by the president of the Council of Ministers
	National Competitiveness Council	Formal, Structured	President of the Council of Ministers, ministers of state, representatives of business, labor and INDECOPI (NGO that oversees competition issues)
Uruguay			
National	Sectorial Tripartite Councils	Formal, Structured	Sectoral ministries, sectoral business associations, labor of the sector and sometimes a representative of the innovation agency ANNI.

Source: Update of Devlin and Moguillansky (2013).

While these policy councils are a positive step forward in cementing an institutional structure to support modern PDP, they often suffer from governance flaws that handicap their effectiveness. Box 1 catalogues some of the types of governance shortcomings that can be found in an examination of the councils in the region.

Box 1. Illustration of Some Limitations of Governance Found in Latin American Councils

Government Level-Related

- The highest level relevant public authorities do not preside over national and regional councils (de jure or de facto).
- Agenda launch is not guided by prior baseline assessments and mapping of major economic and political obstacles to productive transformation and their origins, nor the capability of public and private sectors to overcome them.
- Agenda driven by constituent demands, creating so many priorities in the council that there are no real priorities.
- The government launches or maintains the agenda as window dressing for short-term political gain rather than as a council of state.
- Launch agenda is kept unambitious so that government can do what it had already planned to do.
- Launch agenda for productive transformation does not include “low hanging fruit” that can be successfully harvested in the short term to provide stakeholders with an immediate sense of the council’s relevance to them.
- Agendas dominated by a narrow mechanical focus on increasing rankings in global indices of competitiveness or innovation, which do not always accurately highlight the true binding constraints on a country’s productivity and competitiveness.
- Government (executive or congress) considers the council to be a threat to its authority.
- Turf rivalries among government ministries.
- No ministerial “champion” with the political power to ensure that ministries keep their commitments.
- The ministry of finance is not fully engaged, and council recommendations are delinked from the budget and implementation.
- Vision, goals, and objectives are not communicated well, understood by stakeholders in the council, and internalized in the individual and the public consciousness.
- Government representatives agree to actions without assessing their technical or budgetary requirements.
- Inadequate coordination and follow-up mechanisms within government and between public–private councils with complementary or overlapping mandates.
- A newly elected government ignores the inherited council or its previous work and strategy (the all-too-typical “refounding syndrome” in the region).
- Government appoints only “friends” to the council.

Private Sector Level-Related

- Formal stakeholder representation (associations/unions) is technically weak and bureaucratic.
- Formal stakeholder representation is based on old-style corporatism and beholden to existing government finance and regulation, which disables frank dialogue.
- Underuse of nomination of representation on council in a personal capacity, which broadens the scope for frank debate and compromise.
- The private sector is hostile to the government.
- Business-academic tensions or indifference to each other.
- Politicization.
- Important hosted MNCs at the margin of the dialogue.
- Priority given to bilateral lobbying of government over joint problem solving/solutions.

Other

- Appointment criteria are neither clear nor transparent.
- Plenary has too many members to allow for effective dialogue.
- Council meetings are held too infrequently.
- Incomplete development of rules of process and dialogue, including use of alternates, time limits on presentations/comments, codes of conduct, and formation of working groups.
- Incompetent chairs preside over meetings.
- Consensus rules lead to the least common denominator.
- Weak counterpart councils in regions or departments.
- Inadequate safeguards for rent-seeking

- Weak Secretariat
  - Inadequate administrative and technical capabilities
  - No dedicated funding source
  - Lack of neutrality
  - Inadequate access to information and communication technologies
  - Little or no effective tools of public outreach
  - No mechanisms for monitoring and evaluating council and Secretariat's work and performance
    -No mechanisms to evaluate the impact of policies derived from council recommendations

5. The Colombian Experience with Insights for Mexico

One of the countries in Latin America with the longest experience in public–private policy councils and coordination of a national-regional institutional matrix is Colombia (Gomez and Mitchell, 2016). The experience dates back to 1994, when a Consejo Nacional de Competitividad (National Competitiveness Council) was launched with representatives from government, business, labor, and academia. Its mandate was to advise the President of the Republic on the development of a long-term strategy for international competitiveness. In 1998, a new government abandoned the Council and created in its place a public–private Commission on Foreign Trade (Comission Mixta de Comercio Exterior) that developed an Export Strategy Plan 1999–2009 and a National Policy for Productivity and Competitiveness (Política Nacional de Productividad y Competitividad). The latter was informed by Regional Foreign Trade Advisory Committees (Asesores Regionales de Comercio Exterior) in each of the 32 administrative departments of the country. The results of the initiatives were, however, limited (Gomez and Mitchell, 2016)

Encouraged by the challenge of a new free trade area with the United States, in 2006, the administration launched the National Administrative Competitiveness System (Sistema Administrativo Nacional de Competitividad), overseen by a National Competitiveness Commission (Comisión Nacional de Competitividad) and later renamed the National Competitiveness and Innovation Commission (Comisión Nacional de Competitividad e Innovación, CNCI). The System also created sister Regional Competitiveness Commissions (Comisiones Regionales de Competitividad, CRC) in the 32 administrative departments of Colombia. This structure of the Colombian competitiveness system makes it an interesting case to study for possible insights for Mexico and other countries in Latin America.

The CNCI has gone through adjustments in its composition; by 2012, it had 26 representatives of the government (including state agencies), four from the CRCs (which rotate), four from private sector associations, two from labor unions, two from academia, and three individuals named by the President of the Republic. The Commission's ordinary meetings are held twice a year, presided by the country's president.

To provide support to the Commission, there is an Executive Committee made up of five government representatives and two private sector associations and supported by a Technical Committee. One member of the CNIC, a politically powerful presidential advisory council (Alta Consejería Presidencial para la Competitividad), coordinates the Commission and the technical support to ensure that the public sector entities follow through on commitments. In other words, it plays the role of "ministerial champion" mentioned earlier. Meanwhile, the Ministry of Industry, Commerce and Tourism (MinCIT), a member of the CNIC Executive Committee, is responsible, with the support of the Alta Consejería Presidencial, for coordinating the Commission with the CRCs, including appointing representatives to the Commission. The Ministry plays this role in part because many of the government's major executing agencies for industrial promotion fall under the Ministry's portfolio. Meanwhile, an association of departmental chambers of commerce (Confecámaras) and a member of the CNIC supports the MinCIT in coordinating the CRCs with the CNIC. Compared to the Mexican CNP/CEP constellation, the Colombian System has two dedicated mechanisms for coordination of the CNIC with the sister commissions in the 32 departments.

Another member of the Commission, the powerful National Planning Department (Departamento Nacional de Planeación) oversees implementation of policies and projects and ensures that competitiveness is a priority in the country's National Development Plan. Meanwhile, Commission member Colciencias is charged with ensuring that the country's policies and programs for science, technology, and innovation (ST&I) are aligned with the competitiveness strategy, although Colciencias often suffers, like in most of Latin America, from favoring academia over business.

The CRCs do not manage projects or allocate resources. Their main role is to develop a long-term vision for competitiveness at the departmental level, prepare strategies with sector priorities, link actors, and monitor programs and projects that are aligned with national and territorial development plans and informed by previous plans.[5] Local governments and municipalities, chambers of commerce, universities and labor are encouraged to join them. A basic organizational format for the structure of the CRC is also encouraged, including a presidency, executive committee, technical committee, and a mixed technical secretariat. To strengthen the actions of CRC, a law was passed that calls for linking various national agencies and councils to departmental affairs, and those related to competitiveness must be integrated into each CRC. In practice, the organizational details are left up to each department. Thus, in

[5] Many of these programs in Colombia are financed from a fund consisting of mining and petroleum royalties.

some CRCs, business associations or universities may not be present. Labor representation is generally absent in the CRCs, apparently due to its lagging interest in competitiveness issues.
In CRCs of smaller or less developed departments, government representatives are the main protagonists. In others, the main protagonist is the departmental capital's chamber of commerce, while in departments with a relatively larger productive sector, there is greater participation of individual firms and universities, although enthusiasm is often muted.

The MinCIT is not a member of the CRC due to the tradition of autonomy for the departments, but it does provide support. In Mexico, by contrast, the CNP must connect with CEPs of autonomous states. In principle, twice a year the MinCIT informs the CNIC Executive Committee of the advances in the activities in the CRCs. The MinCIT, with the support of Confecámaras, organizes an annual meeting of the directors of the CRCs to discuss projects and advances, exchange experiences, and raise problems and other issues of concern with the national government. The MinCIT has a dedicated regional unit with seven employees supporting the 32 CRCs. Five additional officials provide support through a cooperative agreement between the MinCIT and Confecámaras. This experience should be of interest to the Mexican CNP and the Ministry of Finance's Economic Productivity Unit (Unidad de Productividad Económica, or UPE).

MinCIT cooperation includes working with the executive directors of the CRCs on an annual work plan, which includes support and monitoring of projects and visits once or twice a month from the employees of the Ministry's regional unit. The MinCIT also assists in organizing regional forums. Confecámaras has played an important role supporting MinCIT and coordination. It prepares studies and surveys with the Ministry to evaluate the impact of the CRCs, mobilizes regional associations to participate in the CRCs, and assists in the organization of an annual meeting of the CRCs.

The Colombian System of Competitiveness has made advances in developing a long-term vision, fostering continuity across governments and the generation of projects and actions geared to enhancing productivity and competitiveness. However, the advances are much more palpable at the national than at the departmental level, where the performance of the 32 CRCs has been very heterogeneous. While they have tended to promote strategic long-term visions as expressed in their Regional Competitiveness Plans (Planes Regionales de Competitividad, or PRC), the translation of that vision into actions through Department Development Plans (Planes de Desarrollo Departamentales, or PDD) has been very uneven. Some insights for Mexico's CEPs and CNP—and for other countries—that draw on Gomez and Mitchell's (2016) analysis of Colombia are as follows.

- The CRCs that function best have representatives at the highest levels of local government and/or business chambers/associations. While formal representation can include the heads of departments, municipalities, and associations, many CRCs are run by alternates of lower rank and influence, thus weakening their authority. The lack of participation by union leaders, while apparently not a handicap in the Colombian context, probably would be a fatal flaw in Mexico given that the CEPs emerged out of the reform of the national labor law.
- The translation of the CRCs' PRD into the PDD can be limited. This has happened when departmental heads perceive the CRC as a competitor to its authority, demonstrating the need for political commitment to the council from the highest departmental authority. An alternative option could be a law that requires ex ante comments by the CRC on the PDD and the projects to be financed, thereby strengthening the link and raising the profile and prestige of the council.
- Firm participation in CRCs, as opposed to formal representation by the department's main chamber of commerce, is limited. This has been cited as a weakness. Councils can indeed become overly bureaucratic if they only have formal private sector participation through the heads of associations. To remedy this shortfall, some members could be appointed in a personal capacity based on their prestige in the state or department as a community leader with proven involvement in competitiveness-related matters.
- Academic participation in the CRCs is often weak. This sometimes reflects the weakness of academia in a department, but it could also be the result of the classic "siloed" behavior of business and academia frequently encountered in Latin America. Academia must be engaged in public–private councils both for their technical expertise, and to strengthen relevant education. A way to do this is to have the highest-level government participation and a council work agenda that is compelling for all stakeholders, not just business.
- Many CRCs are financially constrained, as are their technical secretariats. The secretariat and its technical personnel depend on the local government and/or chamber of commerce, creating uncertainty and loss of independence. One idea is to have the central government consider allocating resources to the CRCs, perhaps augmented by untied contributions by the private sector. This arrangement would require the CRCs to have legal status, and might be interesting for Mexico's CEPs.

- CRCs sometimes suffer from political infighting between departmental heads and municipal authorities or local government and its chambers. This is a risk for Mexico's CEPs and for any council.
- The dedicated coordination mechanism between the CNIC and the CRCs provided by the MinCIT is a good practice for a country that has a central-regional constellation of public–private councils. Particularly noteworthy is the dedicated assignment of ministerial staff to coordination and regular site visits to the CRCs. The annual meeting of the MinCIT with the 32 councils is also a good practice, which is highly praised by the CRCs. In addition, the MinCIT's formal surveys of the CRCs are a good example of how evaluation can help the national council learn to better address the needs of its sister institutions.
- There is a widespread perception among the CRCs that other central government (and cross-regional) entities with portfolios relevant for competitiveness should be more directly involved in providing support for the PRD strategies and project proposals. The capabilities of regional councils in almost any country are heterogeneous, particularly in developing countries. This raises the general point that weaker regional councils need strong support from the national council and the relevant central government entities. The Congress could also establish a special committee to discuss the strategies emerging from the CRCs, Such arrangements might prove useful in Mexico.

6. Analysis of Mexico's CEPs

In early 2015, we distributed two questionnaires to presidents and the appointed representatives of the 32 Mexican CEPs, and we received a partial response.[6] Some questions were not answered, and sometimes significant contradictions surfaced. Nevertheless, the responses were representative of the heterogeneous makeup of federal entities in Mexico, and the limited or contradictory responses revealed the general state of play of the CEPs in the first quarter of 2015, more than two years after they had been promulgated by the Reform of the Federal Labor Law.

From the 13 states in which the President or Secretary of the CEPs responded (i.e., "Cuestionario Completo"), it turns out that one of the CEPs was legally launched in 2012, 11 in 2013 and one in 2014. The questionnaire that was sent to 62 official representatives (i.e., "Cuestionario Auxiliar") on the CEPs of 19 states received responses from 10 states not

[6] Thirteen presidents of CEPs and CEP representatives from 19 states provided responses (Devlin and Cabezas, 2015a and b).

participating in the "Cuestionario Completo." Thus, it is clear that at least 23 CEPs were established in some form in early 2015 (Table 2). The limited participation of the states, the fact that representatives on the commissions of 10 states answered but their presidents did not, along with the incompleteness or contradictory nature of answers, all suggest a weak quality of governance of the CEPS at the beginning of 2015.[7]

In any event, 15 states pointed to previous experiences with public–private councils, and 12 of those councils were still functioning. Most of the functioning councils have moderately or highly overlapping or complementary mandates to that of the CEP. It is concerning that most states did not seem to have very clear mechanisms established to coordinate the CEP with the other councils.

When launching a council, it is advisable to do prior studies on issues such as the principal obstacles to greater productivity in the state, the political environment for launching reforms that will increase productivity, identification of the main offensive and defensive interests of major stakeholder groups, the institutional obstacles to achieving frank problem-solving dialogue among the main interest groups, and the risks of capture of the CEP by special interests. Few states made this prior effort and none prepared studies of the possibility of capture, or of gaming, of the CEP by public or private interests.

Respondents provided a range of opinions on the priorities in the state for raising and democratizing productivity. The majority of opinions had to do with human capital and labor markets issues. This may not come as a surprise, since the CEPs emerged from the reform of the federal labor law and state-level ministries of labor are often an important force in many CEPs. Nevertheless, there are many potentially important constraints on greater TFP of which labor is only one. Science, technology and innovation (ST&I) did not figure prominently in the responses, which is worrisome. Hence, there is a risk that the work agendas of some CEPs will be overly narrow, and the CEPs will need assistance to broaden their purview. However, representatives in the CEPs could be receptive to a broader agenda. When the questionnaires listed 5 key areas considered important for increased productivity, with 26 specific sub-areas, most were found by the respondents to be very or moderately important.

It is positive that there was broad consensus by the respondents regarding the institutional factors for the success of the CEP: the existence of an adequate budget, technical capacity, consensus building, political commitment, and an understanding of the scope of the

[7] A further update found that by May 2016, 25 percent of the CEPs still had not met, only three had a functional work program, and only two had comprehensive internal governance guidelines. (Based on information, shared with the authors, from an interview by Alejandro Alfaro with personnel of the UPE.) Hence it would appear that the profile captured in early 2015 is not too different from the current situation.

CEP and its statutes. Unfortunately, our analysis suggests that for many states these institutional conditions are not nearly fully met, and much institutional strengthening of the CEPs will be necessary.

Table 2. Participation in the Two Questionnaires on Mexico's CEPs

State	Complete questionnaire*	Auxiliary questionnaire	Government	Business	Labor	Academia
Aguas Calientes		X	1			
Baja California		X	2	1		
Campeche	X					
Chiapas	X	X	1	1	1	1
Chihuahua	X	X	3			2
Colima	X					
Durango		X	1			
Guanajuato	X	X	1			2
Guerrero		X			1	
Hidalgo		X	1		1	4
Jalisco	X	X			1	
Mexico	X			1	1	
Nayarit	X	X				2
Nuevo León	X					
Oaxaca	X	X	1		1	
Puebla	X					
Querétaro	X	X	3		1	1
Sonora		X				1
Tabasco		X			1	1
Tlaxcala		X			1	
Veracruz	X	X	7	5	4	2
Yucatan		X	2			
Zacatecas		X		1		1

Source: Devlin and Cabezas (2015a and b).
*Respondents are either the president or secretary of each CEP.

In terms of the three major institutional challenges for the CEP, the most frequently cited are political commitment, coordination of the actors represented in the CEP, the capacity to influence government decisions, available public resources, and consensus. All of these are true challenges for any public–private council, and information in the questionnaires suggests that all are real challenges for many of the Mexican CEPs. What was almost totally overlooked was the importance of evaluation of the CEP and its impact on public policy and programs and on stated development objectives. Without evaluation, there is no accountability or generation of feedback loops in the normal trial and error governance of public–private councils.

Influencing public resource allocation would be the largest sign of political commitment to the objectives of the CEP and the effectiveness of the forum. A worrisome sign is that most non-public sector respondents were not very optimistic that their CEP could influence the allocation of public resources. For the political credibility of the CEP and the maintenance of high-level participation, it is of paramount importance that the public sector's political commitment be signaled by following through and financing commitments reached in the forum. While the CEP should have a medium- to long-term vision, it would earlier be important for the work program to include shorter-term “low-hanging fruit” that could be quickly harvested by the government and thereby instill a sense of purpose and relevance in the forum.

The CEPs did not have written detailed and approved norms and procedures beyond the most basic that appeared in the founding decrees, such as the generic composition of the CEP’s membership, how many times a year it would meet in ordinary sessions, quorums, voting, and others. The paucity of norms and procedures is observed in unanswered questions or contradictory answers in the questionnaire about the details of the governance. Nor was a code of conduct developed for CEP members, even though many representatives thought that it would be a good idea to do so.

There is a need for a public–private council to strike a balance between extensive membership to maximize information searches and limited membership to maximize dialogue. More than 25 appointed representatives in plenary would probably err in the direction of maximization. A number of CEPs exceed this number to a significant degree, although it may be that respondents included people not officially appointed as representatives, such as alternates or non-voting observers.

Based on the results of the questionnaires, there seems to have been no special attention given to the design and organization within the CEP structure of dialogue with indigenous groups, some of whose productive and political activities can affect economic output and productivity in certain states. No CEP had a dedicated source of financing and a budget. All of them relied on ad hoc support from an existing public sector entity. This could be an acceptable arrangement in the early life of the CEP, but it would be less so if and when the CEPs develop a comprehensive agenda. Ad hoc financing saves resources, but also introduces uncertainty in access to needed resources and could erode the independence of the commission.

All of the CEPs had a secretariat, although little or no information was provided about their structure, precise functions, and personnel. This requires attention because a strong secretariat is a sine qua non for a successful public–private council. The secretariats were generally extensions of an existing state entity. This too is a reasonably cost-efficient arrangement in the early life of a CEP. However, there are risks in the medium term if the CEPs live up to expectations of being a forum for promoting productivity. Indeed, the important neutral and apolitical stance of a secretariat risks being compromised, especially if public officials are not part of a stable and patriotically motivated professional civil service. The secretariat also could fall victim to internecine bureaucratic tensions.

Frank dialogue and problem solving among representatives of different groups do not occur automatically. Without elaboration, some states indicated that their CEPs had methodologies to facilitate dialogue and even had a facilitator. This would be a good governance practice; hence, more information is needed about their experience in this area.

Information from the questionnaires suggests that the technical capabilities of many secretariats in the area of productivity is low or nonexistent and need strengthening. Information also suggests that the secretariats are weak in ICT, logistical support, and public communication programs, vital tools for an effective secretariat. No secretariat had formed an outside advisory group of experts from other states or countries.

Finally, respondents almost universally expressed the feeling that connections with the CNP and the UPE were weak or nonexistent. One of the lessons from the Colombia experience is the importance of proactive support of the CEPs by the CNP and a dedicated staff in the UPE to support the CEPs. An annual meeting of CEPs and the development of a secure intranet site for exchange of experiences among the CEPs is also advisable.

7. Insights from the CEPs in Chiapas and Jalisco

While pilot studies of the shortcomings in the governance the CEPs in the states of Chiapas and Jalisco displayed characteristics that may have been peculiar to each state,[8] some of the issues may have broader application to other CEPs in Mexico and to similar institutions elsewhere.

One of those issues is the development of a work agenda that is truly rooted in assessments and prescriptions for improved productivity. In one state, the state government in its founding decree set out the CEP's work agenda prior to any assessment and approval by the CEP's appointed board of representatives. Moreover, it was entirely focused on labor issues, suggesting that the agenda was a product of the state's ministry of labor. In the other, the initial agenda was ill defined and not clearly aimed at productivity. The first focus is a clear risk for other CEPs because of their emergence from the reform of the federal labor law and the leading role of state-level ministries of labor in many of the CEPs, while the second situation of lack of focus more clearly highlights the risk of having appointed representatives not fully understanding, or effectively coached on, the role of the CEP and the issue of productivity.

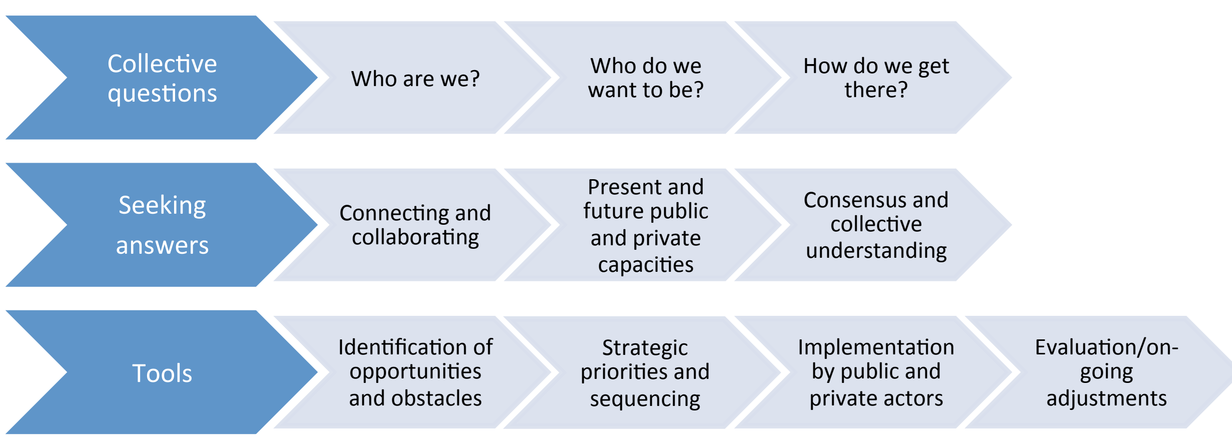
Productivity underpins competitiveness, diversification, and upgrading of economic activity as well as the creation of formal jobs and better salaries. It was noted in the case studies

[8] For full details, see Devlin (2015a and b).

that some appointed representatives, especially labor, were skeptical of, and uncomfortable with, a CEP work agenda focused on productivity because it was construed as a program "to do more with less and more rapidly." In reality, the concept of productivity is dynamic, not static: firms, the State, and its citizenry *must invest* in tangibles and intangibles that raise productivity, in effect making more with more factors of production and doing it better than in the past. This is a win-win message, important to convey to all sectors, but especially the labor sector, in such public–private councils.

Labor issues are important for productivity, but there are other fundamental pillars of productivity that need to be examined in the context of the CEPs' agenda and strategy for economic upgrading and diversification. Many of the cogent issues will be aligned with areas being discussed in the CNP and incorporated in the national medium- to long-term Special Program for Productivity and Competitiveness. Finding the road to greater productivity requires an ex-ante diagnosis of broader scope than the labor market. Indeed, one can progress in the advancement of labor yet never achieve increases in productivity due to binding constraints not relieved in other areas of the economy. Thus, the agenda of the CEPs should contribute to the construction of a medium- to long-term strategic vision that reflects the type of economy and society that the citizenry wants and can realistically achieve in 10–20 years, along with the sequencing of policies and programs that release constraints and make that vision a reality (Figure 2).

Figure 2. Constructing a Road to Increased Productivity



Source: Authors' elaboration.

Given the limited financial and human resources of most governments, based on assessments, action agendas should be very focused, taking into account capabilities that exist or can be realistically developed and in sequences that that have a cumulative impact on productivity, economic upgrading and diversification. Brand-new support programs on which the state governments have little experience should be launched in the form of pilot programs and expanded (with necessary adjustments due to learning) when there is evidence that ex ante objectives are being met. Alternatively, failed programs must be eliminated. Box 2 offers a checklist that could be considered before launching a new public support program.

Another suggestion emerging out of the case studies for good governance of the two CEPs' work agendas is to include low-hanging fruit that can be harvested in the short term. As mentioned earlier, this will instill a sense of relevance to commission members and the public while awaiting longer-term outputs to materialize.

Finally, given weak capabilities in the public sector, productivity agendas must include strengthening of personnel and institutions of state governments in service delivery, support programs, project planning, and implementation, as well as dialogue and collaboration with private sector constituents.

If the CEPs are to lead the drive to greater productivity and its democratization, it is paramount that the initiative be led by active participation at the highest political levels, in this case the governor of the state and secretaries of key public portfolios for productivity issues. These include economic development, public works, science and technology, and others. Additionally, to ensure agreed actions have the necessary finance, the state's ministry of finance should be an active member of the commission. One state met this requirement on paper but not in practice. This occurred in the other state as well, and the governor was not even a member of the CEP. Another complication was that in one case, the dominance of the priorities of state's ministry of labor in the work agenda discouraged the ministries of other key areas from participating. When the highest-level officials are not on, or not really participating in, the CEP, the likelihood of high-level nongovernmental appointees participating is quite low. That was the situation for the two pilot cases. In effect, the CEPs became politically debased across the board.

This brings to the fore the issue of representation of nongovernmental sectors. Representation in the CEPs of the pilot cases, and in the CEPs more generally, is rooted in what is often termed in the literature as "peak associations," that is, heads of business chambers or associations, labor unions, and universities. These peak associations usually have the advantage of legitimate representation and often, especially in the case of business groups, the ability to mobilize technical support for their representatives in the dialogues. However, they can also be overly bureaucratic and, especially in those states with an old-style corporatist tradition, beholden to the state government's portfolios. These situations can seriously handicap frank, problem-solving dialogue. A possible arrangement to add dynamism to the dialogue is to make a limited number of the appointments (say, three) on the CEP in a personal capacity for individuals of very high public standing with a recognized reputation for honesty and practical knowledge of productivity issues in the state. These people could be selected from business, but also labor, academic, or nongovernmental organizational circles. In principle, they would provide a respected independent voice in the dialogue. Some adjustment in the number of other appointees may be considered if the additional "independent" appointees push the total number of representatives on the CEP above 25, the suggested functional maximum mentioned earlier.

Regardless of this latter suggestion, distrust colored the attitude of certain sectors in the CEPs. In one case, some business representatives admitted that they were inhibited in undertaking frank dialogue because of their fear of irritating the heads of ministries that they did business with day to day. In the other, labor unions were skeptical about the government's likely follow-through on any commitments that might come out of the CEP. This distrust can only be resolved through frank dialogue between the stakeholders and the governor of the state about their concerns. This is difficult to achieve when the governor is de facto or de jure not part of the CEP.

Typically, appointments to the CEP are for two years, renewable once, although one of the two pilot cases was unclear about the duration of an appointment. In any event, a better arrangement would be to name some of the representatives for four years, renewable once for three additional years. These staggered appointments would ensure that some members always continue on the CEP when the six-year term of a state government rotates, providing a degree of institutional continuity for the commission over political cycles.

Box 2. Checklist for Launching New Public Support Programs

Clarity on the nature of the problem to be addressed

Have the objectives been clearly and unambiguously defined, with a view to overcoming any specific constraints?

Additionality

Is it clear that the program will encourage the desired behavior and be well received by the designated users, and does the scale of the financing match the expected actions and results?

Competition

Does access to the program need to be competitive? The answer to this question depends on a capacity to define objectives in terms of social benefits, the ability to assess the merits of alternative proposals, estimate administrative costs, and manage users' potential strategic behavior to obtain preferential treatment.

Consistency

What are the possible interactions with other programs, and how does the program fit into the overall set of support activities for the identified objective?

Duration

How long will the program need to continue to achieve the objectives and produce sustainable results? Is there a natural cycle for the development of the objectives, or should the program be introduced in segments? Is there a plan for ending the program?

Risk calculation

Is it clear what the risk of program failure is in relation to the potential benefits? If both the risk and the benefits are considered to be high, it may be better to begin with an experimental program and, if it proves satisfactory, expand the program to its full scale on a pilot basis before launching it as an official initiative.

Risk management

Have those involved remained alert to possible conflicts with the objective of other programs, both within and outside the set of programs for productivity being supported? Given the danger of capture by lobby groups, is there an exit plan for shutting down the program according to success or failure vis-à-vis the objective. One mechanism that can be considered for that purpose is a specific program duration (a sunset clause) that automatically triggers an assessment of whether it should be continued or not. Possible abuse of the program on the part of users must be anticipated by doing studies of the real behavior of agents in the market concerned.

Administration

Does the design of the administrative framework match the complexity of the program and its risks, so as to avoid excessive bureaucratic interference that would discourage its potential users? Examples of interference would include unnecessary slow processing of requests and disbursements of funds. Insofar as accounts or reports are required from those who benefit from the program, efforts should be made to apply procedures that are familiar to, and not excessively burdensome.

Source: adapted from Devlin and Moguillansky (2011).

While appointees have an obligation to participate in every meeting of the CEP, it is inevitable that circumstances will arise where the appointee cannot be present. That is why alternates are so important. Both the pilot studies and the questionnaires suggest that rules for alternates were not very rigorous. The alternates could frequently change and were not necessarily of a level that approached the principal. Alternates should be named ex ante, be permanent during the duration of the principal, represent credibly the level of the principal, and be present in all meetings so that they are well informed and “socially” integrated into the circle of principals. Unfortunately, with the persistent absence of the principals, the CEPs became really a forum of unstable alternates.

In both cases, whether an appointee or alternate, there was considerable evidence of representatives being persistent “no-shows.” The CEPs could consider a rule by which a persistent no-show would lose voting privileges for a certain period of time. Of course, this is a real penalty only if the CEP has a compelling work agenda where votes have consequences.

This issue in turn logically points to the broader issue of having the commissions prepare and approve a comprehensive written guide of rules and procedures. It is evident from the questionnaires, and reinforced by the pilot studies, that only the most rudimentary guidelines were available to appointed representatives. These should include not only basic issues but also the specific role, functions, and organization of the secretariat, structure and operational procedures of subcommissions, procedures for alternates and observers, allowed times for presentations and interventions, document circulation, procedures for preparation and timing of minutes, confidentiality, codes of conduct, evaluations, and others.

While the questionnaires did not address the issue of subcommissions, insights did come from one of the pilot studies where one CEP, a bit haphazardly, launched a large number of sub-commissions. Subcommissions or subcommittees are a very important dimension of the governance of public–private councils. Given the necessary high-level representation of the commissions, plenary meetings cannot be too long, typically two hours at the most. However, much work can be done by subgroups between plenary meetings and reported to the commission members when they meet. As mentioned earlier, subcommissions should not be formed before commission representation is established; rather, they should be created and approved by the commission members themselves based on an agreed work program. Moreover, their number should be limited and sequenced according to agreed staged priorities so as not to overburden the coordinating role of the secretariat, which was a real problem in the abovementioned case. Meanwhile, the quality of chairpersons is critical to the effectiveness of a subcommission: he/she should be recognized for expertise in the topic of the subgroup, display social skills, and be knowledgeable about the public sector.

As confirmed in the questionnaires and in the pilot studies, the commissions and their secretariats do not have a dedicated budget; they rely on the allocation of ad hoc support from a state government entity. This may be sufficient in the initial launch stage, but when a full agenda is developed, this arrangement may create uncertainty, resource shortfalls, politicization, and bureaucratic tensions within the commission. A dedicated budget, which may require the creation of a formal legal identity for the commissions or their secretariats, should be seriously considered in a more mature stage of the CEPs and their work programs.

The questionnaires also revealed that an important number of CEPs were created by federal law parallel to preexisting public–private councils in the states with mandates that overlapped or complemented that of the commissions. One of the pilot studies typified this situation. The state's CEP emerged coexisting with no less than seven other public–private councils written into state law and which had mandates that in some way related to productivity. This led private sector appointees to wonder why the CEP was created at all, clearly a bad start for the launch of the initiative. Moreover, there was little or no coordination among these councils despite having in most cases similar representation. To make things worse, in the political hierarchy the CEP was inferior because most of the other councils were presided over by the governor, while that CEP was only presided over by a secretary of a state government ministry.

The recommendation that emerged from the pilot study was (i) to formally give the CEP leadership in coordinating the productivity work of other councils, politically validating this by making the governor the president, or (ii) making the CEP a de facto technical subcommittee of another council which by state law had the mandate to support productivity and was presided over by the governor. Moreover, that existing council had a dedicated secretariat with budget and staff that could provide resources to the CEP. In effect, option (ii) would be a pragmatic exercise of adaptation to state realities which may be instructive for other CEPs.

In both pilot cases, the secretariats were very ad hoc appendages of existing state or federal bureaus. International experience suggests that extending secretarial services from an existing government entity can work, but the resources allocated to the secretariat function should be adequate, predictable, dedicated, and shielded from politics. Moreover, dividing the secretarial work between two government entities, as occurred in one of the cases, should be avoided, as international experience shows that is a formula for bureaucratic infighting. If it is difficult to meet these requirements, an independent secretariat would be preferable.

In any event, in both cases studied, secretariats did not have formal staffing, structure, work programs or budgets. They lacked adequate staff and were deficient in ICT equipment, which is essential for the logistical, administrative, and coordinating roles of a secretariat. In one state this was especially important because of the formation of a sister productivity commission in a region of the state, in which participants felt estranged from their parent CEP in the capital city. Neither CEP had a public outreach program through instruments such as dedicated websites, social media, press releases or conferences, publications programs, or a logo that branded the CEP. These media tools are fundamental for promoting a productive and innovative society and strengthening the relevance and accountability of the CEP for its appointees. Secretariats also lacked the capacity to provide neutral technical support. This latter is a critical bottleneck because neutral secretariats are supposed to provide balanced technical support to the deliberations of the commissions. This is especially important for appointees, for example, in the labor sector, which suffered from limited capabilities in the area of productivity. Mobilizing formal commitments from university academic departments and/or local research centers may offer a solution. Indeed, this was a recommendation for both cases.

The pilot cases had not contemplated the formation of an external advisory council of Mexican and/or foreign experts, which experience has shown could be organized at little or no expense. Outside advice helps reduce potentially insular deliberations of a state council. The CEPs in the two states had had little or no contact with the CNP and the UPE that supported it, mirroring conditions reflected in the questionnaires. This was partially remedied by visits of the

UPE director, as recommended by the authors. However, the example of Colombia suggests that the UPE should also have a group dedicated to supporting the CEPs.

The CEPs also had had no contact with other CEPs in Mexico. Again, the Colombian experience of organizing an annual meeting of regional councils is instructive, as well as the establishment of an Intranet to service ongoing communication among the CEPs. None of the CEPs had in place a system of performance evaluation. Evaluation should be undertaken annually on the internal functioning of the CEP and the impact of its recommendations and contracted to an independent entity. Evaluation is a principal tool for learning and accountability. Models were suggested as part of the evaluation of the pilot cases.

8. Conclusions

The need for modern industrial policies has been increasingly acknowledged in the literature and by the recent practice of many countries. It is not a question of whether a country should have an industrial policy, but rather how it should be conducted. However, less is known on the specific institutional arrangements required for effective industrial policy, and even less on the form and governance that such institutions should take at the subnational (local) level, especially in territorially large countries. One institutional mechanism considered vital to effective industrial policy is modalities of public–private dialogue and problem solving that support a search for obstacles and solutions in the achievement of agreed development objectives. This paper has addressed this issue, so relevant for the success of modern industrial policies at the subnational level, with new empirical evidence from a large federal state such as Mexico, and with a detailed analysis of the governance of newly created State Productivity Commissions (CEPs).

What does this experience teach us, and how can it provide us with useful insights applicable in other countries? Against a backdrop of international experience in the governance of public–private policy councils, it is clear that all evidence pointed to the CEPs having been in a rudimentary state of development. Problems of governance are manifold and cover even the most basic elements. Without good governance, the CEPs will be mere paper inventions rather than a tool to raise productivity and its democratization. For this reason, institutional capacity building is urgently needed. While governance of councils is to a degree sui generis, there is a long international experience with governance of public–private policy councils that can provide helpful insights about what needs to be done. Time is of the essence. The longer the CEPs languish in governance limbo, the more their credibility as a tool of development will diminish and the more the shadow of public cynicism will be cast over them and take root in society.

It is clear that the CNP and the UPE have a major challenge to provide and/or mobilize technical, administrative, and possibly financial support for the CEPs. It may have been a mistake to launch 32 CEPs at the same time; pilots in two or three states might have been advisable, using the lessons learned as the foundation for gradual expansion to other states. The CNP should enter into agreements with a handful of CEPs to help make them fulfill their promise. Learning from that and generating positive demonstration effects would pave the way for other CEPs to raise their standard of governance and effectiveness.

Council governance is always a process of trial and error. The sooner a coherent self-reinforcing process of institutional capability building begins, the better. Other countries may find the lessons learned from these early Mexican experiences extremely useful for the design and implementation of their modern industrial policies.

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