



**New Policies for
Growth:
Roles of the
Public and Private
Sectors**

**Presentation by Martin D. Chrisney
10th International Management Congress
July 21, 2009 Porto Alegre**

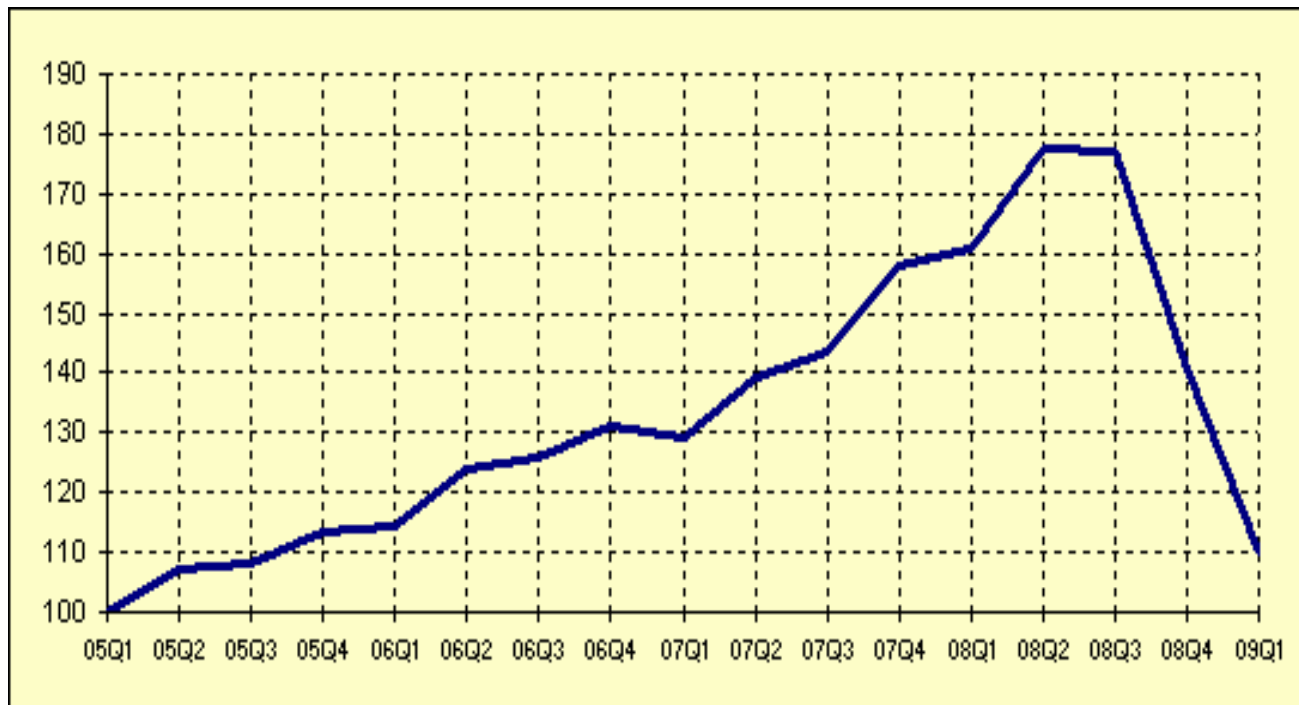
Outline

- Drivers of economic growth
- Role of public institutions and productivity
 - Public Private Dialogue
 - Public Private Partnerships: Cluster Development
 - Productive Development Policies (PDPs)
- Role of the Inter-American Development Bank

Sources of Growth

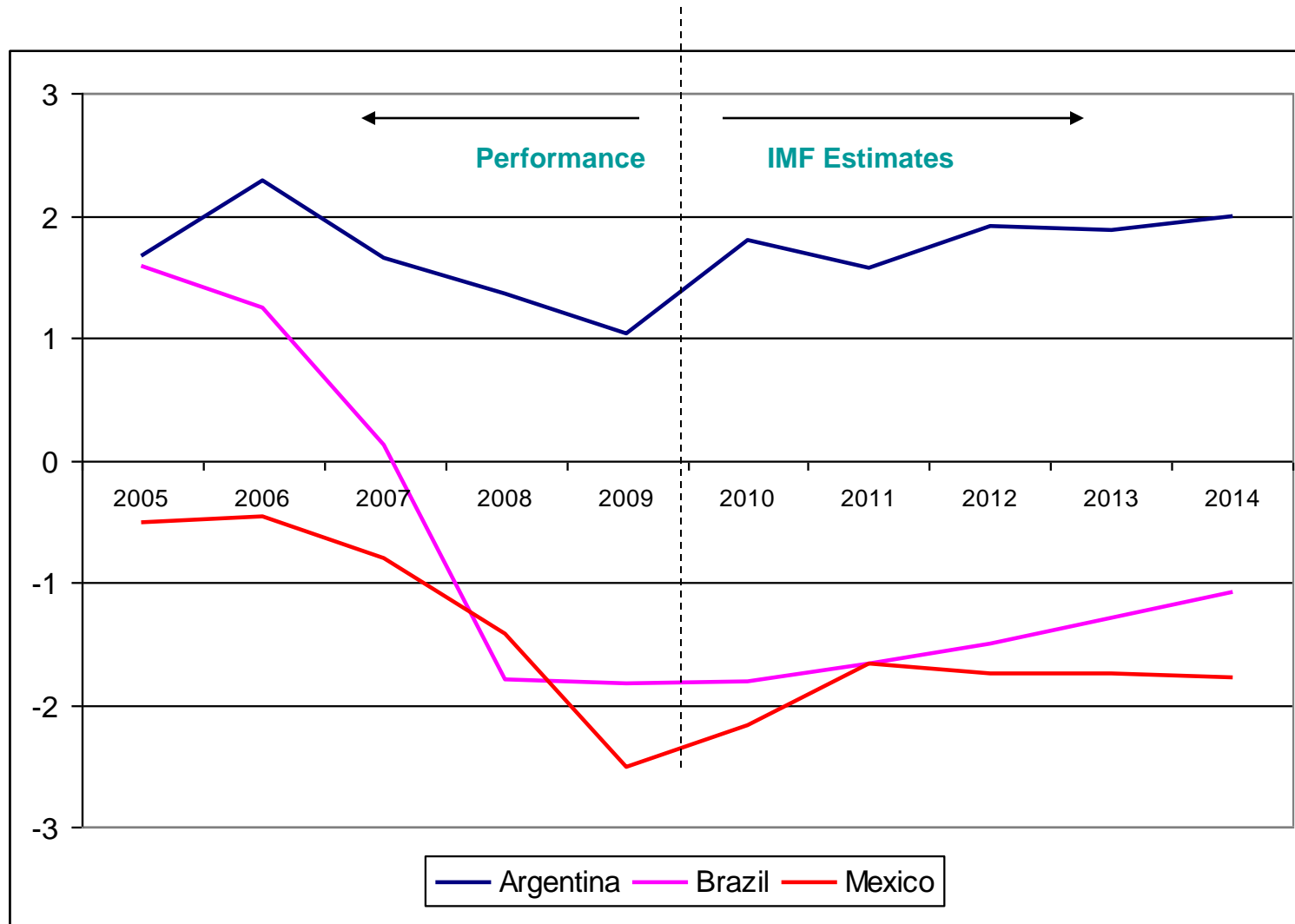
- Trade
- Capital Flows
- Technology

Decline in Global Trade: *31% drop 2009/08 q1*

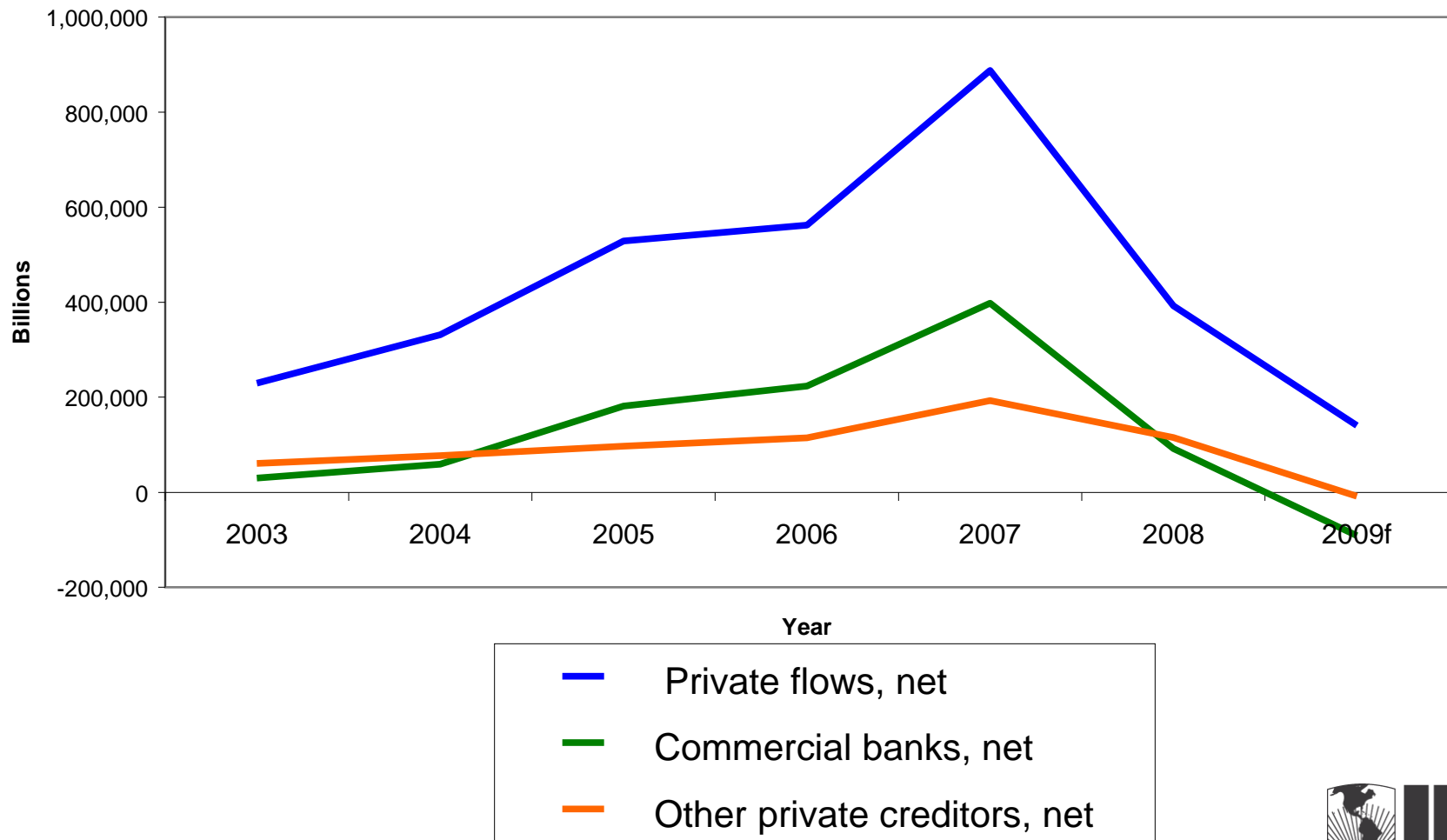


Source: WTO

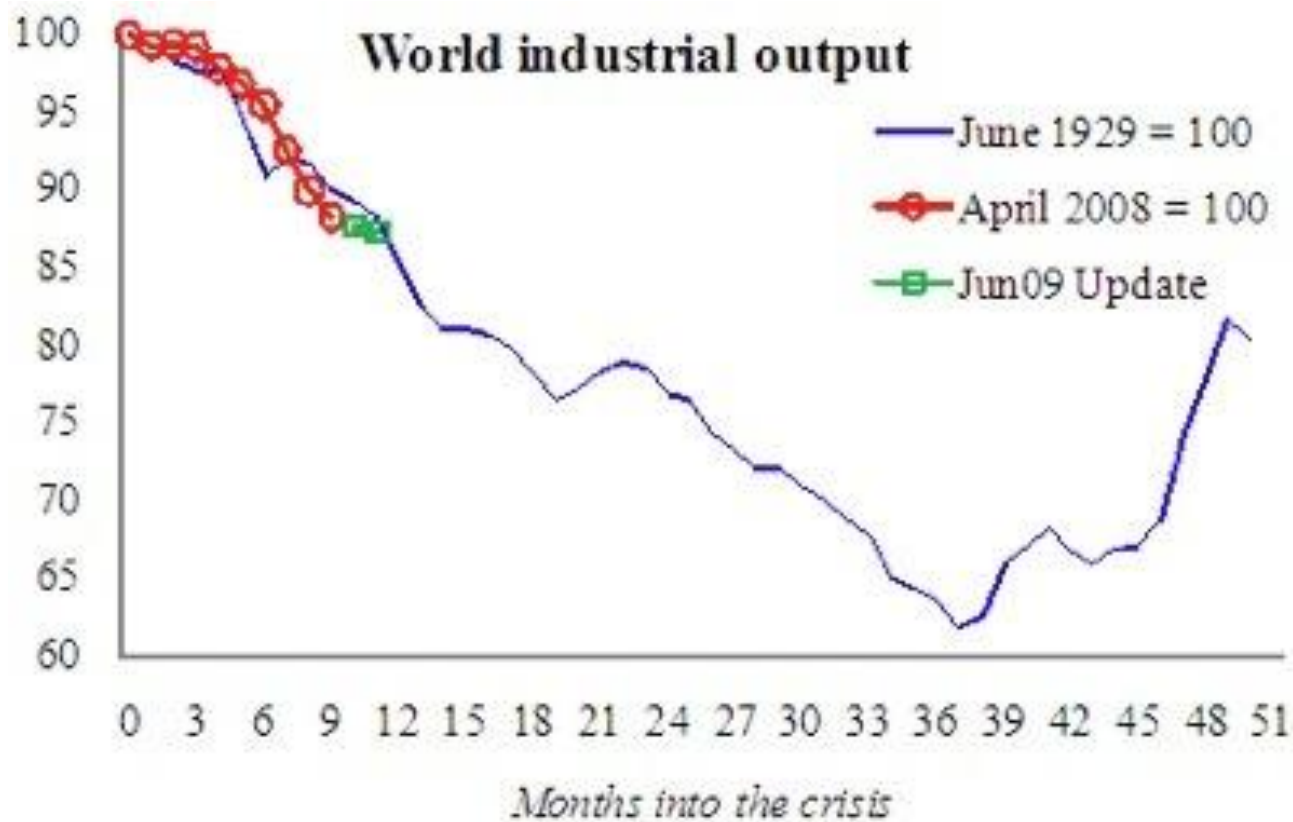
Impact of Financial Crisis: Trade Balance



Private Net Capital Flows



Decline in World Industrial Output



Impact of Financial Crisis: Real GDP, Exports and Imports

World : Forecast Summary

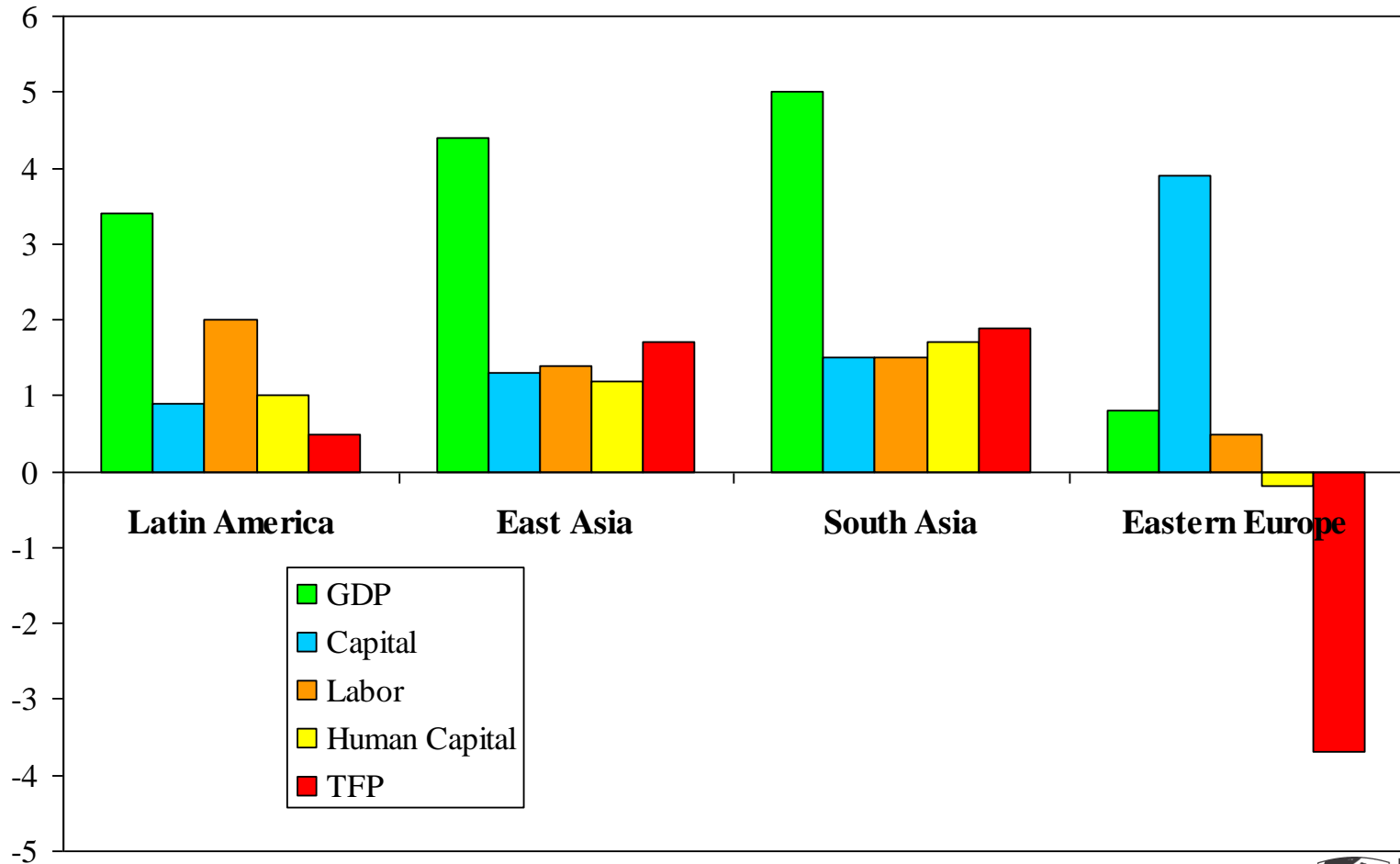
	2009	2010	2011
1. Real GDP	-2.9	2.0	3.2
2. Exports	-9.7	3.8	6.9
3. Imports	-7.7	4.1	7.2

Latin America: Forecast Summary

	2009	2010	2011
1. Real GDP	-2.2	2.0	3.3
2. Exports	-7.7	2.3	5.1
3. Imports	-9.0	2.9	5.9
4. Current Account (% GDP)	-2.3	-2.1	-1.9



Growth and Technology: (1970-2000)



Source: IDB, excluding China

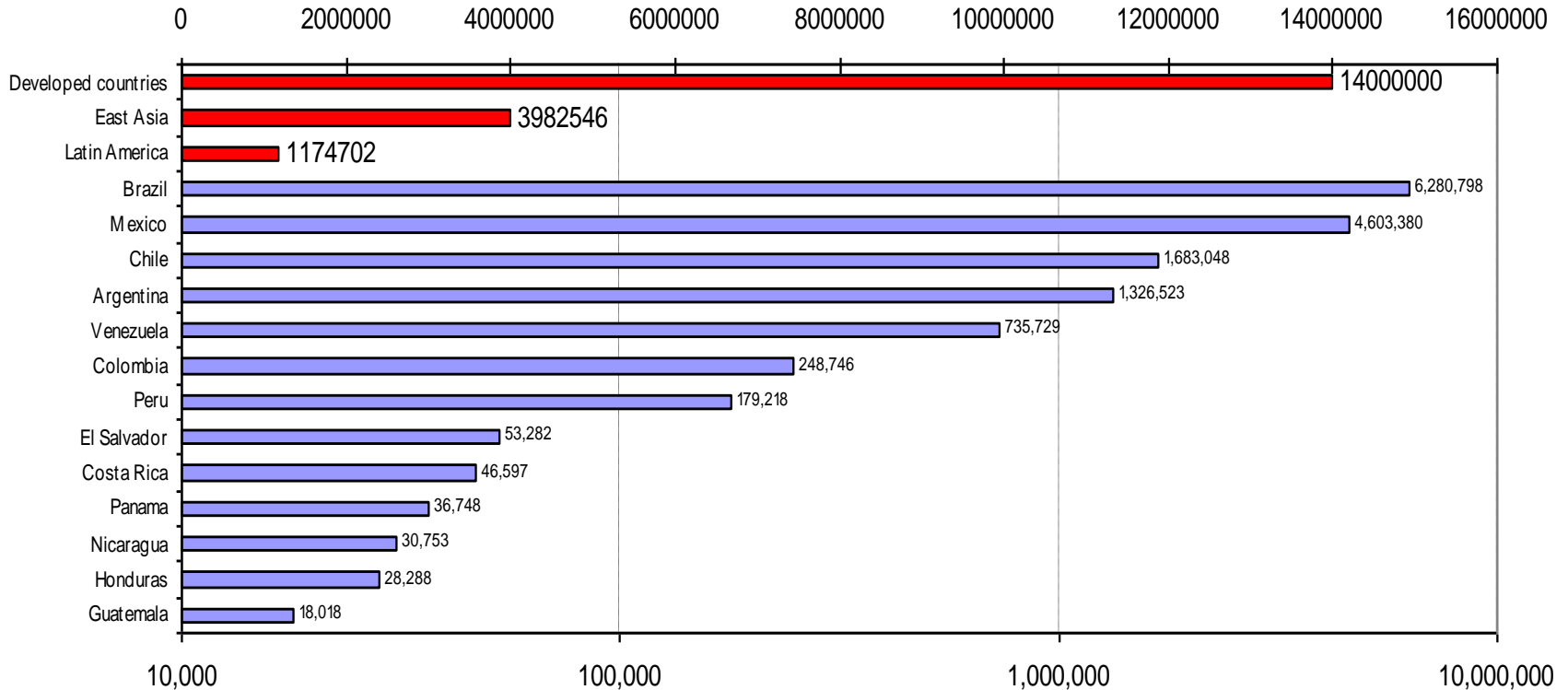


New Policies for Growth

- New Paradigm for Growth Policies: Beyond the Washington Consensus
 - Pace of technological change
 - Increase in global competition
 - Competition for scarce capital
- Policies that Affect Firm Level Productivity
 - Innovation
 - Scale of operations
 - Inter-firm linkages

Size of the Largest Firms

Regional Comparison of the Size of Large Companies (In thousands of US\$)



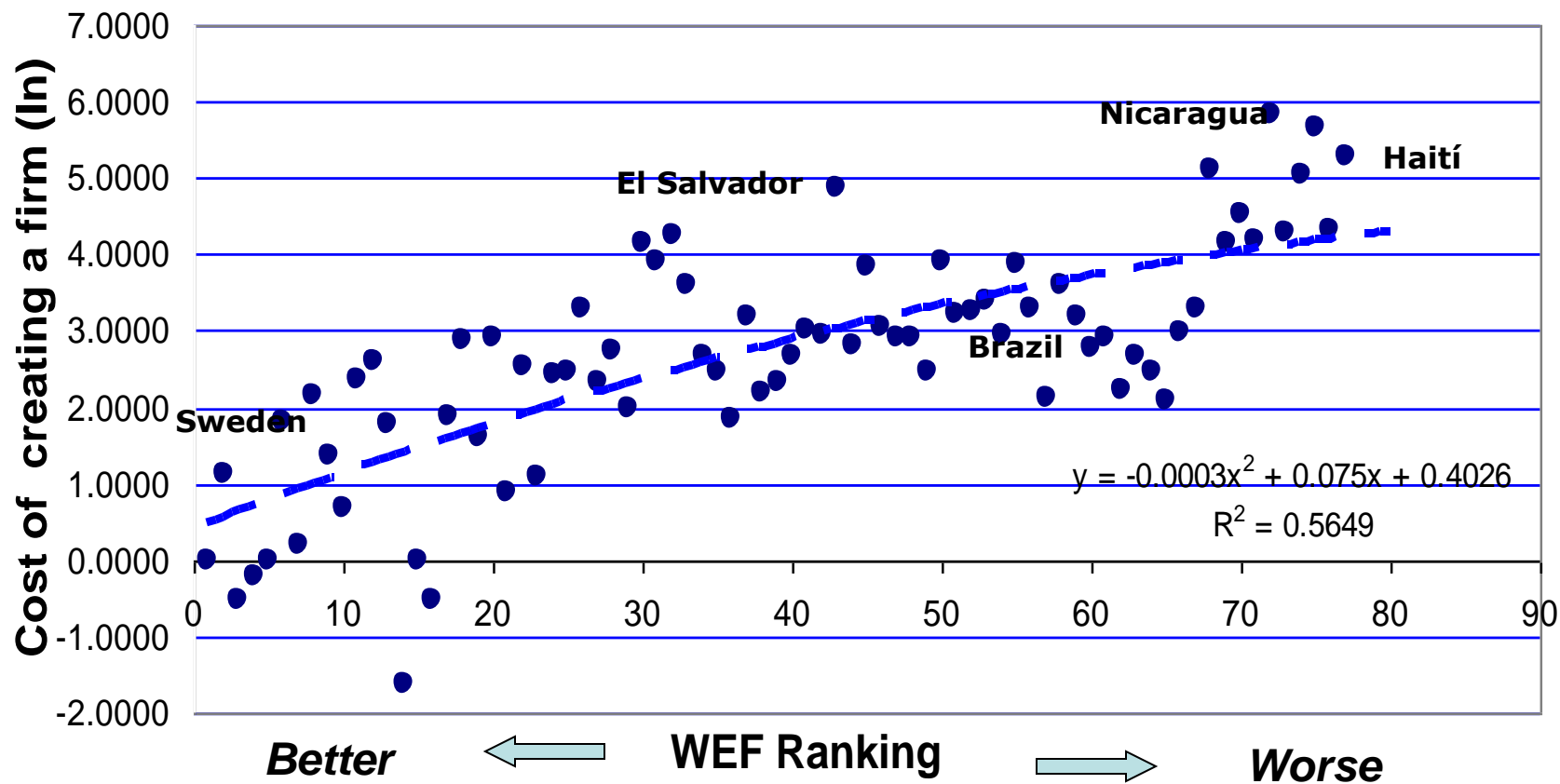
Asset average of the 25 largest firms in the country (thousands of dollars)

Source : IDB based on World Scope and América Economía.

Note : In some countries the database includes less than 25 firms.

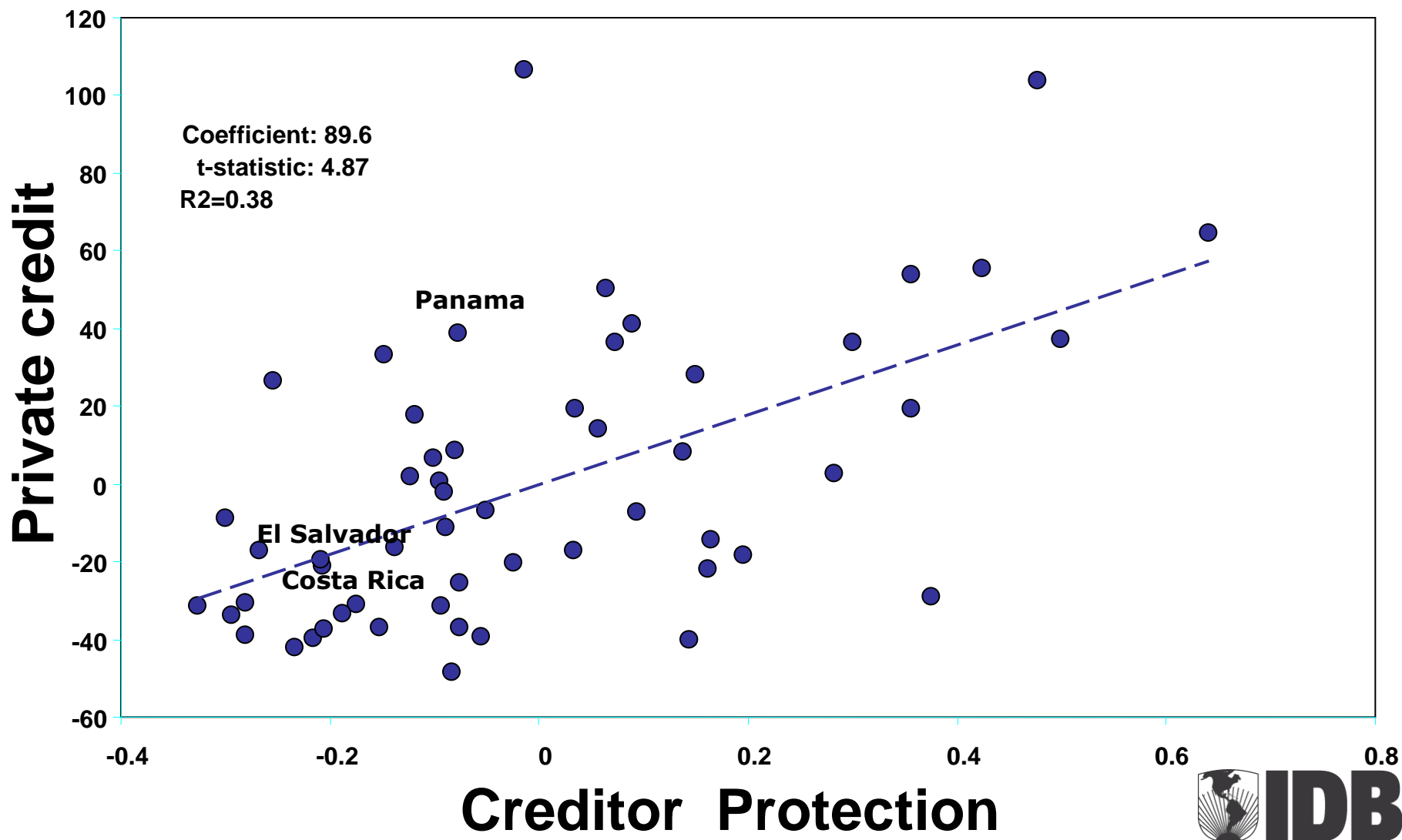


Cost of Setting Up a Firm and Competitiveness

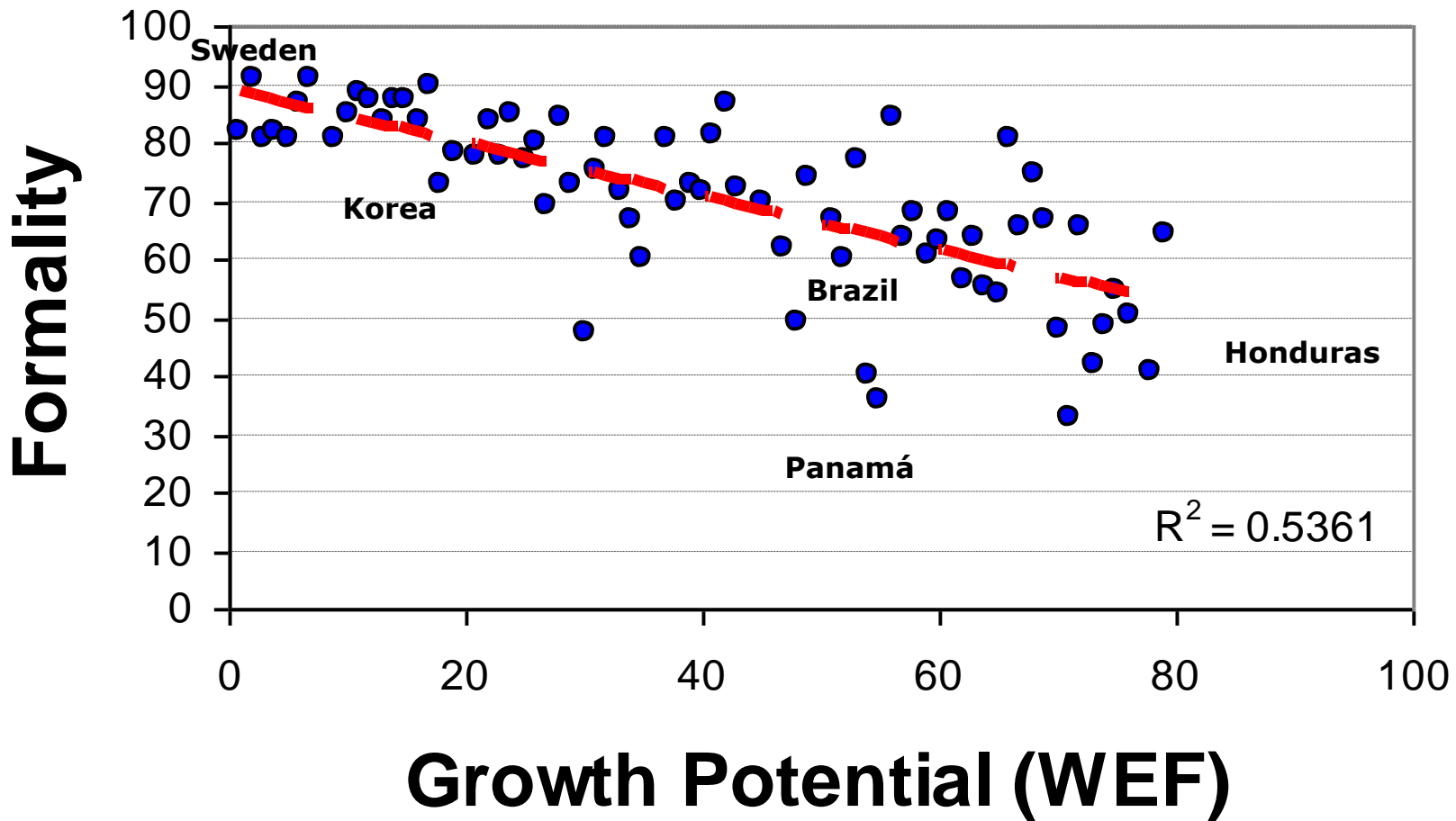


Source: Prepared by IDB

Credit and Creditor Protection



Growth and Informality



Source: Prepared by IDB

Growth Policies

Classic Policies

Horizontal

Vertical

Public
Goods

Roads, Schools
Trade Policy
Competition Rules
Business Climate

Industry Research
Institute
Quality Standards
Specialized
Infrastructure

Market
Intervention

R&D tax incentives
Grants to firms
Subsidized training
Micro/SME credit

Sector tax holidays
(EPZ)
Industry subsidies
Directed credit

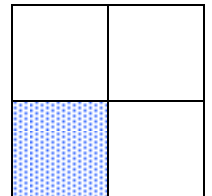
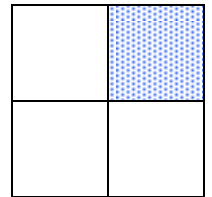
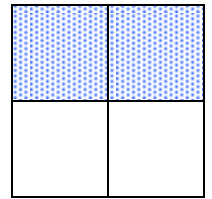
Productive Development Policies

Industrial Policies

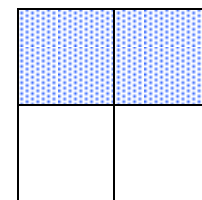


New Institutional Roles

- Public Private Dialogue
 - Competitiveness Councils
- Public Private Partnerships
 - Case studies
 - Cluster Development Model
- Productive Development Policies



Competitiveness Councils



Consejo Mesoamericano de Competitividad, North American Competitiveness Council

Brazil, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Guyana, Jamaica, Mexico, Nicaragua, Peru, Panama

Argentina: Mendoza,

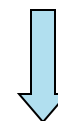
Brazil: APL

Chile: ARD

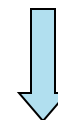
Mexico: Chihuahua, Campeche

Peru: CERX

Regional



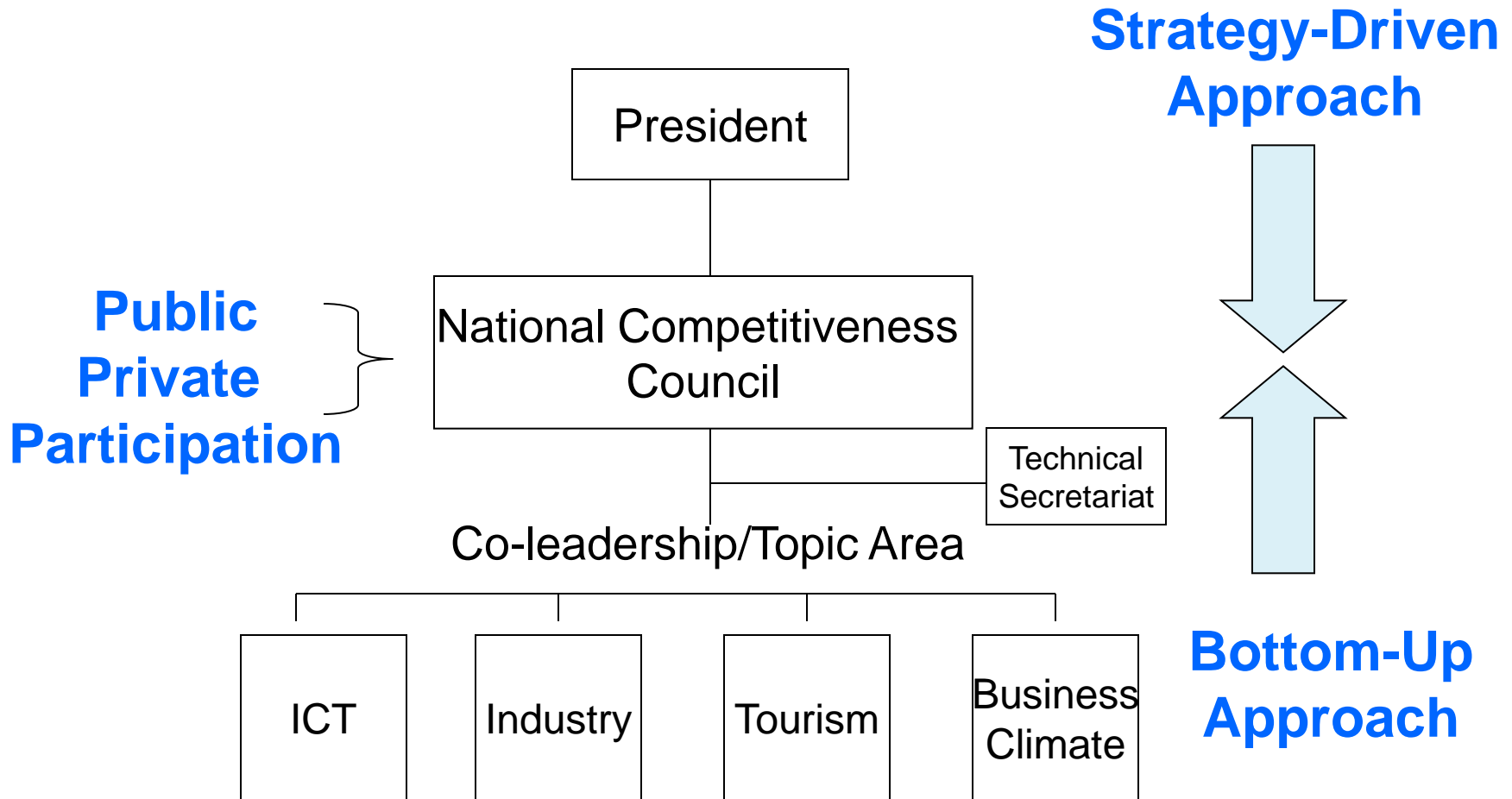
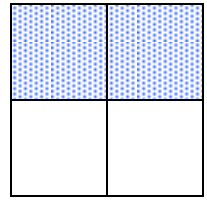
National



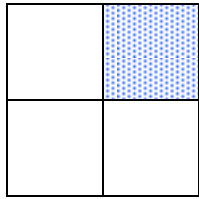
Local



Public Private Dialogue: Competitiveness Councils



Public Private Partnerships

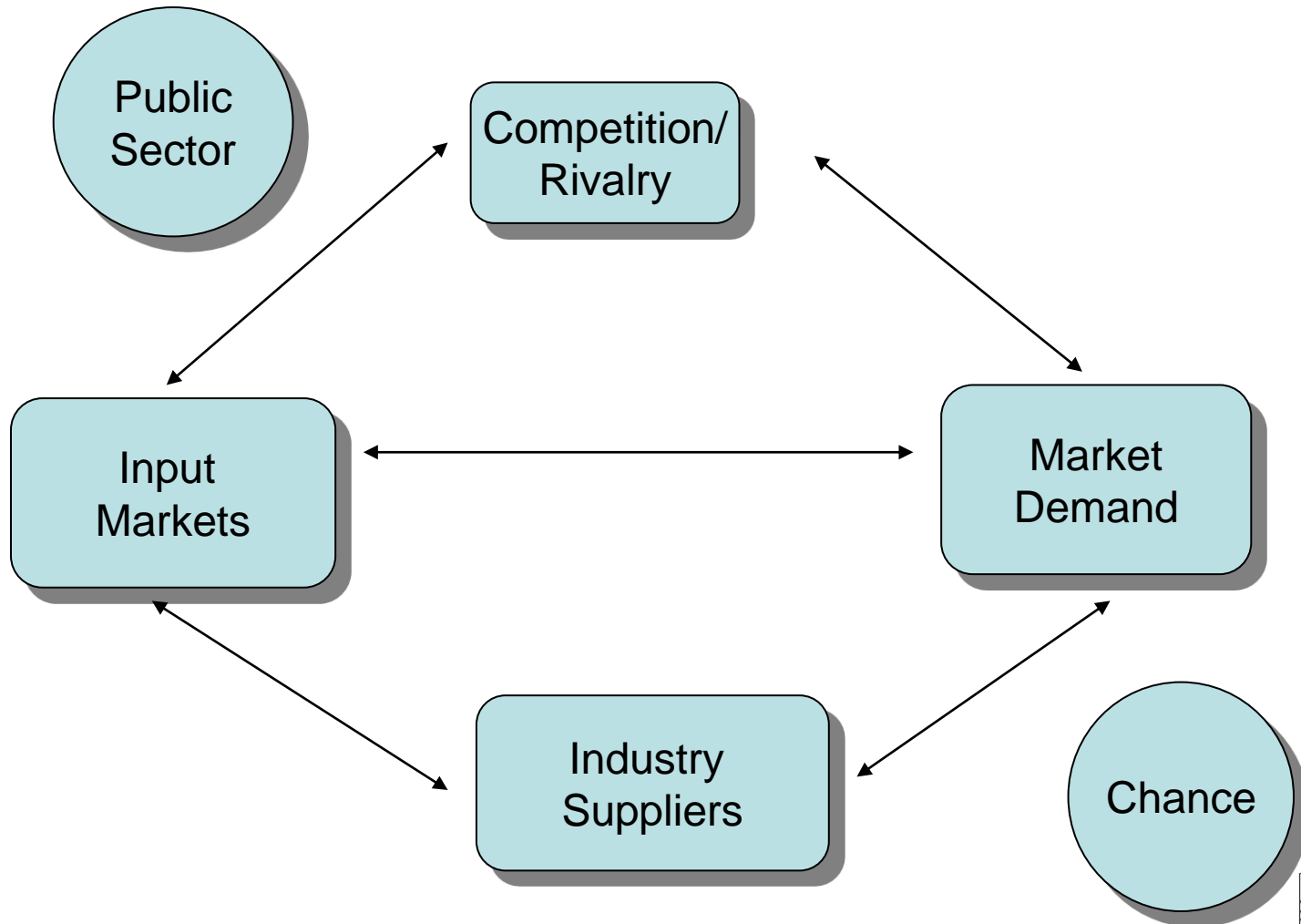


Success Stories

- Taiwan: Venture Capital (Electronics Industry)
- Ireland: Role of IDA (Pharmaceuticals, software)
- Chile: Fundación Chile (Salmon, Wine)

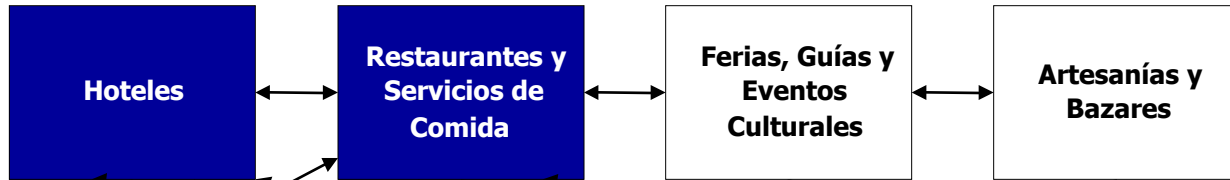
→ Cluster Model

Porter's Competitive Advantage Model: Clusters

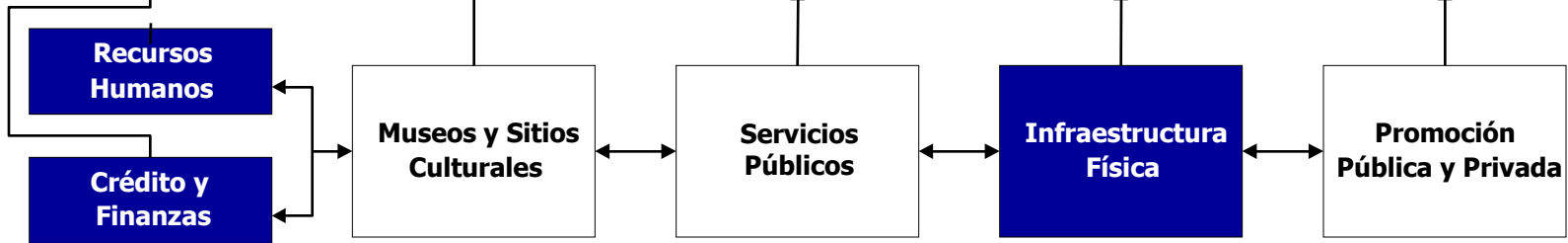


Cluster Map

Lead Firms

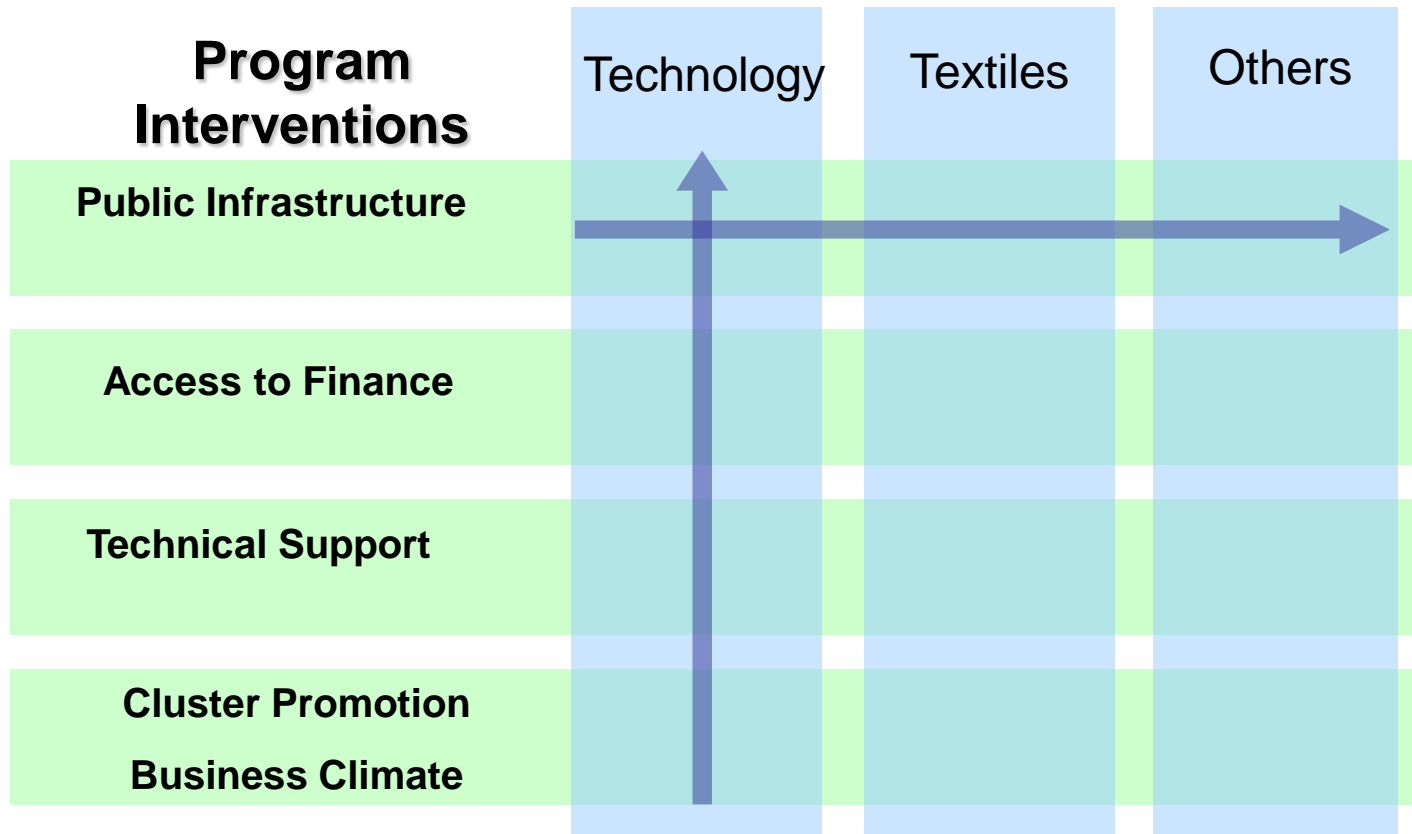
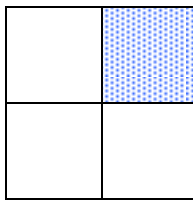


Support Firms

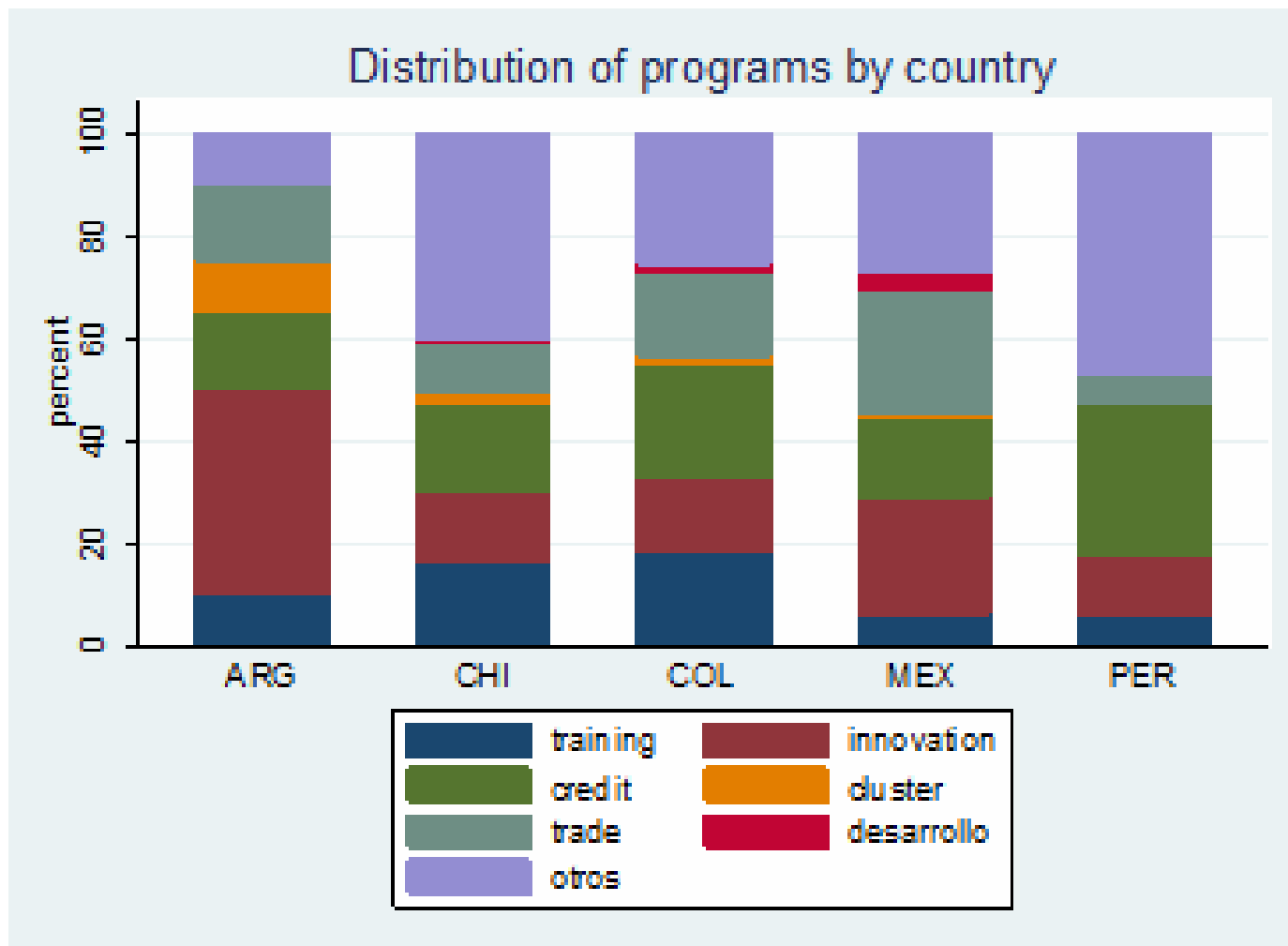
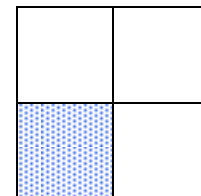


Infrastructure

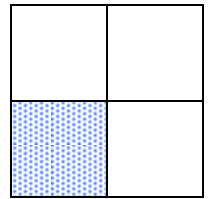
Cluster Programs



Productive Development Policies for SMEs

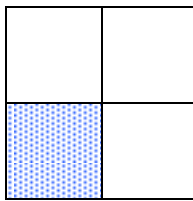


Productive Development Policies: Nonfinancial



- Firm Management upgrading
- Business alliances (vertical and horizontal)
- Technology transfer
- Innovation
- Export promotion
- Investment attraction
- Entrepreneurship programs
- Training

Role of Public Institutions: Layer Cake Model



Level	Role	Institución
3rd	<ul style="list-style-type: none">• Define policies, evaluate impact, promote coordination in the public sector	<ul style="list-style-type: none">• Ministry (economy, development trade, sector) (MDIC)
2nd	<ul style="list-style-type: none">• Design PDPs, assign resources	<ul style="list-style-type: none">• Agency (SEBRAE, BNDES, CORFO, SSPYME)
1st	<ul style="list-style-type: none">• Administer funds and intermediate resources	<ul style="list-style-type: none">• Agents and institutions (public and private)

Growth Policies

Horizontal

Vertical

Public
Goods

**Public Private Dialogue:
National/Regional
Agenda**

Roads, Schools, Trade Policy
Competition Rules,
Business Climate

**Cluster-Based Model for
identifying areas of
intervention**

Industry Research Institute
Quality Standards
Specialized Infrastructure

Market

Intervention

**Private Participation in
Delivery of PDP, M&E**

R&D tax incentives
Grants to firms
Subsidized training
Micro/SME credit

Sector tax holidays
(EPZ)
Industry subsidies
Directed credit

Role of the IDB

- **Lending:** *investments with public sector + direct lending and capital to private firms*
- **Technical Assistance:** *specialized skills and local knowledge for investment projects, policy reform, corporate finance, and project finance*
- **Research:** *research and analytical capabilities which provide the necessary inputs for policy discussions*
- **Policy Dialogue:** *convening authority with regional institutions and national level discussions*

Concluding Lessons

- **Dialogue between the public and private sector with** clear, open rules that encourage the participation of various actors.
- **Positive externalities** are to be targeted (social returns > private returns)
- **Risk sharing** should be the basis of public interventions, as well as the socialization of the benefits.
- **Do not “ pick winners”**, rather use clear monitoring tools to measure success and support it, use the same criteria to “cut” loses
 - **Private sector selects** when and how to compete
 - **Public sector identifies** lessons learned, disseminates results, both positive and negative, and measures impact.



Inter-American Development Bank / www.iadb.org