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# **Public-Private Collaboration on Productive Development Policies in Colombia**

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## **Abstract**

This Working Paper analyzes the institutions that shape public-private collaboration for the design and implementation of productive development policies in Colombia. These policies are increasingly designed in the context of formal institutions and venues, with public-private collaboration being a pillar of that formal design. This paper focuses on two specific case studies: the Private Council for Competitiveness and its role in the National Competitiveness System and the Productive Transformation Program. Both suggest that public-private collaboration has contributed to the continuity of productive development policies across the country. Public-private collaboration has also played a significant part in achievements such as overcoming specific government failures and developing private organizational capabilities. Thus, a central message of this paper is that formal institutions have an important potential to advance adequate productive development policies.

**JEL Classifications:** O43, D71, D78, L52

**Keywords:** Public-private collaboration, Productive development, Colombia

## 1. Introduction

This Working Paper analyzes public-private collaboration in Colombia for the design and implementation of productive development policies. It focuses on the institutions that shape those interactions and on whether the resulting mechanics threaten or enhance the effectiveness of such policies. Colombia is an interesting case study because productive development policies there are, in principle, designed in the context of formal institutions and venues. These include the National Competitiveness System, an umbrella institution for productive development policies that has shaped public-private interactions regarding these types of policies. This system has been conceived as one where the private sector plays an active role in the design of policies. Private sector representatives play consultative roles in different steps of the policy design process. But most importantly, private representatives sit shoulder-to-shoulder with government officials in the Competitiveness Commission's Executive Committee, the system's decision-making body. From the committee's inception, it has been the Private Council for Competitiveness (PCC) that has represented the private sector in this venue.<sup>1</sup>

This study focuses on two specific cases to analyze public-private interaction. First, given the prominent and peculiar role of the PCC in the National Competitiveness System, the council and its participation in the design of productive development policies are studied. To further ground the analysis, the study goes into deeper detail about the PCC's participation in two specific policy areas: innovation and transportation policies.

The PCC has also been involved in productive transformation policy, which constitutes a particularly fertile ground for understanding public-private collaboration for productive development in more vertical interventions. The World-Class Sectors Program—more recently known as the Productive Transformation Program (PTP)—which lies at the heart of productive transformation policies, is designed as a collaborative effort between the public and private sectors. In this sense, it is a policy-making experiment where the private sector plays a crucial role. The PTP is used as a second case study. Since the PTP is composed of particular subprograms for different sectors of the economy, three specific sectors are highlighted: cosmetics and cleaning products, business process outsourcing, and palm and palm oil. These were chosen based on an interest in including sectors with different characteristics in terms of

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<sup>1</sup> See Section 2 for the detailed history of PCC's involvement in the system.

their industrial and political organization, and because of their different degrees of success in achieving the goals that were set for each of them in the PTP.

The way in which the public and private sectors interact could affect the effectiveness of policies in different ways. Perhaps it is best to start with the understanding that, when private sector representatives participate in the design and implementation of policies that directly affect them, participation can ameliorate difficulties policymakers face in the optimal design of policy, particularly difficulties arising from information asymmetries. Businesspeople are those who best identify the barriers they face when trying to serve their clients, access new markets, increase productivity, enhance their product portfolio and, more generally, expand their businesses, in turn creating employment and growth opportunities for the economy as a whole. They are also in a unique position to determine which of these difficulties is most pressing. Moreover, consumers best identify signs of market power abuse. Also, both consumers and producers can point to existing policy interventions that have become more costly than beneficial. Collaboration with the private sector can yield important gains in the identification of areas where government intervention is most urgently needed and justified, and other areas where deregulation is beneficial.

At the same time, public-private collaboration encompasses dangers that may not only make it ineffective, but may even lead to damaging policies. The policies that producers in one sector would like to see enacted may be detrimental to producers in other sectors, or for consumers. They may also distort the allocation of resources across producers and sectors, creating additional hurdles for the ability of the economy to reach its full income-generating potential. This may occur if, for instance, policies that benefit inefficient producers eliminate the incentives they face to invest in improving their efficiency, so that they can be more competitive in the global market and offer better-quality jobs. More worrisome, the degree to which policy responds to the demands of different producers frequently depends on those producers' ability to have their voices heard by the right government officials and to convince those officials to push for the policies they desire. This ability varies across producers, with the larger more concentrated, organized, and politically involved frequently being also the more effective in lobbying. To this extent, inappropriately conducted public-private collaboration may lead to a perverse allocation of policy benefits, whereby benefits go to the most politically powerful, rather than the most economically promising. An additional problem is that policies benefitting

specific sectors or groups frequently become irreversible, even after the reasons that first motivated their adoption have disappeared (Buera, Moll, and Shin, 2013).

The degree to which these problems materialize in costly policies is likely to depend on the quality of institutions that frame public-private collaboration initiatives, and on broader political economy issues, such as alternate routes for the economically powerful to affect outcomes: campaign financing, side payments, and lobby power enabling them to bypass formal consultation processes. There are many dimensions to institutional quality in this context. One is the degree to which institutions help to level the playing field for different private sector representatives so they can effectively voice their concerns. The way in which potentially conflicting preferences of different groups are aggregated into actual policies should also be a concern. A third question relates to whether mechanisms for public-private collaboration privilege the discussion of horizontal over vertical policies, or whether the opposite is true, and if they focus on rent extraction (protectionism, subsidies, tax privileges) or on solving market or government failures.

An area of great importance to which little attention has been paid in studies on PDPs is the prominence given to interaction with the private sector within government. Is the government official designated to interact with the private sector sufficiently empowered to translate the conclusions of the interaction into actual policy projects? Is the government official perhaps too empowered, in the sense of there not being enough checks and balances to oppose regulatory capture by private groups? Is he or she sufficiently prepared and informed to understand how demands from a specific group of private sector representatives affect others, and ready to bring those considerations into the discussion and final decision? Can he or she understand the large heterogeneity even within sectors or groups, and that he/she may be facing a nonrepresentative group of views even for a relatively narrow sector? The answers to these questions not only shape the final outcome of the interaction around given private sector proposals, but also are likely to shape those proposals themselves, along with outlining the various goals the private sector seeks to achieve when interacting with the government.

This paper addresses these different issues by characterizing the public-private interactions in the different case studies presented. In particular, and in consonance with the other country studies in this project, the paper describes and characterizes the private representatives involved in each of the case studies, how they are organized, how representative

of the relevant private interests they are, how able they are to make their initiatives heard and eventually adopted, and how “benevolent” they are in the sense of representing the collective interest rather than their own interests. Similarly, the paper characterizes the government counterparts: who they are, which officials interact with the private sector, how able those officials are to translate the agreements reached into actual policies or decisions, and how discerning of particular interests hidden in private sector proposals at the cost of other interests. Finally, the paper characterizes the mechanics of the interaction and its outcomes. Those descriptions then form the basis for our conclusions on institutions that enhance and others that threaten the effectiveness of public-private collaboration for the adoption of policies that boost productive development.

The stories documented herein show that public-private collaboration has been crucial in planting the seeds for a true state policy around productive development, by allowing continuity of those policies across governments. Collaboration has also fueled particular achievements, such as helping overcome specific government failures and helping develop private organizational capabilities. A central message of this document will be that formal institutions seeking to foster public-private collaboration, such as the ones adopted in Colombia over the last few decades, have an important potential to advance appropriate productive development policies. It is important, however, to keep these findings in context, and to remember that public-private collaboration for productive development policies, though very positive, has by no means brought about a development “miracle.” Colombia continues to lag behind countries with similar income levels in international comparisons of productive development, making very little relative progress over the years.<sup>2</sup> Further, traditional rent seeking continues unabated, often through parallel channels or direct influence over top officials and the legislature.

The paper has five sections, including this introduction. Section 2 presents the first case study: the PCC and its participation in the design of policies for productive development. The second case study, the Productive Transformation, or World-Class Sectors Program, is presented in Section 3, and Section 4 concludes.

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<sup>2</sup> Colombia consistently ranks 65–70 among 125 countries in the Global Competitiveness Indicator of the World Economic Forum, behind countries in the region such as Panama, Costa Rica, Uruguay, Brazil, Mexico, and Peru, not to mention Chile. Colombia performs particularly badly in comparisons of labor market outcomes, labor market flexibility, and infrastructure and transportation costs. The WEF 2012 also ranks Colombia 70th among 125 countries in their Innovation Indicator, a policy area in which one of the first case studies here focuses, well behind Chile, Brazil, and Mexico.

## **2. The PCC: Making the Private Sector an Active Part in the Design of PDPs**

Colombia's Competitiveness and Innovation System articulates policies aimed at strengthening competitiveness. The National Commission for Competitiveness, a consultative body in charge of recommending a competitiveness agenda, where a wide array of private and public interests are represented supports the system. While broad representation of interests in the commission, and thus its large size, is critical to legitimizing the main policy strategies, it also renders the commission ineffective as a venue for day-to-day discussions. As a result, the true heart of the system is the commission's executive committee, composed of the heads of four government agencies and two private representatives: the PCC and Confecámaras.<sup>3</sup> Confecámaras only recently became a member of the executive committee, by Decree 1500 in July 2012, given its role of main private sector representative in the Regional Competitiveness Commissions (RCCs). Thus, during the time covered by this study, the PCC alone represented the private sector. The Competitiveness Agenda was proposed and expanded by the executive committee. Though it was later evaluated and finally approved by a series of other bodies in the National Competitiveness System, productive development policies are initially proposed and developed by the executive committee of the system, and the PCC has been an active member of that *petit comité*.

Public-private collaboration is central to Colombia's National Competitiveness System. Since its inception, bringing the private sector to the center of competitiveness policies was one of the aims of the system. While mechanisms permitting private sector representatives to voice their concerns and opinions have been formally established in Colombia for a long time, the current system, in place only since 2006, has brought private participation in policymaking to a different level. Not only are the interests of the private sector voiced through its representatives

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<sup>3</sup> The government representatives are the Minister of Trade, the Director of the National Planning Department, the presidential Advisor for Competitiveness, and the Director of Colciencias, the latter only becoming a member as a result of Decree 1500 of July 2012. The executive committee was first called the Technical Mixed Secretariat because of Decree 61 of 2007, and was initially composed of the National Planning Department and "a private sector representative designated by the Commission." It was the PCC that received that designation. Though the Commission could have in principle changed the identity of the private sector representative over time, it did not do so. Decree 1475 of 2008 added the Ministry of Trade to the Technical Mixed Secretariat. Decree 1500 of 2012 transformed the Technical Mixed Secretariat into the Executive Committee. The language about private sector representation changed from an open reference to a private sector representative to explicitly designating the PCC as a private member of the Committee. This Decree also expanded membership to Colciencias on the government side and Confecámaras on the private side.

in the National Competitiveness Commission, but also, a representative of the private sector—the PCC, and more recently Confecámaras—is part of its executive committee. This mechanism has given the private sector a direct role in productive policy design. The presence of the PCC in these bodies, and more generally the active role of the private sector in the system, and in some of the policies initially proposed in the context of the system, has been central to the greater stability of competitiveness policies over the last few years. This should become clear in the detailed discussion of selected examples of public-private collaboration. But too little time has passed to assert that such relative stability is here to stay.

## **2.1 The PCC: An Overview**

### *2.1.1 PCC Activities*

The PCC brings together businesspeople, business associations, and individual experts, including presidents of prestigious universities, with the aim of boosting competitiveness in Colombia. Since its inception in 2006, the PCC's activities have revolved around the design and supervision, executed jointly with the government, of the National Competitiveness Agenda, which puts together the goals and actions of the competitiveness policy.

The PCC has a staff of fewer than 10 researchers trained as economists, lawyers, and political and public policy scientists. The PCC's president and vice-president, positions that have been held by economists with strong backgrounds and reputations for technical knowledge and transparency, coordinate the staff. Staff members investigate economic outcomes and the state of policy in areas designated as priorities by the board of the PCC, and produce proposals. Their studies and the proposals endorsed by the board are published in annual competitiveness reports. These reports have become a vital instrument; they not only set the agenda for the PCC, but they have in practice become a crucial input—one could even say *the* crucial input—for the national competitiveness policy pursued by the National Competitiveness System. PCC staff members interact with relatively high-ranking government officials—at the level of division directors in the National Planning Department—in the development of these policy proposals. The PCC also issues a monthly publication, *Colombia Compite*, which monitors and evaluates the progress of productive development policies.

Since it was designated as a member of the executive committee of the system at its inception, the PCC has been a key player in the design of the country's competitiveness, or

productive development, policies. The system was born with a mandate to design and regularly update an overall policy framework for productive development. The executive committee and the PCC were directly involved in the elaboration of the first version of this policy framework. The process involved the president of the PCC sitting with the presidential advisor for competitiveness, the head of the National Planning Department, and the Ministry of Trade, and together with their respective staff members, creating the initiatives that became the first National Policy for Competitiveness. The broad National Competitiveness Commission endorsed this agenda and recommended its adoption to the government. The policy was adopted by CONPES Policy Document No. 3527 (June 2008),<sup>4</sup> which summarized the basic conceptual framework to guide competitiveness policies (Figure 1), and structured a series of concrete actions to improve competitiveness. Some actions were as specific as establishing a World-Class Sectors Program (Section 4) and a business plan methodology for the program, while others were as vague as strengthening the capacity of the State to solve controversies with investors.

The presidential advisor for competitiveness, the National Planning Department, the Ministry of Trade, and the PCC developed the initial policy document, as stated on its front page. This is to say that the first national policy for competitiveness was the result of active public-private collaboration, with the PCC playing an important role. More than lobbying for these policies, the PCC directly participated in their design.

Since promulgation of the policy, the PCC has exercised two roles: oversight of the execution of the policy framework and that of its successors, and continued active collaboration in design of other specific initiatives in productive development policies, following the model of collaboration that led to CONPES Policy Document No. 3527. Regarding the first role, each year the PCC's competitiveness reports include an assessment of the state of execution of the competitiveness policy in place at the time. PCC officials also participated actively in the discussions that led to CONPES Policy Document 3668 (2010), that evaluated the level of execution of actions contemplated in CONPES 3527. This was the first of the four annual evaluations of the competitiveness agenda required by law. The evaluation showed that most of the actions proposed in document 3527 had been implemented, although the resulting improvements in competitiveness were disappointingly modest. The regular evaluations of the

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<sup>4</sup> CONPES documents provide the guidelines for governmental economic and social policies. In a way, they state the commitments acquired by the government. While it is not unusual that many of those commitments are not fulfilled, CONPES documents are considered a necessary condition for any initiative to later come to life.

advancement of the competitiveness policy are unique. First, Colombia seems to be exceptional in the Latin American context, not only for having formal umbrella institutions for the advancement of productive policies, but also in the sense that those formal institutions require periodic evaluations of these policies. Another unique feature in Colombia is the role of public-private collaboration in the evaluation and oversight of policy, through the PCC's participation in its formal evaluations and its annual reports.

With respect to policy design, the model of public-private collaboration that led to CONPES 3527—an agenda jointly proposed by PCC staff members and government officials, then endorsed by the executive committee and further pursued by its members—has been later replicated for other policy initiatives. The PCC has later had similar direct participation in the creation of initiatives that implement actions contemplated in CONPES 3527, such as the National Logistics Policy (CONPES 3547, 2008), the Policy for the Strengthening of Human Capital (CONPES 3674), and the First Employment Law (Law 1429 of 2010).<sup>5</sup> More generally, the council presents proposals for the continued advancement of the agenda that are brought to the Executive Committee of the National Competitiveness System

Recently, with the execution of most of the (few) concrete actions proposed in CONPES 3527 and the beginning of a new presidency, the PCC directly participated, with the rest of members of the Executive Committee of the National Competitiveness System, in the design of the new competitiveness policy presented in 2012, known as the National Competitiveness Agenda. As with its previous version, CONPES document 3527, the PCC was actively involved in drafting this policy. Jointly with the presidential advisor for competitiveness and with the National Planning Department's deputy chief for enterprise development, the PCC led the process of putting together the draft. Consequently, several of its proposals to advance competitiveness in the country made their way into it. The National Competitiveness Commission endorsed the document, and it became the road map for competitiveness policy for the next several years. As with CONPES document 3527, this agenda includes a list of concrete actions to be implemented, together with deadlines for their implementation and agencies responsible for the processes. Viewing as an example the proposed actions relating to the

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<sup>5</sup> The direct participation of the PCC is explicitly recognized in some of these documents, such as CONPES 3674 and CONPES 3527. In other cases, it is reported by PCC staff members and not contested by others participating in the elaboration of these initiatives. CONPES documents are not in themselves regulations. They set the stage for the adoption of programs, laws, and other regulations. In the specific case of the competitiveness agenda, at least a number of the initiatives proposed in these documents became reality, such as the World-Class Sectors Program.

transport sector, some of these are as specific as expanding business hours at ports to 24 hours a day, seven days a week, while others are as general as promoting the development of intermodal transportation and studies for establishing logistical platforms.

The PCC has also had indirect influence in the adoption of other productive development policies that have come as the concretion of initiatives included in the national policy for competitiveness under its leadership and that of the other members of the executive committee. This is the case, for instance, of the progressive elimination of the tax on financial transactions, and of the creation of the National Agency for Infrastructure.

The PCC's role in the Executive Committee of the National Competitiveness System has made it the private sector representative that the government has chosen as its counterpart in other instances. The government frequently invites the PCC to discussions of all policies related to competitiveness. As an example, when in 2011 the government tried to abolish regulated freight tariffs, the PCC was called to participate in the discussions as a representative of the productive sectors. This happened despite the PCC's not being a representative of either the transport sector or the freight generators, the two sides that in theory these discussions were going to bring together. The PCC was also recently invited to join the National Council for Science, Technology, and Innovation Policies.

The PCC has also played a major role in keeping the government focused on issues of competitiveness and in achieving a degree of continuity in the process of formulation of the content of the government's Competitiveness Agenda. This role was particularly important in the transition from the previous to the present government. The transition may have meant a whole new redesign of the institutions governing competitiveness policies, as was characteristic of presidential transitions in the past. But the National Competitiveness System was not overturned, and there is no sign of any intention to replace it with a new one. Of course, only one government transition has occurred since the current system has been in place and, moreover, since Santos was part of Uribe's cabinet and ran for the presidency with his support, the transition was probably light, so how representative it was of the role the PCC will play in the future remains to be seen.

In any case, several actors concur in pointing to public-private collaboration, and in particular to the involvement of the PCC in the National Competitiveness System, as the main explanation for the continuity. The council has helped to keep the executive committee active

through the government transition. Several related elements contributed. First, as distinct from the pre-system analogues of the Competitiveness Commission, the effectiveness of the current commission, particularly its executive committee, on competitiveness policy does not depend solely on the new government placing a high priority on its initiatives. The fact that there is now a nongovernmental stakeholder that wants to retain a prominent policy role guarantees continued activity by the commission. Beyond the institutions themselves, the PCC has also helped keep the policy initiatives of the commission alive through the transition, as those initiatives are no longer children of a given administration but closer to state policies, conceived and approved as the result of a collaborative effort of the government and the private sector.<sup>6</sup> Finally, the PCC not only was behind the adoption by the present government of an innovation policy agenda as one of its five economic priorities,<sup>7</sup> but it also pressured the government to refocus on it when implementation languished after a change in the leadership of the National Planning Department, the agency that had been pushing for its implementation.

The PCC has also influenced the stance of some business associations in particular areas of policy, though it has been, at least until recently, less active in promoting a culture of competitiveness and a corresponding agenda within the private sector itself. There is less agreement on the PCC's influence and success on the operation of the RCCs. The RCCs, in existence for several years, have recently been recognized as coordinators of local competitiveness policies and were included in the new system of administration of royalties, at the suggestion of the PCC. In spite of efforts by the PCC and the National Planning Department to modernize the RCCs, where regional and local chambers of commerce represent the private sector, and governors and mayors represent the public sector, these remained largely ineffective until now, with some exceptions, such as in Antioquia, Bogota, and Medellin, where strong regional business associations and private sector leaders actively participate.

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<sup>6</sup> For instance, by the end of the Uribe administration there had been discussion in the National Competitiveness System about how to transform the transportation sector to make it a world-class sector, in the spirit of the World-Class Sectors Program model. Discussion tables were established to agree on actions toward this goal, and some progress was made. But the government's term ended before the discussion converged to an agreement, and the initiative seemed to die with the Santos administration—to which it was alien. But the PCC continued pushing for it in the context of the system. The new agenda for competitiveness, recently launched by the Santos government, has a whole chapter listing actions towards the transformation of the transport sector. It is the feeling of the PCC staff that their efforts to keep this theme alive in the discussions of the commission were instrumental in getting the Santos administration to embrace that discussion.

<sup>7</sup> The other four are traditional sectors that are supposed to play a leading role in the present economic context: mining, agriculture, infrastructure, and housing.

### *2.1.2 History of the PCC*

The circumstances that led to the emergence of the PCC determined the type of entrepreneur that joined this effort, which has in turn shaped the perceived legitimacy and influence of the council. This section presents a discussion of the early days of the council, with some detail about the personalities and institutions involved in its establishment. Although the peculiarities of the process were determinant of many of the features that characterize the PCC, those features turn out to be potentially replicable in other contexts and instructive from the point of view of lessons that the case yields for other environments.

Michael Porter proposed the PCC's creation to several entrepreneurs at an event organized by the Center for Leadership, a private organization that provides training to business leaders with the aim of fostering efficient, transparent, and sustainable models of management of public and private organizations in Latin America and helping the leaders in the region fulfill their responsibilities in terms of collective prosperity and sustainable development.<sup>8</sup> Though for-profit, the Center for Leadership has kept at the core of its activities a stated interest in training business leaders to foster what they call collective prosperity, an apparent result of the character of its founding members, many of whom later founded the PCC. President Alvaro Uribe enthusiastically supported Porter's proposal to create a PCC, to the point of offering to establish formal institutional procedures for consultations between the government and the proposed PCC on competitiveness policy issues. The presidential endorsement was also central to the business leaders' decision to in fact found create the PCC, initially funded by contributions from its founding members.<sup>9</sup> The forum that sparked the creation of the PCC took place just when the government was designing the National Competitiveness System (Section 2), so that the PCC and the system emerged simultaneously. This explains why the presidential offer to create institutionalized channels of consultations with the PCC eventually materialized into both the executive committee of the system being a joint public-private committee, and the PCC being the private sector representative in it.

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<sup>8</sup> [www.liderazgoygestion.com](http://www.liderazgoygestion.com)

<sup>9</sup> In the words of one of the PCC founding members, "it would not have been worth the effort if the government had not been willing to recognize the Council as a formal counterpart."

In interviews of policymakers and PCC members alike, the character of the council's founding members as determinant of the perceived legitimacy of the PCC's role in the National Competitiveness System became a running theme: most of the interviewees pointed to that characteristic as determinant of the government's willingness to recognize the PCC as a valid counterpart. PCC members identify themselves as particularly committed to collective welfare. While heads of other companies and associations have later joined the PCC, their membership has occurred by invitation of the earlier members, who state that those invitations are targeted to entrepreneurs and leaders whom they view as similarly committed to those collective goals.

The special character of PCC members does seem to be reflected in the agenda the council has been advancing, and in that respect the council constitutes an interesting addition to the map of private sector organizations that seek to influence policies. There has been an explicit effort to stay away from initiatives easily perceived as reflecting rent-seeking interests. The PCC has been critical in its Competitiveness Reports of excessive tariff dispersion—it openly supported recent tariff reductions that were bitterly opposed by specific subsectors—, and of tax privileges and subsidies to specific industries that lack strong support on analytical grounds.

The PCC's benevolent agenda is not only a consequence of the character of its members, but also a determinant of that character. Rent-seeking interests find policy lobbying attractive when this lobbying revolves around obtaining direct benefits for them. It is unlikely that they will be willing to devote energy and resources to more transversal agendas that require investing in coordinating efforts with other interests, that have more uncertain outcomes, and where they can only seize a small share of the benefits. As long as the PCC remains able to keep private interests from dominating its agenda, it should also be likely to keep rent-seeking interests away from its membership, and vice versa. When considering transplanting the PCC experiment to other contexts, therefore, establishing rules that limit the agenda to the more crosscutting issues that have dominated the PCC can help build a membership whose character is, as in Colombia, more consistent with pursuing improved general competitiveness than increased rents for specific groups.

The selective nature of PCC membership, however, does not come without cost. The PCC faces a difficult trade-off between being inclusive of the different private interests it is supposed to represent in the National Competitiveness System and keeping its membership selective enough to be effective and to maintain its focus on interventions that support

competitiveness widely understood. Two different strategies have been used to address the concern about the PCC's potentially limited representativeness: first, ANDI, the largest umbrella business association in the country, SAC, the association of agricultural producers, and Confecamaras, the association of chambers of commerce are all invited members of the council; second, the PCC's board has remained determined to keep the council away from proposals that clearly benefit specific producers at the expense of other producers or of consumers, even if those proposals have originated with or been supported by some of their members. For instance, they endorsed a trade reform that reduced import tariffs in 2010, despite strong opposition by SAC. There are anecdotes about members of the PCC opposing proposals, brought up by other members, considered harmful for the wider interests of the country's competitiveness despite bringing clear benefits to some PCC members.

Potentially limited representation of private interests in the PCC has also been addressed, in this case by the government, by having a broad range of representatives with varying interests sitting at the broader National Competitiveness Commission. The commission seldom meets, because its size and the mix of conflicting interests it represents make it ineffective as a way to make day-to-day decisions. But, it plays an important role in legitimizing the policies that it endorses. Business associations are also members of a variety of sector-level and transversal technical committees of the National Competitiveness System, some of which are active and bring proposals to the executive committee, while others are not. As aforementioned, moreover, recently Confecamaras joined the PCC as a member of the executive committee.

Broad representation may be less important for the types of initiatives that the PCC has been advancing than in other contexts. Since frequently the initiatives have been either crosscutting in nature or directed at alleviating coordination failures and government failures, they are rarely significantly harmful to specific interests, even if those interests are not directly represented in the PCC. The hypothesis that broad representation is not crucial in the discussion of the policies that are arguably most relevant for competitiveness has the important implication that the selective nature and reduced numbers that characterize PCC membership, which have been crucial for its effectiveness in designing and pushing a competitiveness agenda, do not impose significant costs to sectors not directly represented by the council.

The fact that the creation of the PCC and of the National Competitiveness System, proceeded in a parallel and coordinated fashion around 2006–2007 explains much of the

posterior involvement of the PCC in the making of competitiveness policy. McKinsey, Michael Porter, and other international experts played an important role as advisors both to the PCC sponsors in structuring the PCC—including helping organize trips to Ireland, Singapore, and the United States to examine other experiences—and to the government in reforming the existing institutional structure for competitiveness to evolve into the present system.<sup>10</sup> The joint emergence of the PCC and the National Competitiveness System, and the active involvement of the same group of experts in the two processes, determined the designation of the PCC as the private sector representative in the system’s Executive Committee.<sup>11</sup> The designation is not only telling in itself, but also because the role would have been traditionally assigned to the Council of Business Associations—the Consejo Gremial—a powerful association representing traditional business interests. The members of the Consejo Gremial contested the PCC’s designation as a private representative in the executive committee of the system.<sup>12</sup> But the PCC had the advantage of being perceived as a representative of the private sector but only of that part of the sector most aligned with collective interests. Two of the characteristics of the PCC were the main sources of this perception: the inclusion of benevolent entrepreneurs into the PCC, and the endorsement of the council’s initiatives by the international experts. Though there continues to be occasional discomfort in some business associations with the PCC’s special role in the competitiveness system, ANDI, the most influential, has become a supporter of this role, recognizing the advantages of being able to voice concerns and promote initiatives to government authorities both through it and directly.<sup>13</sup>

Despite these efforts, there are three criticisms of the composition of the PCC raised by other private sector representatives in interviews. The first is that the agricultural and mining sectors, a crucial part of the economy, are under-represented, and therefore the PCC’s initiatives and successes in these areas have been limited. The second is that the absence of some of the most powerful private industrial and financial groups limits the PCC’s capacity to influence policies. The third is that other important business associations, which are broadly representative

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<sup>10</sup> Later on, McKinsey and Ricardo Hausmann also played central roles as advisors to both the PCC and the government in setting up a modern public-private framework for a vertical PDP agenda, the World-Class Sectors, which later on became the Productive Transformation Agenda (see Section 3.4).

<sup>11</sup> The executive committee was known as “Technical Secretariat” at the time.

<sup>12</sup> The Consejo Gremial was designated as private sector representative in the National Competitiveness Commission. While the Commission is the supreme body of the system, it is too large and diverse to be effective as a venue for policy design. It seldom convenes, and when it does its role is to legitimate previously consulted proposals. Thus, the PCC remains more influential than the Consejo Gremial in terms of competitiveness policy.

<sup>13</sup> Interview with Luis Carlos Villegas, President of ANDI.

and technically capable, such as Asobancaria, should be members of the PCC. The latter two views are strongly contested by others, who believe it is more important that the PCC remains small enough to allow discussion and achieve consensus. Some interviewees also argue that only entrepreneurs who have shown strong commitment to innovation and modern development policies should be invited to become members and that membership by stronger groups would tilt the balance of power within the council inevitably in favor of the interests of these groups.<sup>14</sup>

### *2.1.2 An Assessment of Perceived Strengths and Weaknesses of the PCC*

The major strength of the PCC that the private sector seems to perceive is that it is formally recognized as the main private sector counterpart of the government in the Executive Committee of the National Competitiveness System.<sup>15</sup> In turn, the highest-ranking government officials view the council as capable of advancing sound technical proposals not regarded as representing narrow sector-level interests. By contrast, the initiatives and opinions of business associations are often perceived as being dominated by sector-level interests. In addition, most of them are viewed as having low technical capacity.<sup>16</sup> Other government officials at the level of division directors in ministries that were interviewed seemed unaware of the PCC's degree of influence; one saw the PCC as just "another business association."

The relatively high technical capacity of the PCC—either in-house or from advisors—has been important on two fronts: (1) it provides the government with an empowered counterpart with whom technocrats can interact, and which sometimes plays a neutral technical role among diverging positions of different public agencies; and (2) it allows the council to propose an agenda that can come from the private sector, as it revolves around issues that the private sector identifies as barriers to its competitive advancement that it cannot solve independently.

In terms of weaknesses, the PCC has had a small staff and limited technical resources at its disposal. Though individual experts and technical staff from business associations participate

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<sup>14</sup> A PCC member mentioned that an initiative similar to the PCC failed in Mexico, in his view because it was captured by the all-powerful enterprises of the Carlos Slim group.

<sup>15</sup> Recently, Confecámaras has joined the PCC in that role (Decree 1500, July, 2012).

<sup>16</sup> To an important degree, ANDI is an exception on both counts: it has generally recognized strong technical capacity and, because it has been broadening its constituency well beyond manufacturing, it is increasingly seen as aggregating broad private sector interests. For example, most large enterprises belonging to the financial, mining, energy, and infrastructure sectors are now members of ANDI and participate actively in ANDI's specialized chambers, even if they also keep separate business associations—as some industrial subsectors also do. Only a few other business associations, such as ASOBANCARIA, are also recognized to have a strong technical capacity, but they are perceived as defending more narrow sectorial interests.

in PCC technical committees in different areas, and the staff relies extensively on research published by the academic community, its capacity to carry on or contract out required additional analyses in the areas covered by the Competitiveness Agenda is limited to occasional support by multilateral institutions, such as the Andean Development Corporation and the Inter-American Development Bank (IDB). The scarcity of its own resources is generally seen as limiting its potential influence.

Another weakness of the PCC has to do with the fragility of the institutional structure of the National Competitiveness System and its dependence on the priorities and style of major government officials. During the Uribe administration, for instance, competitiveness was not among the president's priorities. The fate of the system depended significantly on who was appointed as presidential advisor in charge of coordinating it. On the positive side, the system's stability and its ability to set a competitiveness agenda and get the government to pursue it seem to have been strengthened by the PCC itself.

Further, though the PCC has had generally good access to the government and some capacity to influence its decisions or initiatives, it has had almost no access to or influence upon congressional decisions. Strong business associations have significant access to both government and congress and influence on both. Also, though the PCC has influence with opinion leaders, the strongest business associations have a much more significant presence in the media. And the PCC has had little effective influence on efforts to improve competitiveness both within the private sector and within regions.

## **2.2. PCC Policy Case 1: Innovation Policy Reforms**

Colombia has for a long time had a Science and Technology (Sc&T) policy oriented toward strengthening the supply of scientific and technological services, where the central governmental actor has traditionally been Colciencias, and later the Advisory Council on Science, Technology, and Innovation, led by Colciencias.<sup>17</sup> Despite its age, the system has not been effective in taking Colombia to the level of scientific innovation expected for comparable countries. Overall research and development (R&D) expenses, at 0.16 percent of GDP in 2010, and the number of

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<sup>17</sup> Other government agencies with significant responsibilities in this area were Corpoica, a public corporation for Research in Agriculture; FOMIPYME, a fund to promote entrepreneurship in small and medium size enterprises under the Ministry of Industry and Commerce, and SENA, the training institute under the Ministry of Labor, which was supposed to devote 20 percent of its generous budget to the promotion of entrepreneurship, Fondo Emprender.

patents per inhabitant, have been one of the lowest in Latin America. Colombia also ranks low in global innovation indexes: 97 out of 120 in the WEF Index of Knowledge Creation, and 91 out of 120 in patent registration (Insead and Wipo, 2012), to give just two examples.

The PCC insisted since its inception that it was necessary to strengthen the Sc&T system, providing significantly higher public funding for Sc&T activities and instituting a National Innovation System (NIS), with a more holistic view that would link Sc&T to productive activities and the formation of human capital through the National Competitiveness System. Around 2010, the then-incoming Santos administration embraced a similar view and began taking steps toward its implementation. First, innovation became one of five priorities to stimulate economic growth within the government's National Development Plan, the road map of the administration's economic policy in Colombia.<sup>18</sup> Second, early in its term, the government pushed for a reform, rapidly approved by Congress, to devote 10 percent of the increasing oil and mineral royalties to financing innovation policies, following the example of Chile. Finally, the Sc&T system was "articulated"—though not fully integrated as originally envisaged—with the National Competitiveness System, which became the National Competitiveness and Innovation System by Decree 1500 of 2012. Colciencias became a member of the executive council of the system, together with the PCC and the other previous members. At the same time, the PCC began to be informally invited to attend the sessions of the Council on Science, Technology, and Innovation. Nonetheless, the stated goal of articulation remained rather elusive, in the opinion of several of interviewees.

Measures of a similar vein had been previously proposed by the PCC, and there are reasons to believe that the previous efforts of the council had some influence on both their adoption and their design. Those involved in writing the National Development Plan indicate that the design of the innovation policy in the plan benefited from previous work at the PCC. The policy contained specific measures previously proposed by the PCC, such as an increase in public financial support; provision of specific sector level public goods to clusters; enactment of reforms aimed at strengthening Colciencias and Sena, the national training agency; and creation of a Development Unit within Bancóldex to be in charge of the programs that support private sector innovation, based on the successful experience of CORFO in Chile.

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<sup>18</sup> The other four were rather conventional sectors: mining and oil, agricultural diversification, public infrastructure, and housing.

Part of this translation of PCC proposals into government plans can be attributed to the closeness between previous PCC officials and the Santos administration—to a point where the former PCC president was the first National Planning Director of the administration. Though this closeness could be seen as an exogenous factor that gave the PCC accidental influence over the government, this study advances the view that it actually (also) reflected the recognition by the Santos administration that PCC officers had developed a promising framework to fuel competitiveness and innovation, the latter being one of the administration's priorities. In addition, the government hired a team of Chilean economists to design the policy, advisors who had previously informed the PCC about how to develop a system similar to the Chilean one.

The PCC, through its participation in the Executive Committee of the National Competitiveness System, had a leading role in drafting the Santos' Competitiveness Agenda, leading, among other things, to the reform of the Sc&TI system. The PCC similarly participated in discussions leading to the design of programs such as Bancóldex's Innpulsa initiative to support private innovation, and the Modernization and Innovation Fund that supports this program. Further, the PCC's executive director is a member of the Modernization and Innovation Fund. Bancóldex' staff highly value the participation of the PCC in this fund, as well as in the executive council of the National Competitiveness System. They see the PCC as providing a long-term vision that is often lacking in government agencies, acting as a broker among competing government agencies' interests and helping to define the allocation of resources among competing programs and agencies' claims.

The PCC had little influence or participation in the proposal or discussion of the specifics of the Royalties Reform, envisioned as the mechanism to increase public funding to Sc&TI publicly. Moreover, after its involvement in the design of the competitiveness and innovation systems, the PCC's participation in the implementation of the changes was limited, and some of its achievements were jeopardized by the channeling of most of the new funding for innovation to regional actors with little or no capacities, experience, and incentives for productive innovation. The PCC lacks operational links with these new regional actors.

### **2.3 PCC Policy Case 2: The PCC and the Regulation of Freight Transportation in Colombia**

Since its early days, one of the main focus areas of the PCC has been transportation and logistics policies. High transportation costs are a well-recognized obstacle to competitiveness in Colombia. Indicators are alarming. It is cheaper to move one ton of freight from Cartagena to Shanghai than to get it to Cartagena from Medellín (700 km) or Bogotá (1050 km). Freight traveling from Medellín to Cartagena can experience dead times as long as 50+ days. The country ranked 95 among 142 countries in infrastructure in the Global Competitiveness Indicators 2011–2012 of the World Economic Forum and has been consistently moving down in these rankings.

The focus of the national debate around these issues, and the focus of policies to alleviate these problems, has been the construction of infrastructure (which is not to say that infrastructure has effectively improved). In terms of productive development, however, infrastructure is only part of the problem. High transportation costs are also attributable, to an important degree, to logistical issues. For instance, road closures are only a small fraction of the reasons behind dead times in the transportation of freight; much more important are the numerous inspections that trucks have to go through, the port closures, the limited business hours at ports, and the long lines to access the ports. Another critical issue has been the low average quality of transportation services, part of it attributable to poor regulation: old trucks—the average age being 22 years—high informality, and, until recently, regulated floors for tariffs. To provide some quantification, the cost of logistics has been estimated at 23 percent of GDP in Colombia, compared to 9 percent in the OECD countries and 18 percent in Chile.<sup>19</sup>

A holistic reform for transportation and logistics policy has thus been a running theme of the PCC's recommendations. It is the innovation it has brought to the debate, otherwise centered around infrastructure, on how to reduce the high transportation costs. Since its very first competitiveness report, the council has been insisting on designing a comprehensive policy that aims to improve logistics and implement multi-modal systems in the context of current almost total dependence on road transportation. The success of its initiatives in this front, however, has been quite limited until now.

The PCC proposals to design an overall transportation policy were partially echoed by the first National Competitiveness Policy (CONPES Policy Document No. 3527). This was a direct consequence of the PCC's active involvement in the drafting of that policy: the PCC was

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<sup>19</sup> Competitiveness Report 2011–2012, Private Council for Competitiveness.

one of the four agencies, and the only private one, in charge of its development. First, CONPES 3527 created a technical subcommittee of the Competitiveness System on Logistics and Transportation. It also established concrete actions to be implemented in the following four years. Most of the “concrete” actions established in that document, however, to advance toward facilitating logistics and developing inter-modal transportation were not particularly ambitious, or even truly concrete. Among the proposed actions, the only one that was sufficiently concrete to monitor its execution, was the drafting and approval of a CONPES document on logistics policy. The other actions planned in CONPES 3527 were as vague as “develop efficient freight transportation systems and optimal regulation” and use an “intermodal model to establish priorities in terms of infrastructure and logistics projects.” Subsequent evaluations of the execution of CONPES 3527, including its formal evaluation, CONPES 3668 of 2010, showed very little in terms of achieving these additional goals.

With respect to the proposal to generate a policy document containing the road map for logistics policy, the document was drafted and approved as CONPES 3547, shortly after the approval of the competitiveness policy itself. The logistics policy instructed the government to strengthen the technical subcommittee of logistics as transportation as the “stakeholder” of logistics policy; implement a timely system of information on logistics; create “logistical platforms,”<sup>20</sup> and coordinate the different actors involved in inspections and certifications at ports to ensure that these requirements would be fulfilled in a timely manner. In this sense, the PCC had some degree of success in getting its proposals adopted as official policies. Not only had the PCC been proposing for a while that a logistics policy be drafted, but it active participated in the drafting of the document itself, given its participation in the Technical Subcommittee on Logistics and Transportation.

Almost four years after the CONPES document was approved, however, progress on the actions it proposed has been scarce. Beyond drafting CONPES 3547, the Technical Subcommittee on Logistics and Transportation has remained rather passive, not playing the role it was supposed to take in the oversight of the implementation of a holistic view for the sector. Feasibility studies for logistical platforms have proceeded at a slow pace, with no platform implemented today. Dead times at ports remain extremely high. Little progress has been made

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<sup>20</sup> Logistical platforms are defined in CONPES 2547 as delimited locations where all of the activities related to logistics for transportation are concentrated.

toward getting the different agencies involved in the processes of inspections and certifications to coordinate their processes to speed up shipments.

The PCC has continued to push the logistics policy as one of its main priorities, both in the public debate and in the formal arenas of the competitiveness system. It seems to be making some new progress, with the inclusion of its proposals to pursue multimodal transportation and to re-think the policy for freight transportation in an integral way in the new Agenda for Competitiveness (July 2012). Some concrete actions toward these goals have been taken, such as implementing some degree of coordination between different agencies at ports in early 2013, but how far this implementation will go and whether others will be taken remains to be seen.

The limited success of the PCC in pushing for an effective reduction of logistics costs is perhaps surprising: the weight of these costs on the competitiveness lag is high, and relatively straightforward actions—like getting the different agencies involved in port processes to conduct a single unified inspection and keeping an integrated single information system—could bring about major improvements. Why, then, has it been so difficult to effectively push this agenda? Several reasons seem to be behind this failure. While the responsibility for almost all other policy areas that bear on competitiveness lies in the hands of a clearly defined government agency, logistics does not. It is an area that demands intense coordination by different agencies, without any of them being the clear stakeholder. Logistics is also much less visible than infrastructure or labor regulation. As a result, the political will to move the issue forward is hard to garner. On the PCC side, the insistence on pushing for a holistic view of transportation policy seems to be clashing against the lack of a clearly established government counterpart to take the blame for a failure to adopt it. It seems that, insofar as that counterpart does not exist, the agenda-setting power in the competitiveness system would be better devoted to getting explicit and tangible actions incorporated to the competitiveness agendas that would serve as a road map for actual logistics or infrastructure policy. Some of this has been done, for instance, through the inclusion of concrete recommendations such as the purchase of latest-technology scanners for merchandise at ports. Finally, the limited range of private interests present in the PCC may be bearing on the council's ability to influence transportation policy. In particular, the transportation sector itself has no direct representation on the PCC.<sup>21</sup>

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<sup>21</sup> Despite this fact, the PCC continues to be a private counterpart of choice of the government on transportation issues. For example, when the government removed regulated floors for freight transportation tariffs, the PCC was

## 2.4 The PCC: Taking Stock

Before moving to the second case study, the PTP, in the conception of which the PCC was actively involved, a few important facts relating to the PCC will be highlighted. First, public-private collaboration has truly been at the heart of both the institutions for competitiveness policies and the design of the policies themselves. This goes beyond the private sector being able to voice its concerns, which it is, as a wide range of private sector representatives hold seats in the National Competitiveness Commission. In particular, policies for competitiveness are first born in the executive committee, held jointly by the National Planning Department, the Ministry of Trade, the PCC, and, recently, also Colciencias and Confecámaras. The PCC has played a central role in establishing policy priorities and designing broad policies for competitiveness. It has, in effect, retained a leading role on the Executive Committee. This role has been enabled by the high-level formal institutions designed to favor public-private collaboration, and by those institutions' formal empowerment of the PCC as a main player in the policy-making for competitiveness.

The PCC's active role in the system, and in particular in its executive committee, has been crucial to giving continuity to both institutions and policies for competitiveness. For the first time in 20 years, institutions for competitiveness policies survived a government transition. The same can be said about cornerstone policy initiatives, such as the World-Class Sectors Program. The PCC and the system are still sufficiently young that it remains to be seen whether the continuity will consolidate in the long run.

The legitimacy of the PCC as a private sector representative in matters relating to competitiveness has stemmed from its perceived focus on policies directed at enhancing overall competitiveness, as opposed to policies that benefit specific sectors or groups at the expense of others. This perception first emerged as a consequence of the reputation of its founding members. It was later reinforced by the PCC's vocal opposition to policies perceived as beneficial to concentrated interests and by its effective resistance to push for policies that specifically benefited its members. The technical advice provided by highly recognized technical experts and think tanks, as an input for the PCC's initiatives, has also been instrumental in

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called to participate in the negotiating tables established in an attempt to dilute the bitter and costly protests by transporters that initially brought the country to a halt for several days.

maintaining its reputation and legitimizing its activities. The PCC is today called upon to represent the private sector in policy arenas not directly part of the National Competitiveness System. The government seems to see the PCC as a valid and legitimate counterpart in these arenas.

Though these characteristics of the PCC derived from the specific circumstances that led to the council's emergence—and could thus be considered historical accidents—many of them are replicable in other contexts. Much of the PCC's influence depends upon the fact that those circumstances led to the council being formally empowered within a set of umbrella institutions that, in turn, formally give public-private collaboration high stature in the making of competitiveness policies. Moreover, the scope of public-private collaboration for productive policies, at least in terms of collaboration of the type depicted in Colombia by the PCC's involvement in policy, can be restricted to policy dimensions where there are fewer opportunities for private rent-seeking, such as crosscutting policies and policies aimed at solving government failures or private coordination failures.

### **3. The Case of the PTP for the Development of World-Class Sectors**

Productive transformation has been at the heart of Colombia's recent competitiveness policies since the National Policy for Competitiveness of CONPES 3527 was launched. It was not only one of the five pillars of this agenda, but it was the most concrete of the broad policy priorities (Figure 1). This reflected the view that transforming the sector composition of production was crucial to making the country competitive in international markets, and especially to making it competitive in products that would contribute the most to the country's economic advancement. As conceived in the competitiveness agenda, and later effectively implemented, initiatives regarding productive transformation were originally condensed in the World-Class Sectors Program, known today as the PTP.

Not only was the launching of the program recommended by CONPES Policy Document No. 3527, but specific guidelines were also provided in the CONPES. As a result, the program itself was quickly launched: by the end of 2008, only a few months after the competitiveness CONPES was issued, four sectors had already been selected as part of the program, and their business plans were either completed or under development. The PCC was actively involved in

proposing this initiative, to the point that, according to several interviewees, the PCC's president, the presidential advisor for competitiveness, and the Ministry of Trade were responsible for the initial design of the program.

The upcoming sections describe general features of the program—the methodology that guides public-private interaction in this context, and the organization of the public side of the program—and then a study of three specific sector PTPs: cosmetics, BPO&O, and palm oil. For each of these cases, the public and private sector actors involved are described, as is the manner in which public-private collaboration has effectively proceeded.

### **3.1 The PTP Initiative: Overview**

Since its inception, the National Policy for Competitiveness provided detailed guidelines for the PTP program. The initiative was to identify sectors that had large potential as engines for export growth and for productive development, and to help those sectors achieve that potential. The program started in 2008, when four sectors entered the program. The first round focused on emerging sectors. Two other rounds were subsequently held, to include promising sectors among the already established—the *más y mejor de lo bueno* round, and the agricultural sectors, or agro wave. Today, the program includes 12 sectors, four corresponding to each of the rounds: software, business process outsourcing, cosmetics, and health tourism in the emerging sectors category; textiles and apparel, energy, auto parts, and graphic arts in the established sectors wave; and shrimp harvesting, cocoa and its byproducts, beef production, and palm and oils in the agro round.

The methodology of the program follows three basic steps. Initially, sectors are selected to participate in the process. A work team is designated, including a public and a private manager for the respective sector, each paid by the respective side. In the second step, the work team collaborates to create a business plan that specifies a plan of action for the sector, in a process facilitated by an international expert or team of experts. Finally, the plan is executed over the course of several years. A team of representatives, consisting of the private sector participants and public officials of the program, coordinate and supervise the execution of the plan. Ongoing evaluation is also built into the design of the program, under the coordination of an evaluation unit in the PTP.

Public-private collaboration is essential to the program, as is revealed by the mixed nature of the team and the participation of both sides in each. Interviews of participants suggest that the mechanics of work by these teams is truly collaborative. Below each of the steps of the program is explained, identifying actors and mechanics of interaction at each of these stages. A subsequent subsection will explain the organization on the public side of the program. Private actors are generically identified in the first of these subsections, and are explained in detail later for each specific sector analyzed.

### *3.1.1 Steps of the Process: Actors and Mechanics of Interaction*

The inclusion of sectors in the first and second rounds of the program followed two steps. First, the sectors of interest were identified and invited to submit a proposal. Second, participants were selected among those submitting a proposal.

In the first step, a wide range of indicators was used to identify the sectors to be invited to apply for the program. The stated aim was to find sectors that could become engines for export-led growth in the country. A very wide set of indicators was considered. These included studies by Ricardo Hausmann and Bailey Klinger (Harvard's Kennedy School), studies by International Development Ireland, and by other consultants; the results of consultations with representatives of all regions and sectors under the Domestic Agenda initiative (see Eslava and Meléndez, 2009 and Meléndez and Perry, 2009); studies by Colciencias; and other inputs.

The process to shortlist some sectors using all of these inputs was characterized by open discussions among the members of the executive committee, technical secretariat, and the Competitiveness Commission. In the end, a call for proposals for a short list of emerging sectors was launched, quickly followed by another call for established sectors. Each of these called for proposals from around 10 sectors, almost all of which ended up presenting their proposals.

The findings of this study leave a number of open questions about the first pre-selection stage in at least two dimensions: the procedures that characterized the process per se, in terms of their coherence within the aim of the process, and the final outcome of the process. In terms of the first dimension, only some inputs of the process responded to well-defined methodologies to identify promising sectors (e.g., the aforementioned studies by various consultants). These are also the inputs that had a more transparent role in the process. One first source of possible

controversy is that, at least from the interviews conducted and the publicly available documents consulted, it is not clear what other elements were used as inputs in the selection process or how they were aggregated into a final decision.

A second source of open questions was that some of the other inputs that participants in the process mention were not in principle designed to identify sectors with high potential as engines of aggregate growth. The Domestic Agenda, for instance, collected requests by sectors and regions for actions by the central government that they considered necessary to foster growth in the respective region. Some of these requests did respond to regional sector “bets”, but there was no unified methodology to identify these bets, nor one that resolved possible contradictions across regions.

In terms of the outcomes of the pre-selection process, the mixed nature of the pre-selected sectors in terms of whether they were new or established, rapid or slow growers, high- or low-productivity sectors, raises questions about whether their selection followed a coherent view about the characteristics that make a sector promising in terms of its potential as an engine of growth. To provide one example, the first wave of pre-selection was directed at emerging sectors and the second wave, *más y mejor de lo bueno*, focused on existing sectors. Whether the pre-selected emerging sectors represented higher promise than the established ones is a relevant question in terms of the direction in which the government wants to tilt productive transformation—the very aim of the program—. This question seems to have been neglected in the discussion and in the resulting selection of sectors. These are left as open questions to which the discussion will return in the conclusions. We also note that even a negative answer about the benefits of the program in terms of directing the sector composition of production does not deny other important benefits that the program may bring for the development of the sectors that were selected, and, in turn, to overall growth in the country. In fact, many of the study’s findings below point to important benefits in these dimensions.

The proposals presented by the pre-selected sectors for the selection round consisted of a diagnosis of their current participation in international markets and their ability to compete at the highest level in those markets; a vision statement for the sector in the short, medium, and long runs; and a statement of barriers to sector development together with actions necessary to boost exports by the sector. Sectors were expected to be or to become able to successfully compete in free-market conditions, so when the aforementioned actions included requests to the government,

these were expected not to be protectionist measures, subsidies, or similar policy benefits. A jury made up of the National Planning Department, the PCC, Proexport, the export promotion public agency, and Bancóldex, the public development bank, selected the sectors to be included in the program out of those presenting proposals.

This methodology for selecting proposals implies that private sector proponents self-selected into applying for the program. Sector leadership was not necessarily well established, especially in emerging sectors, and not necessarily concentrated in a single actor. Some of these proponents were well-established business associations, while others were young associations or groups of associations. These proponents were not necessarily recognized by all businesses involved as their representatives.

The degree to which the proponent seemed able to identify problems in the sector, represent most relevant private sector interests, and organize to bring the business plan into effect, appears to have been part of the criteria the jury took into account in selecting winners of the call. Furthermore, current guidelines for the program's future expansion explicitly call for greater attention to be given to these criteria (CONPES document 3678, 2010). Individual businesspeople and other private representatives were invited to participate at specific points in later stages of the process, to empower them to voice their concerns. Despite these efforts, as will be shown in the description of specific cases, there has been some discussion about the degree to which the private sector representative that directly participates in the program is representative of all the private interests involved. In fact, for some sectors, private representatives other than the initial proponents were later invited to share the private leadership with those initial participants.

### *3.1.2 Development of Business Plans*

Sector business plans were developed using a methodology of joint work between the public and private sectors and external consultants: McKinzezy in the first two rounds and AT Kearney in the agro wave. Given that plans should emerge from collaborative work, entrepreneurs, business associations, government representatives, and academics were called to participate in a process explicitly designed to make this possible. The private sector brought its business knowledge to the table; the public sector brought its knowledge of public sector dynamics and its view on productive development policies for each sector, and the external consultants acted as facilitators

and contributed the methodology for developing the business plans, as well as information about the international experience, to place the discussion in context. Not all sector PTPs were successful in reaching consensus at this stage. As a result, there was substantial variation in the level of precision with which goals and policy needs were included in the business plans. The methodology followed in the discussion was, however, similar in all cases.

Collaboration materialized through participation in three groupings:

- *Work teams in charge of data collection, processing and analysis; interviews; workshops; and general facilitation of the brainstorming process; as well as of the preparation of progress and final reports. These teams were composed by the assigned public and private managers and their teams and the external consultants, and included public managers in charge of thematic areas transversal to all sectors.*
- *Sector committees that met every two weeks to discuss and refine the diagnostics, gaps, initiatives, and action plans and to contribute in putting together final recommendations and implementation plans. In addition to the members of the permanent work teams, these committees included heads of business associations; leading entrepreneurs; representatives of Colciencias, the national agency in charge of technological innovation; and representatives of other ministries.*
- *Validation workshops that met on a monthly basis to validate the main initiatives of each business plan from a wider perspective, as well as to provide guidelines for its construction. In addition to the sector committee members, validation workshops included smaller entrepreneurs representative of their sectors in the regions; academia; other members of the sectors' value chains; and representatives of still other government authorities whose participation was going to be necessary for the implementation of the business plans.*

The process for developing each business plan lasted three months and was divided into three stages:

- *Stage 1: Global diagnostics aimed at assessing the sector's potential for growth in the international markets and providing information about global players, best*

*practices, and elements of success to place the conversation in an appropriate context.*

- *Stage 2: Sector assessments for Colombia, to review the sector's development level, its competitiveness, its long-run goals and the factors that are critical for productivity growth.*
- *Stage 3: Sector business plan, based on the sector's value proposal and the outcomes of the previous stages, to define a strategic agenda and a road map to achieve a set of concrete goals.*

### *3.1.3 Implementation of Business Plans*

The resulting set of initiatives in each of the sector business plans are to some degree similar to those arrived at in previous exercises, orchestrated by the Ministry of Trade and the National Planning Department. The fact that despite having identified them before, there had been no success in translating them into actions at the time the program was launched was interpreted as evidence of the poor implementation capacity of both the private and public actors involved, and led to the realization that implementation of the business plans should be based upon the same model of public-private collaboration used for the elaboration of the plan itself. This would facilitate the monitoring of progress toward a set of well-defined short-, medium-, and long-term goals.

Each initiative in a business plan was for this purpose translated into a road map that summarized goals, activities, responsible public or private actors, deadlines, risks, and an associated budget. The public sector created a structure to facilitate this monitoring.

Business plans are to be revised periodically, every two years, to adjust to changing industry and business environment conditions. This will be done through continued public-private collaboration under the PTP.

### *3.1.4 Public Sector Organization*

The PTP was, at its inception, formally organized as a program within the Ministry of Trade. As such, the Ministry of Trade provided the basic organization on the public sector side, even though government officials from other agencies were called on to participate at specific stages of the process. The organization of the program included a general manager and four upper-tier

managers under the manager's coordination. Each of these managers was in charge of one of four thematic areas that are transversal to all PTPs: human capital, legal and regulatory framework, promotion policies, and infrastructure. These are the areas in which the public side of the program focuses its efforts to articulate the work of different public agencies. There was also a public manager for each sector, recruited and hired by the Ministry of Trade. These public officials acted as facilitators. They had the mandate to voice the concerns and requests identified within the PTP to the relevant government authorities and to monitor the progress of the initiatives agreed upon in the business plans. They also were in charge of the respective business plans. The program's budget was quite limited and included paying the salaries of these officials and paying part of the private consultancy that led to the development of the business plan.

During the first few years, part of the organization proved unstable, and the instability impacted the degree to which business plans' goals were reached. Public managers changed frequently. Even when a manager was kept for a relatively long period, his contracts were short term, with long spaces from contract to contract. As a result, private sector representatives, at times, had no public manager with whom to interact, or they had to establish a new relationship with a new manager. These changes seem to have been harmful to the extent that, according to the interviews conducted, the collaboration process relied heavily on close interaction between the public and the private manager.

In 2010, a new CONPES dedicated solely to the PTP (CONPES 3678, 2010) identified weaknesses in the public organization to interact with the private sector in the context of the program. Moreover, the Santos administration adopted the PTP as one of its leading programs in terms of competitiveness policy. As a consequence of these developments, the National Development Plan of the Santos administration established a new character for the program within the government and defined a new form of organization. The program was removed from the Ministry of Trade, given autonomous resources in the form of an Autonomous Patrimony, and placed under the administration of Bancóldex, which is governed by more flexible rules than other public entities because it has its own budget. With this shift, the program was freed from the bureaucratic and administrative barriers imposed by being part of a Ministry. One consequence was the possibility to hire public managers with longer-term contracts. The program also received a larger budget and was able to raise the salaries paid to its staff. While before this reform the public managers were officials with bachelor's degrees and a few years of

experience in low- and medium-rank positions in the public sector, the current staff has higher levels of education. Some public managers now have a history of positions in the private sector and some experience in the public sector, in positions such as advisors for high-ranking officials.

While there is now a special recruitment process for PTP officers, many of the lower-tier positions were filled with people who were already working for the PTP. These people received the PTP re-organization positively, and are undoubtedly more motivated to make more of the program now that they have better employment conditions. The more competitive salaries also enabled the program to recruit highly qualified professionals for the more senior positions, such as its general manager. Reorganization has also contributed to improving the program's identity and the staff's level of commitment. Another change in the organization of the program was the inclusion of an additional upper tier of officers that coordinate broad sectors, such as manufacturing and agriculture.

Also, as part of Bancóldex, the PTP has a more flexible budget that enables it to pay external consultants and conduct studies if needed to support the sector's business plan initiatives. This budget is not enough for the PTP to be able to deliver on the provision of identified public interventions. But this is so by design, because the PTP was not conceived for that purpose.

There is a monitoring system designed to follow the progress of each sector's PTP, under the coordination of a special monitoring unit inside the PTP. Under this system, the public sector keeps a detailed record of activities and accomplishments. These records are meant, however, only for this purpose and, in principle, are not designed as a means to collect information that will facilitate adapting the required policies as the PTP progresses. As conceived, however, interaction in the context of the PTP should allow participants to identify changing needs or to request policy evaluations.

These organizational changes in the structure of the program have proven important in terms of the effective capacity of program officials to achieve the goals set forth in the respective business plans. One area where the heightened status and continuity of the officials has been important is their capacity to articulate the work of different government agencies whose intervention is necessary. The increased capabilities of officials in pre-existing positions have also been strengthened by the introduction of a new position, transversal to all the PTP sectors, whose director is in charge of reaching out to different government agencies and coordinating

their work regarding business plan objectives. The effectiveness of these changes has been enhanced by the public support the program has received from the president and its prominent place in the government's competitiveness policy. PTP participants frequently point to the important role that this visible support has played in helping to effectively achieve the goals set in the respective business plans. Though it is an open question whether the program's articulating capabilities can survive a transition to a government that gives it less priority, it is also true that its ability to gather and transmit information from the private sector to relevant public agencies is welcomed by the latter and could remain effective for reasons not related to the priorities of one government or the other.

A drawback of the program is that there is no mechanism for the private sector to hold the public sector accountable for following up on decisions that are reached. There are, however, de facto spaces for the public sector to receive continuous feedback from the private sector during the implementation of policies in response to perceived needs: by design, the frequency of the full-time work team meetings provides an opportunity for this.

### **3.2 Business Process Outsourcing and Offshoring**

In 2008, business process outsourcing and offshoring was a small industry in Colombia, despite the country's clear advantages in terms of the low costs of the industry's main input: manpower. The very dynamic nature of the sector in global terms, the low cost of employment in the country, and the sector's unparalleled potential for job creation—in the context of a country with high and pervasive unemployment—made it very attractive as a source of growth. In this context, the sector was invited to participate in the first call for proposals of the World-Class Sectors Program.

The Contact Centers Association, a young association representing a narrow group of interests, submitted a proposal for the sector to join the program. This association was founded in 2001 for the purpose of promoting the interests of its members, to help strengthen the contact centers industry in Colombia.<sup>22</sup> By 2008, it represented most of the 25 contact centers in the country. Its members made regular contributions to fund the small staff of the association. The value proposal submitted by the association to the PTP was based on the high potential for

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<sup>22</sup> See [www.acdecc.org](http://www.acdecc.org).

growth the sector held in global markets and the fact that such high growth was impeded by factors that could only be modified with the government's participation. Perhaps the two most prominent such failures were a critical shortage of trained human resources—especially personnel capable of providing customer support in English—and weak data protection laws that made striking deals with international customers difficult.

The association's proposal was selected to participate in the PTP, and the process moved on to its second stage: the elaboration of the business plan with the support of McKinsey. One feature of this business plan worth mentioning is that, unlike most PTP sectors, the government and the Contact Centers Association did not co-finance the BPO&O business plan. Given the sector's youth, the plan was fully publicly funded with AID resources. The business plan characterized the sector as still small (0.3 percent of the GDP, with revenues of close to US\$350 million), domestically oriented, and mainly focused on contact centers and basic services. At the same time, it identified considerable growth potential, with an income target of US\$2,000 and an employment target of 156,000 by 2012.

To reach this potential, it was important to address various limitations. There was the shortage of human resources and normative weaknesses, plus weak sector organization, and lack of adequate infrastructure. The business plan listed a series of actions to address these difficulties, including issuing new rules for data protection; launching training programs focused on the sector's needs; establishing industrial parks where BPO businesses had access to adequate data and voice transmission infrastructure and were close to providers and costumers; and strengthening the productive and associative capabilities of producers in the sector. Excessive concentration on the call centers segment of the market was stated, but no specific action to address this issue was proposed.

The interaction in the work team of the sector seems to have been relatively smooth, and the resulting business plan reflected the most salient concerns of the association. The plan was also narrowly focused, in the sense of replicating the sector's concentration on call centers and basic services at the time. Moreover, the actions listed in the plan were not sufficiently precise. As an example, regarding the need to adopt international-standard legislation to facilitate international trade, the sector's business plan only stated a need to optimize legislation for trade, customs, accounting, and currency exchange while, for instance, the plan for cosmetics has a longer and more detailed list of actions, including adopting production and classification rules

according to international standards. These shortcomings reflected not only the scarce productive development of the sector, but also the organizational weaknesses of the Contact Centers Association at the time.

The implementation of the plan, however, addressed some of these problems. Apparently as a joint initiative of the government and business owners not represented by Contact Centers Association—some not even in the contacts centers business—a new business association emerged for the sector: the BPO&O chamber of the ANDI, funded by contributions of its members. The chamber sought to represent areas of the BPO business other than contact centers and focus on the development of new forms of customer support.<sup>23</sup> The fact that the new association emerged as a chamber within the ANDI is by no means a coincidence: it comfortably responded to the business plan's call for greater organizational and associational capabilities, while also providing its members guaranteed lobby and research power. The chamber clearly emerged in the context of the PTP. The fact that the program provided guaranteed access to policymaking generated too good an opportunity for entrepreneurs not to seize it. Moreover, the program generated the need for the government to face a more representative group of private sector leaders. In this context, and since its inception, the ANDI's BPO&O chamber joined the Contact Centers Association as a recognized private counterpart to the government in the PTP.

As private sector representation was broadened to this second counterpart, the focus of the PTP was broadened to include activities other than call centers, such as customer support. This probably reflected a series of circumstances, such as the same recognition of ANDI's chamber as part of the PTP work team, the assessment in the original business plan of excessive concentration on call centers, and the rapidly evolving characteristics of the sector globally. A new study was commissioned, with the support of the IDB and Proexport, to the consulting firm Tholons, which found that the sector needed to move into data segments and other services with greater value added, and away from voice segments.

Despite the late addition of the ANDI chamber to the sector's PTP work team, there does not seem to have been any major struggle. The private side of the program seems to work harmonically and dynamically. The mechanics of the interaction with the public manager and the

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<sup>23</sup> There is in principle no reason why these other areas of the BPO businesses could not be characterized as contact centers, probably a more modern type of contact centers. The Contact Centers Association itself characterizes the business as a wide one that evolves rapidly and moves into new ways of providing customer support. But, even if contact centers could be defined in a sufficiently inclusive way, some actors saw it as more convenient to develop a new association, rather than expanding the membership and aims of the association.

rest of the PTP have always been fluent and fruitful. However, before 2011—when the public side of the PTP was reformed—it was also frequently interrupted by changes in who the public manager was (four different managers from 2008 to 2011), or by periods in which the contract of the public manager had expired and a new contract had not yet been signed. The government transition in 2010 also created a challenge. With the new organization of the PTP, the private representatives faced a much more stable environment. There is also the general feeling on the private side that, under the new arrangements and the new public manager, the public manager is more empowered and more capable of successfully articulating the efforts of other relevant officials at the PTP—such as the thematic managers—and of other government agencies. The work team meets every two months, but communicates much more frequently. As one of the private managers, half-jokingly put it: “I call the public manager five times a day.”

Private sector representatives in the BPO industry credit the PTP with several achievements. They value having a stable and institutionalized framework for interacting with the government. The early experience of the Contact Center Association trying to interact with the government was difficult, as being able to reach a given government agency provided few advantages in discussing a different issue with another agency. The PTP framework has in fact provided the articulation of government agencies that its officials are mandated to seek, with the sector’s PTP public manager becoming the private associations’ entry point to the government. In the process, the private managers have themselves developed capabilities to interact with high-level government officials in different agencies. Consider training, for example. Human resources are the most valuable and intensively used factor of production for this sector, and an adequately trained workforce is scarce. In this context, the Contact Centers Association had always interacted with the National Learning Center (SENA), the government agency in charge of specific training, as a first priority, but had been unable to reach its highest levels. Interaction with this agency has later been active in the context of the PTP. Today, the head of the Contact Centers Association interacts frequently with SENA, without the need to resort to the help of the sector’s PTP public manager.

More specific achievements are also ascribed to the PTP. In its first few years, the program achieved two major successes: the issuance of the Data Protection Law and the adoption of a series of government-led programs to expand the supply of an adequately trained labor force for the sector. Both initiatives rested on close public-private collaboration, which is central to the

PTP. The private managers and their teams provided important inputs for the Data Protection Law. They researched international legislation, invited international experts, and traveled to Spain to research its law, which was important given the shared language. The legal advisor of the PTP, in turn, led the drafting of the law. Both the private and the public sectors lobbied Congress for the law to be approved, while the private sector worked to raise awareness of the importance of the issue with their members and sought wider political support. Again, the process itself strengthened the capabilities of the private associations, this time their political capabilities. As for the training initiatives, the PTP was instrumental in SENA's involvement in the development of human resources to adequately meet the needs for expansion of the sector. Training programs on customer support are regularly provided and are increased on demand. At the same time, a specialized program for the development of customer support services in English was launched, with the support of the IDB.

These two examples effectively capture the purposes of public-private collaboration in the program: collaboration with the government is crucial for business development when it helps address regulatory and market failures, which are beyond the control of the producers. A regulatory framework that is up to international standards is crucial for the global expansion of domestic producers, while the mismatch between supply and demand for skills is the result of informational problems and adjustment costs.

Other benefits less clearly related to solving market failures were also listed in the original business plan for the sector. This is the case of the creation of industrial parks, which have sometimes been equated to special tax zones. This component of the plan, however, seems to have lost some of its steam in recent times. It seems plausible, as some actors have suggested, that the higher profile of PTP officials under the post-2011 institutional arrangements also serves to empower PTP staff to better discern the types of interventions the program should focus on.

The private sector has certainly benefited from close interaction with the government through the PTP in the case of BPO&O. However, its participation has also been instrumental for the long-term success of policy initiatives. The frequent turnover of the person in charge of public management of the sector's program could have meant the abandonment of initiatives led by the current manager. One anecdotal example is useful to substantiate this claim: one public manager interviewed stated that he was never able to contact his predecessor, nor did he find any documentation left by him/her. This official did not learn of any of the initiatives led by the

program through public channels. Instead, the fact that the private sector representatives have stakes in each of these initiatives and are empowered by the program to keep them alive in work team discussions has been instrumental to the continuity of the projects.

### **3.3 Cosmetics and Cleaning Products**

This sector is broadly defined to include products falling in three categories: cosmetics and toiletries, cleaning products, and personal hygiene absorbent products. It had been growing at a 9.7 percent average annual rate between 2002 and 2007, prior to entering the PTP. In 2007, its sales were worth US\$3.3 billion. Sixty percent of this value corresponded to sales of cosmetics and toiletries, 23 percent to cleaning products, and the remaining 17 percent to absorbent products. Additionally, in 2007 Colombia became a net exporter of cosmetics and cleaning products, its exports going mainly to Venezuela, Ecuador, and Peru, which together received 73 percent of the sector's exported value. Direct employment was around 24,000 in 2006, but the Colombian National Bureau of Statistics (DANE) estimated at the time that indirect employment owing to the sector's activity was much higher, at around 750,000. Thus, while still relatively small, the sector had promising dynamics, which led it to be considered a good candidate for the PTP.

The cosmetics and cleaning products chamber of ANDI, the national association of Colombian entrepreneurs, submitted a proposal for the sector to participate in the PTP. ANDI was founded in 1944 with the aim of disseminating and promoting the social, political and economic principles of a free-market system. It is the largest and most important business association of Colombia.<sup>24</sup> ANDI's cosmetics and cleaning products chamber was created, among others, in order to use its credibility, representativeness and influence to eliminate legal, infrastructure, innovation, logistics, financial and other restrictions or obstacles for the sector's growth. Its affiliates include large multinational firms such as Procter & Gamble and Johnson & Johnson, as well as small and medium-sized Colombian firms.

The value proposal submitted to the PTP was motivated by the belief that the opportunity to work closer to the government for the sector's development had to be exploited. Exports in

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<sup>24</sup> <http://www.andi.com.co>

particular were being held back by delays in government actions associated with phytosanitary certifications. The industry saw an opportunity to push for red-tape reforms.

The proposal was selected and McKinsey was brought in to facilitate the development of the business plan. Based on figures of per capita cosmetics and cleaning products consumption and per capita GDP, the business plan predicted that domestic consumption could double in 25 years. It also predicted that exports could quadruple in the same period if Colombia's exports-to-output ratio mimicked that of world-class producers such as Spain and Germany. To reach this potential, however, the industry had to overcome a number of difficulties resulting in low productivity compared to competitors: high input costs associated with high tariffs; a stringent and inflexible vigilance and control system with emphasis in *ex ante* rather than *ex post* controls, unlike in the United States; low investment in research and development; and insufficient human capital with sector-specific skills. To address these difficulties, the business plan listed a number of actions, perhaps the most compelling of which were those in the category of regulatory reforms: (1) promoting a market-based system of vigilance and control, (2) facilitating access to inputs and technology at competitive prices, and (3) developing mechanisms to broaden the openness of objective markets. It also pinpointed the creation of networks for knowledge dissemination, and of regional industry clusters for economies of scale through associative processes as critical actions for the sector's development. The latter two are associated with a vision of a sector targeting the niche of natural resource-based products to exploit local biodiversity.

Interaction at the stage of elaborating the business plan involved not only representatives from the sector's business association but also entrepreneurs from both national and multinational firms. Their direct involvement at this and later stages is viewed as one of the reasons for the relative success of this PTP in achieving a number of the goals set forth in the business plan.

Private management of the PTP was given to the director of the cosmetics and cleaning products chamber of ANDI. The tasks he has taken on as private manager are part of his job as representative of the business association, and his salary is covered by periodic contributions paid to the association by its members. There are no competing business chambers participating in the PTP, and, since his is the only association representing the industry's interests, he has been

able to voice industry concerns in a centralized manner and has played a crucial coordinating role within the PTP.

Since its inception, the program has contributed several accomplishments, perhaps the most significant of which are cutting down certification procedure times and passing a CONPES policy document to support the creation of a bio-prospecting<sup>25</sup> research center. Exports of cosmetics and cleaning products require a previous Mandatory Sanitary Notification, or NSO, granted by INVIMA, the national authority in charge of sanitary monitoring and control. This requirement, which originated in Decision 516 (2002) from the Community of Andean Nations (CAN), had been interpreted more stringently on the local level than was originally intended. The result was that the procedure at INVIMA took more than three months, which impaired firms' ability to react to international demand within the required time frame. Lobbying within the government, by government officials involved in the PTP, led to a revision of the interpretation of Decision 516 and of the procedure to obtain an NSO, which now can be obtained over the Internet in 15 minutes.

A similar story applies to obtaining a Free Trade Certificate from INVIMA, which used to take three months for processing and was tied to the validity of the NSO. Now it can be obtained automatically over the Internet, and it does not expire once obtained. The next step, which is underway, is the creation of a specialized cosmetics and cleaning products unit within INVIMA that will centralize interaction with the industry and is expected to further facilitate export activity.

CONPES policy documents are documents approved by a council of ministers, which charts the course for public policy actions over particular issues in Colombia. The framework for access to and use of genetic resources for commercial use, critical for the production and trade of natural resource-based products, was given by CAN Decision 391 (1996), but it is each member country's responsibility to develop its own rulings at the national level. Despite CAN Decision 391, Colombia has not moved forward to produce the necessary legal framework, with the result that individual authorizations from the Ministry of Environment may take five to six years to be processed. Moreover, CONPES Policy Document No. 3533 of 2008 questioned aspects of Decision 391 and recommended that Colombia propose a modification to CAN in order to ensure a framework that would truly facilitate natural resource-based trade, something that Colombia

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<sup>25</sup> Bio-prospecting is the process of discovery and commercialization of new products based on biological resources.

has not achieved despite this mandate. CONPES Policy Document No. 3697 of 2011 reiterates that recommendation, orders the development of the corresponding legal framework, and recommends a study of the feasibility of creating a center for the investigation of commercial uses of Colombia's natural species, the Empresa Nacional de Bioprospección. Although CONPES documents are not always followed by action, they help chart the course in a particular direction, and they can facilitate decision making within the government when there is more than one authority involved in the decision-making process. Thus, passage of a CONPES document may correctly be interpreted as a success of the PTP.

Another accomplishment is tariff reductions on imported inputs. Tariff decisions in Colombia are ultimately brought forward to be considered by a specialized committee called the Triple A. Firms identify the inputs whose tariff reductions have the most value to the industry, and the public side of the PTP puts them forth for consideration by Triple A, periodically, in groups of five. The goal of the plan is to continue to gradually unilaterally liberalize trade, so that in a few years' time the industry will not have to bear tariff costs on inputs that are not locally produced. While gradual tariff elimination is part of a broader government policy, the PTP has enabled prioritization of the elimination of those tariffs that are costlier for the industry's development.

The mechanics of public-private interaction have evolved over time, particularly because since its launching, the PTP has gained stature within the government. By transforming the PTP into a unit of Bancóldex, it was possible to give the program a permanent, well-remunerated workforce. This helped improve the level of interaction with the government, particularly because it coincided with a high-level decision to raise the program's stature, and the people in charge now have more ability to raise their concerns or requests with the support of the president or the president's competitiveness advisor. Under the new arrangement, the public manager is more empowered, and more high-ranking participants from the public sector have become involved in the PTP. When asked to review the elements of the program's success, both public and private members recognize that the main factors are that participation in the PTP, and the label of "world-class sector" that comes along with it, brings the industry's requests to the attention of crucial government authorities, such as INVIMA. Before the PTP, the industry lobbied on its own for the reforms it identified as priorities. Lobbying with the backing of the

PTP and the support of high-level officials has been crucial to make those lobbying activities effective.

Another factor identified by PTP participants as essential for success is having reached agreement, during the elaboration of the business plan, about the goal of positioning the industry in the niche of natural resource-based products in global markets. Having a common long-term goal has organized activity not only on the private sector side, but also on the public sector side, within the PTP. Also, in the view of the private manager, the presence of multinational firms in the PTP has been important during implementation for helping minimize traditional lobbying and concentrating efforts on pushing for reforms associated with cost reduction and productivity enhancement.

The cosmetics and cleaning products PTP is perhaps the best example of public-private collaboration in which a relatively well-organized and dynamic industry benefited from having a direct channel to voice its needs and concerns in a way that was actually heard by the relevant public sector authorities. The industry had identified many of the necessary reforms and lobbied for them before the PTP, but had had limited success in convincing the government to take action. Within the framework of the PTP, it suddenly became relevant to all government authorities—not only those involved directly in the program. The other striking feature of this example is that the actions identified in the public-private conversation often referred to removing government failures either in terms of poorly designed interventions or mere lack of action.

### **3.4 Oil Palm, Oils, and Vegetable Fats**

Five segments of the oil palm, oils, and vegetable fats value chain, which are associated with three alternative uses, comprise the sector participating in the PTP. The first is crude palm oil (CPO), extracted from palm fruitlets, an edible oil suitable for use in a variety of food applications. Refined palm oil and fractions comprise the second segment of the value chain entering the PTP. The third segment is that of edible specialty fats that use palm oil fractions as an input and are substitutes for other types of fats, such as cocoa butter, milk fat, and butter. The fourth and fifth segments are oils and fats for uses other than food that result from further manufacturing transformation of palm oil and fractions: biodiesel and glycerin.

In Colombia, between 2005 and 2009, the oil palm planted area grew from 163,770 to 235,914 acres, at an average annual rate of 9.6 percent. Meanwhile CPO production grew at an average annual rate of only 5.0 percent, the poor performance mainly explained by a fall in output in 2008 and 2009 due to sanitary reasons. Colombia entered biodiesel production in 2007. Two years later, there were five biodiesel plants in operation, with a production capacity of 500,000 tons per year. In 2009, the five segments together sold 1,870 billion Colombian pesos, of which 67.4 percent corresponded to CPO, 11.8 percent to refined palm oil and fractions, 20 percent to biodiesel, and less than 1 percent to glycerin. In international markets, 299.2 billion pesos were sold. Exports were mainly of CPO, and they were much lower than in the previous year, due both to lower international prices and to a lower export supply resulting from the introduction of biodiesel in the local market, which absorbed 153.5 tons of CPO of a total of 802.3 produced that year. CPO production was dispersed across country regions and of varying productivity levels; the midstream segment of refined palm oil and fractions was poorly developed; refined oil and soy and sunflower bottled oil imports had been growing at significant rates, and there had been large investments in refining capacity for biodiesel production. This was the situation encountered when public and private actors first sat down together in the context of the PTP to discuss the sector's business plan.

When the PTP called for value proposals from agricultural or agro-industrial sectors in 2010, two business associations representing different segments of the oil palm and oils sector submitted separate proposals: Fedepalma and Asograsas. Fedepalma is the business association representing firms involved in the cultivation of oil palm and the extraction of CPO—the upstream segment of the value chain. It is a well-established association created more than 50 years ago, known for the effectiveness of its lobbying for preferential treatment. Its members are among the largest landowners in Colombia. Thanks in part to its lobbying ability,<sup>26</sup> oil palm and palm oil have benefited historically from a number of promotion and protection mechanisms in Colombia (see Meléndez and Perry, 2008, for a review of the history of industrial policies directed toward palm and palm oil). Asograsas is a younger association representing producers of

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<sup>26</sup> Fedepalma's standing as a key interlocutor for the government is also related to the fact that, because of its geographic location in the country's rural areas, palm oil production has been in the middle of Colombia's civil conflict, either because producers have been object of blackmail and/or violence from armed groups, because the business has attracted illegal monies from drug dealers and paramilitaries, or because it has been viewed by the government as a business ideal to promote in regions where reconstruction must come after peace negotiations with particular groups.

edible specialty fats that use palm oil, fractions and other edible oils and fats as inputs, who see their activity as being threatened by the high costs of domestically produced CPO, and particularly by the growing demand of CPO for biodiesel production, fueled by yet another substantial set of government subsidies.

The appearance of biodiesel as an alternative source of demand for CPO has brought about a transformation of the business. In the past, most palm oil producers were vertically integrated downwards into the manufacturing of specialty fats and some of them into the production of glycerin and derived products, like soap. Some of them still are—those that refuse to shape their investments solely in response to government subsidies and prefer businesses they consider sustainable in their absence—but many of them have chosen to reshape their activity by turning toward biodiesel production. Together with inflows of imports of low-priced bottled oil from Argentina, this undoubtedly threatens the survival of the Colombian specialty fats industry.

The PTP received proposals from two segments of production that belonged in the same sector, but did not necessarily share their views about its future and had, on some levels, conflicting interests. Fedepalma saw an opportunity to strengthen the standing of palm and palm oil as a sector of choice of the government—which it already was in a sense, before being selected as a world-class sector, if measured by the policy benefits historically received—and Asograsas saw the chance of bringing to the government authorities its members' concerns about protection mechanisms affecting the domestic price of CPO to the detriment of their competitiveness. In the value proposal submitted, Asograsas requested revision of the palm price stabilization fund, a mechanism conceived to protect palm oil producers from international price fluctuations that have resulted in practice in robust justifiable high domestic prices and in significant subsidies. The government's response was to subject the palm and palm oil sector's participation in the PTP to the agreement of developing a unique business plan for the whole value chain. Fedepalma and Asograsas pledged to this, and the government called Fedebiocombustibles, the association representing biodiesel producers, to join in.

An international consulting firm, AT Kearney, was hired to support the public and private team members in the creation of the business plan. The business plan characterized the sector as lacking a clear public-private vision about the sector's future as a value chain, with no consensus about the required regulatory framework for development, in particular with regard to palm oil price stabilization, needing adequate transport and logistics infrastructure, and requiring

innovation and training efforts to control sanitary contingencies. The process proved challenging because as stated in the business plan, the participating industry segment representatives had no shared view about the direction in which the sector should develop, nor did participating government officials. To complicate things even further, on the public sector side both representatives of the Ministry of Agriculture and of the Ministry of Industry, Trade and Tourism had seats on the PTP team, and neither of them had a leading voice at this stage. The salary of the representative of the Ministry of Agriculture was at the time directly paid by Fedepalma.

In the end, three general strategies for sector development were identified in the business plan: (1) to expand upstream supply with standards similar to those of global competitors; (2) to gain scale at the regional level in midstream supply, or that of refined palm oil and fractions, and at the national level downstream, that of value added products; and (3) to generate conditions to ensure the competitiveness of all segments of the vertical value chain in sustainable conditions. The business plan stated ambitious goals for 2019 and 2032 in terms of production, productivity, employment, and exports. For example, CPO production would grow from 802,000 tons in 2009 to 2.2 million tons in 2019 and 6.5 million tons in 2032; refined palm oil and fractions production would grow from 32,800 tons in 2009 to 1.0 million tons in 2019 and 4.0 million tons in 2032.

Actions to implement the strategies identified were classified in broad categories in the business plan—sector strengthening, regulatory reforms, human capital development, innovation, infrastructure, and sustainability—and included a wide range of activities identified with varying degrees of specificity. For example, the plan identified the need to develop a phytosanitary management program for oil palm; strengthen R&D programs with public-private funds; extend electric energy infrastructure in oil palm crop areas; and homogenize basic procedures for environmental control. All of these constitute precise lines of action. Others, such as developing multi-modal transport infrastructure, or aligning all institutional instruments with a sector vision, were much more vaguely stated. This was, no doubt, a result of the conflicting views of PTP members. Actions more concretely stated were those that generated less conflict at that stage.

The beginning of collaboration in the PTP framework was not smooth in this case and for a while. After the plan was finalized and the implementation stage supposedly started, the palm and palm oil PTP seemed to be going nowhere. While all three business associations involved kept sending their representatives to PTP meetings, they hired a private manager to bring the

voice of the private sector to the table and assume the role of the public manager's main interlocutor. Asograsas thought that this private manager had an unbalanced position and that its members' concerns were not being adequately brought into the conversation, but was for a while unable or unwilling to do anything about it. When asked about the accomplishments of this stage in the collaboration, both the public and private sides mostly pointed to agreements reached to contract independent studies advising the PTP on critical issues, such as the palm oil price stabilization fund. This may seem a bit of a distraction, since in some cases, recent studies were available.<sup>27</sup> Agreement to conduct deeper studies of issues on which there are conflicting views could, however, be viewed as a step in the right direction.

During this stage, moreover, the public side of the PTP underwent the reorganization described earlier. For a while, the public manager had no work contract and, hence, acted with no institutional backing. Even after she was given a work contract at the Ministry of Industry, Trade and Tourism to act as its representative in the palm and palm oil PTP, she had a competing public sector interlocutor from the Ministry of Agriculture. Only after the revamping of the PTP under the umbrella of Bancóldex was the public manager empowered and placed in a setting where she would have access to the support of higher-level officials whenever that proved necessary.

In 2012, the palm and palm oil PTP entered a new stage that seems more promising. This is due to at least three factors. First, participants in the PTP united around a common concern about the need to control the increasing flow of illegal trade of refined and bottled oil into the country. Working together toward a common goal has been a satisfactory experience for all and apparently helped ease the conversation among private participants. Second, the private manager was replaced, much to the relief of the manufacturing segment business association that sees the PTP as a fertile area for public-private collaboration. Third, PTP officers brought concerns about protectionist policies that raise the domestic price of CPO to the president, and he publicly voiced his support for their revision. This last factor was perhaps the turning point and the reason why members of the PTP are today more optimistic about its potential to bring about sector development and growth.

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<sup>27</sup> For example, Reina and Zuluaga (2011) studied the workings of the palm oil price stabilization fund and expressed criticisms of it.

The turnaround is a result of two factors: the manufacturing segment's success in voicing its concerns within the PTP, and the heightened stature of the PTP director, thanks to which these concerns reached the president. While it may not be the most desirable outcome in the short run for palm oil producers historically benefiting from artificially high prices, the fact that the president has set a direction for the sector on this particular topic greatly simplifies the debate. It seems, however, to suggest that the success of the PTP may be dependent on the degree of high-level support it receives. Only after the Santos administration made the program one of its leading initiatives, and publicly advertised this fact, did the PTP acquire the heightened stature that led to some of its recent successes.

It is not yet possible to claim this experience of public-private collaboration for policy design as a failure or a success. This is not only because it is still very young—its launching dating back only to 2010—but also because it has faced a challenging combination of components since its inception that have made the road bumpy. Bringing together segments of a value chain whose interests are not well aligned to work on a joint business plan for sector development seems naïve, even without considering the imbalance of power between private sector segments and between them and the public sector counterpart in the PTP. But even more detrimental to the collaboration process is the absence of a view about the sector in the long run from the public side of the conversation and, particularly, the absence of its view about the rationale for government intervention that prevented it from taking positions for or against policy demands from the private sector side during the development of the business plan.

Despite a bad start, the mechanism for public-private collaboration is promising enough to have motivated the persistence of private participants and their responsiveness to adjustments from the public side. The sector's previous experience of interaction with the public sector was on different terms; to some extent the PTP was successful in transforming the old framework. The fact that the PTP was able to bring the most conflicting issues directly to the president suddenly strengthened its standing as the channel through which to voice policy requests and concerns.

### **3.5 The PTP: Taking Stock**

The PTP has been useful on two fronts: (1) helping the private sector set goals and identify bottlenecks that have impeded faster growth for the respective activity, and (2) coordinating

efforts by government agencies whose joint participation is needed to overcome those bottlenecks. From a conceptual standpoint, the PTP is mainly helping to overcome coordination failures on both the private and the public sides. Until now, the PTP has not become an arena for the sectors involved to obtain direct benefits in the form of subsidies, or even the provision of state-financed goods geared exclusively to the sector—even if sometimes, for example, in the development of English training programs, it has resulted in the provision of goods from which the sector does benefit.

The degree of success with which the PTP performs that role, however, has varied depending on factors that range from the institutional organization of the program on the government side to the degree of homogeneity and organization of the private interests involved. These determinants of PTP success have in turn been influenced by the PTP itself. In the case of BPO&O, for instance, the Association of Contact Centers improved its capacity as a result of being empowered as a direct government counterpart in the PTP. Moreover, a new representative association, ANDI's chamber for BPO&O emerged and grew as a response to other sector players to the government's receptiveness to the sector's need through the PTP.

Overall the program is positively evaluated by participants in terms of the depth and direction of public-private collaboration, and on the two specific dimensions of coordination and government failures. Appropriate caution is important, however, in terms of the reach of these conclusions. One aspect that escapes the nature of the current analysis is how well the program serves its original aim of directing productive transformation, defined as a transition in the sector composition of the country's production toward a higher growth model. The positive aspects of the PTP this study has identified do not directly relate to that aim, and suggest that the benefits of the program could reach even further if the guide to the selection of sectors had more to do with the positive dimensions of the program that participants clearly identified. One question clearly suggested by the analysis is whether it would not be preferable to select participant sectors, clusters or chains, from calls open to all of the productive sector, where the selection privileged groups whose initial proposals identified a greater potential for the program to remove damaging bottlenecks. This would not only focus on areas where the program has shown greater strength, but it would also move a step away from the more controversial dimension of picking promising sectors, where the criteria that are appropriate to that aim are far from being settled, as is the political feasibility of strictly following those criteria.

## 4. Conclusions

The conclusions enumerated at the end of each previous section suggest lessons that can be applied to other contexts.

**Umbrella institutions for public-private collaboration:** The existence of umbrella institutions that formally require public-private collaboration for the design and supervision of policies, unique in Latin America to the Colombian case, brings advantages in terms of continuity: continuity of policies and of objectives, especially during governmental or administrative transitions, and continuity of the collaboration itself. This comes as a consequence of turning the private participants into stakeholders of the government programs and the institutions. For the same reason, designating a permanent private counterpart can enhance these benefits, as happened in Colombia with the designation of the PCC as member of the Executive Committee of the National Competitiveness System. Keeping the representation of the private sector concentrated in a single agency also seems beneficial, or, it has at least been beneficial in the Colombian case, for two reasons. One, consolidating private demands through a single organization with heterogeneous membership almost inevitably requires abstaining from processing those demands that benefit parts of the represented private sector at the expense of others. Two, keeping private leadership unified in the process of dialogue with the public sector, as opposed to recognizing a fragmented—albeit potentially highly representative—set of private counterparts, makes that dialogue most effective and expedited.

Highlighting the advantages of empowering a single private representative in the Colombian case, however, it is also important to note that one crucial element has been that the PCC has abstained from pursuing rents for its members, partly because of the character of the members and that of the staff they appointed. But, as much as it is not impossible that the nature of the Colombian PCC evolves into a traditional rent-seeking lobby, it is also not unlikely that similar private institutions in other contexts are not as benevolent as the PCC has been. In that sense, there must be limits to the doors that institutionalized public-private collaboration opens to private representatives. One possibility is to limit the doors to participation to the design of horizontal policies and policies aimed at addressing government failures, where the space for rent-seeking is much more limited. Another is to favor institutionalized channels for public-private collaboration over direct channels, to ensure that policy requests go through the filter of

organized debate. For instance, direct meetings with the president or with cabinet members should only be permitted when they occur within arenas specifically designed for public-private collaboration. The case studies suggest that the umbrella institutions, such as the National Competitiveness System and the PTP, have played the role of institutionalized channels, providing an environment for public-private interactions that has been healthier than the traditional lobby that was historically quite effective in Colombia (see Eslava and Meléndez, 2009; Meléndez and Perry, 2009).

**Public sector counterparts should be empowered and clearly defined:** Many of the examples of collaborative success that were examined involved private representatives interacting with public officials at the highest levels, for example, the president of the PCC interacting with Ministers in the Executive Committee of the National Competitiveness System. At the same time, some of the failures involved difficulties for the private side to reach to a high-stature public officer responsible for a given subject, for example, the inexistence of a direct head in charge of transportation logistics. Moreover, improving the standing of the PTP public managers has also improved the performance of the program in terms of implementing actions contemplated in the business plans. These facts suggest that how fruitful public-private collaboration is depends on the stature of the public-sector counterparts being sufficiently high so that they either have decision-making power themselves or they are able to bring private sector concerns and requests to those who have decision-making power. A minimum level of effectiveness in translating requests into policies is evidently necessary for institutionalized public-private collaboration—as opposed to traditional lobby—to become the main channel for interaction. This will largely depend on the quality of the public sector counterpart through the institutional channel, associated, in turn, to its reach within the government.

Less obviously, but perhaps even more importantly, sufficient hierarchy on the public side is necessary to filter private sector initiatives that aim at extracting rents for the sector at the expense of other sectors or from unnecessary government interventions is just as important as effectiveness, to ensure that the result of public-private collaboration is welfare enhancing. The public sector counterpart should also be empowered in the sense of being well trained to filter requests and take positions on conflicting matters. The difficulties undergone during the development stage of the palm and palm oil business plan may have been more easily solved had

the public sector counterpart held a long-term vision about the desired future for the sector and the types of policies consistent with or against it.

A lesson from the case studies is that any public-private collaboration process will benefit from well-trained public counterparts who thoroughly understand the economic rationale for government intervention, and are able to identify the convenience of pushing for the elimination or change of particular regulations or policies that introduce unnecessary distortions. Governments should adopt guidelines to help public officers evaluate the need for and quality of different government interventions, and perform appropriate cost-benefit analyses in the spirit of those adopted by OECD countries, such as the Regulatory Impact Assessment (RIA), which is used in the United Kingdom to filter regulation and other policy interventions.

**A private counterpart should be well organized and technically sound:** In many of the cases examined, a well-organized private counterpart has been critical to effective public private collaboration. This was true with the PCC's role in the National Competitiveness System, and specific business associations in the productive transformation programs for cosmetics and BPO&O. The standing and capacity of the private counterpart has frequently been endogenous to both actions of the government and the context of public-private collaboration; the strength of the PCC is a by-product of its designated role regarding productive development policies; the Association of Contact Centers has strengthened thanks to the PTP; and ANDI's BPO&O chamber emerged as a result of the same program. Explicit government-led efforts to organize the private sector have been common in Colombia's history, and have yielded strong business representation that, many argue, used to have a reflection on sound economic policies back in history, for example ANDI and the Coffee Growers Federation. The quality of public counterparts to the government in collaborative enterprises, therefore, should not be taken as a given by the government. Attempts to strengthen private sector representation must be careful to balance the potentially conflicting goals of keeping representation sufficiently concentrated to be effective, yet sufficiently representative of a wide range of interests to minimize benefits to specific sectors at the expense of the common interest. In Colombia, having private interests organized around horizontal goals such as competitiveness, and empowering those interests for mainly horizontal purposes or for identifying and solving government failures, has also proven beneficial. Limiting the reach of collaboration to these dimensions can also help replicate the

benevolent character that private representation by the PCC has had in Colombia as a result of historical circumstances. This is another lesson of broader application.

**Do not discard value chain approaches (rather than focusing only on a production segment):** While it may prove difficult to reach agreement on policy paths when conversation occurs simultaneously with vertically related segments of a value chain that may have conflicting interests, as in the case of the palm and palm oil PTP, public-private collaboration inclusive of the whole value chain has proven useful in dealing with those conflicting interests. When supporting a particular development path for a sector, such as choosing to promote biodiesel over specialty fats, having all stakeholders at the table may facilitate an appropriate assessment of the costs and benefits of each decision. Still, it is important to highlight that the discussion with potentially conflicting interests within a value chain can lead to a dead end if it is not framed by sufficiently effective institutions, including those that guarantee sufficient stature on the public side of the collaboration. The palm and palm oil PTP, for example, did not show any signs of progress until the productive transformation program itself was reformed, the standing of its staff members was increased, and the program itself became the government's channel of choice for day-to-day interaction with some segments of the private sector.

**Provide institutional channels to voice private sector requests (not necessarily within a framework of the world-class sectors selection):** In the case studies of the PTP, nine out of ten private sector policy requests placed through the institutional channels that provided for public-private collaboration were associated either with the elimination of government interventions that distort the marketplace and harm productive development, or with red-tape reduction, or with the need to press for government action on issues pending in the government's agenda. In this setting, a main goal for public-private collaboration was to address government failures. When this is the case, choosing world-class sectors for special policy treatment may not be the correct way to frame this approach to PDPs. This is not because organized public-private collaboration is not useful, but rather because it should not be limited to sectors that have shown particular growth dynamics justifying special attention, if this is what world-class sectors are meant to be. It may be that the less dynamic sectors have been held back by poor government interventions or lack of action from the government on identified issues. Sectors that have identified areas in which government failures are costly, or sectors that wish to submit government interventions and regulations affecting them to a rigorous cost-benefit analysis,

should be able to approach the government and enter into a process of public-private collaboration aimed at redesigning the interventions necessary for their productive development.

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## **Appendix – List of Interviews**

Approximately 20 interviews were conducted with different actors involved in the National Competitiveness System, the Productive Transformation Program (PTP), and the Private Council for Competitiveness (PCC). Interviews conducted for previous projects were also helpful in shaping this document. The following is the list of people who were interviewed:

- 2.1.3 Current and past presidents and deputy directors of the PCC.*
- 2.1.4 Founding members of the PCC.*
- 2.1.5 Heads and unit directors at business associations.*
- 2.1.6 Unit directors at the National Planning Department.*
- 2.1.7 Public and private managers of the sectors reviewed in the PTP.*
- 2.1.8 General manager of the PCC.*
- 2.1.9 Presidential advisors in themes related to competitiveness.*

