
CASE STUDY 4a – MEXICO

Public-Private Dialogue in the State of Aguascalientes

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A new kind of governance in policy-making: Aguascalientes at the forefront of Mexican PPD

For decades, the Mexican government was heavily involved in the national economy, with many state-owned industries having a deep influence in strategic sectors, and the opinions of the private sector were marginal in developing policies and reforms. Such lack of coordination with the private sector led to reduced levels of private investment in the last two decades.

Gradually, government openness to the global market drove up Mexico's competitiveness and led to more recognition that private sector voices played a pivotal role in economic policy making.

Nowadays, the presence of the government in the economy is much lower, and dialogue with the private sector is common. Many state governments now have started to develop new schemes for improving competitiveness jointly with the private sector.

Located in the heart of Mexico, the State of Aguascalientes is one of the smallest states of Mexico with only 5,000 square kilometers and a million inhabitants. Nevertheless it is considered an industrialized state, having the best standard of living in Mexico, and it is characterized by its long-term business relations, important foreign investments and the best business climate; that is why in 2005 it was called by experts from the World Bank and the Inter-American Development Bank the "Mexican Asian Tiger". It is also one of the most active promoters of private-public dialogue in Mexico, with solid experiences of sustained and effective dialogue.

Levels of trust and sensitivity have been helped by the fact that many elected local government officials have a private sector and highly educated background, and some businesspeople have experience in public service. The current State Governor, Luis Armando Reynoso, is a successful entrepreneur and a strong promoter of the PPD. He is establishing a pro-business government and has been instrumental in setting up committees to ensure that ideas and concerns of the private sector are heard, and promoting the establishment of a state level private-public partnership system for the construction of infrastructure.

The objectives of PPD in Aguascalientes are:

- To promote private sector participation in the governmental decision-making process.
- To create or strengthen committees and forums that promote an open dialogue.
- To improve transparency in both public and private administration.
- To facilitate communication between both sectors.
- To create a permanent forum among the diverse actors in society for the improvement of competitiveness.
- To define new mechanisms of financing and cooperation in the provision of public services.

PPD is directed by the governor of the state and promoted by both the public and private sector. The public sector includes federal, state and local agencies involved in policies that affect competitiveness. The private sector includes industrial organizations, businessmen and labor unions, the Entrepreneurial Coordinating Council (CCE), which is the local umbrella organization that includes four business organizations, and the academic sector.

Participation is requested through seminars and workshops where parties share their experiences and develop proposals for the benefit of all.

The following three examples illustrate the success of PPD in Aguascalientes:

a) Workshops on public-private competitiveness policies

With the objective of sharing a common vision with the private sector and defining the blueprints of economic policies for the coming years, in January 2005 Aguascalientes State hosted the first Workshop on Public Policies for Economic and Social Development, with the support of twelve experts from the World Bank and with the attendance of seven public agencies, both federal and state, and many representatives from the private sector. They were divided into working groups, and among the topics discussed were education, health, justice, water, territorial planning, agriculture, social development and competitiveness.

During the discussion in the competitiveness working group, an idea emerged to create a Workshop on Competitiveness for the State of Aguascalientes, which was held in March. In this event, seven working groups were formed combining representatives from the public sector (federal, state and local) and private sector (including businesspeople, academics from universities, entrepreneurial organizations and NGOs), coordinated and advised by representatives from the World Bank. The topics discussed by the seven working groups were:

- Business climate and foreign investment
- Logistics and infrastructure
- Human Capital
- Innovation and quality
- Financing
- Suppliers development
- Private-Public Partnerships

The recommendations, proposals and agreements reached in the workshops were reflected in the State Development Plan 2004-2010, and both sectors have committed to work towards their implementation. Several meetings were scheduled to review progress and get feedback and discussion, together with further meetings to agree strategies for specific sectors and issues, such as employment, investments, taxes, regulations, competitiveness and PPPs.

It is important to highlight that in the private-public partnerships working group, the main collaboration result was a proposal to create a formal structure for the improvement of competitiveness. This structure would be conducted jointly by the Secretariat of Economic Development (SEDEC) and the Entrepreneurial Coordinating Council (CCE). The key aspects established in the proposal were:

- To build the alliance for state competitiveness: (define its participants, budget and financing of specific projects, agenda, coordinator and secretary).
- To formalize the alliance (creation of committees, involvement of the Governor, communication strategies, etc.)
- Official launching, to establish the work agenda and commitments.

- Dissemination of the agreements.
- Feedback (consultancy with each committee and reports to the alliance).
- Session with all the participants of the alliance and the Governor.
- Review and reformulation of the state agenda for competitiveness.
- Production and monitoring of competitiveness indicators.
- Dissemination of the process and its results to society.

b) Building a local Public-Private Partnership (PPP) model

Another expression of effective public-private dialogue and coordination is the establishment of a local public-private partnership (PPP) model in Mexico.

Aguascalientes wants to be the first provincial government in Mexico to implement a PPP model for the development of strategic infrastructure.

With the support of the Federal Government and the coordination of the private sector and the legislative branch, the State Government is now implementing in 2006 the first PPP program at the state level. PPPs are very recent in Mexico even at the federal level.

c) Negotiating the establishment of a new levy

A more recent example is the implementation of a new levy on the local and foreign companies located in Aguascalientes: the payroll tax. The government invited the private sector to an open dialogue to discuss the tax (and rate) as well as the rules for the creation of a trust devoted to managing the resources obtained from such a tax.

The government proposal considers that this legal body, the trust, would be composed of five representatives from the private sector and five public officials, and that this would be empowered to decide the allocation of resources.

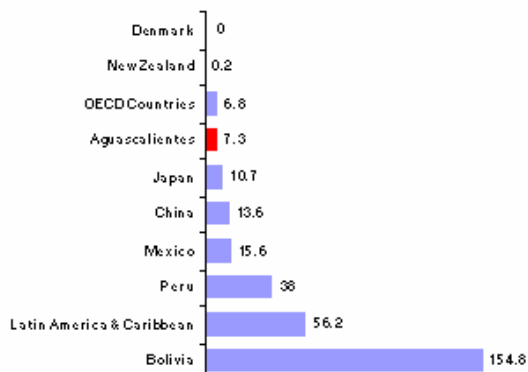
Such a scheme allows the private sector not just to be heard on economic policies, but to become an active partner in policy making and in the allocation of public resources.

Results and challenges

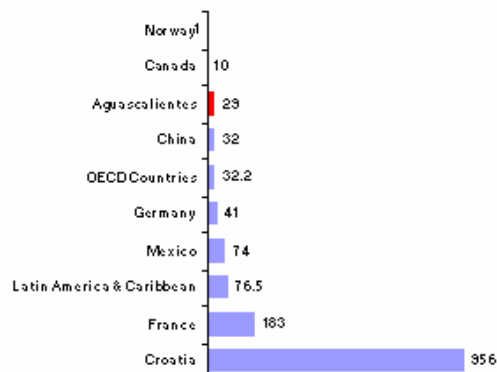
In the recent Doing Business Study conducted by the World Bank in 2005, Aguascalientes was awarded first place in business climate in Mexico and also obtained a high ranking at a global level. As a follow up to this result, a commitment with the World Bank was established to improve competitiveness in the world ranking, upon the Doing Business indicators, based on the dialogue between the local public and private sector.

The results in detail demonstrate that due to improved PPD, Aguascalientes has reduced its start up costs, time and cost to register a property and time to enforce a contract, which all lead to a higher level of competitiveness:

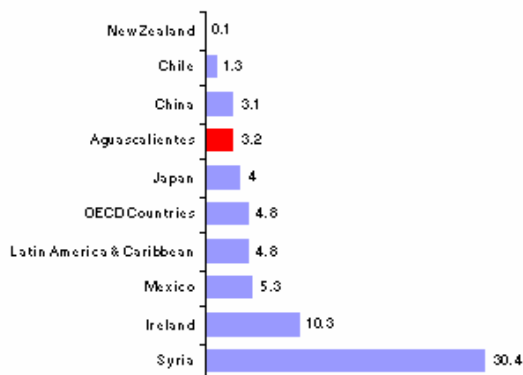
**COST OF STARTING A BUSINESS
(% GNI per capita)**



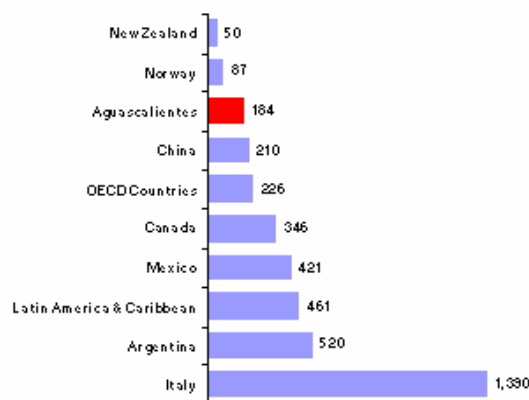
**TIME TO REGISTER A PROPERTY
(Days)**



**COST OF REGISTERING A PROPERTY
(% of Property Value)**



TIME TO ENFORCE A CONTRACT (Days)



Furthermore, as a result of the workshops conducted by the World Bank in Aguascalientes in 2005, the public and private sectors identified several action lines to be implemented in the State Development Plan 2004-2010 in order to enhance competitiveness:

- To implement a system of indicators on business climate.
- To identify (jointly with private organizations) responsibilities for economic development.
- Regulatory improvement program together with the entrepreneurial sector.
- To reestablish Aguascalientes as one of the best destinations for foreign investments.
- To ease the use of information technologies in procedures.
- To create a State Committee for Regulatory Improvement, Transparency and Accountability.

Also in 2005, the Financial Times named Aguascalientes State as having the second-best FDI promotion strategy in Mexico. There have been several cases of interviews and reports on television and newspapers, testifying to the progress of private-public dialogue in the state.

Additional instruments for enhancing PPD

Two Committees for Competitiveness have been created, one at the State level jointly with the President of Mexico's Public Policies Office, and with the participation of the government and the most important enterprises from Aguascalientes; and the other at the Federal level, within the National Conference of Mexican Governors (CONAGO). The latter is holding workshops with OECD

to analyse and compare the level of competitiveness of the manufacturing clusters. The other three efforts led by Aguascalientes State to enhance competitiveness and promoting PPD in Mexico are the following:

- Workshops on Better Practices in Competitiveness with the Presidency of Mexico.
- Development of a system of State Indicators to measure competitiveness with the National Statistical Institute (INEGI).
- To extend the *Doing Business Program* in all Mexican States.

The major challenges for PPD in Aguascalientes are to incorporate recommendations from international agencies such as the World Bank, OECD and IADB, and to increase the levels of competitiveness in all sectors.

Author:

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Armando Jimenez has vast experience at the Federal and State Governments in Mexico. He also held positions at the international arena. Since November 2004, he was appointed as the Secretary of Economic Development in the State of Aguascalientes. In the Federal Government he was General Director of Public Policies in the Office of President Vicente Fox, where he was responsible of the design of PPPs (2000-2001). As a Deputy Assistant Secretary for Energy Policy at the Federal Government, he promoted several reforms and implemented the PPPs model at a national level.

Armando Jimenez holds a law degree from his hometown university in Aguascalientes, Mexico (UAA), plus three Masters degrees: International Relations from Boston University, Government from Harvard, and International Law from Georgetown. He holds a Ph.D. in Political Economy from the London School of Economics and post-doctoral studies on Sustainable Development from Stanford University.