



**Towards Good  
Governance of Public-  
Private Alliance Councils  
Supporting Industrial  
Policies in Latin America**

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**Inter-American  
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## Abstract\*

Systematic application of industrial policies has reemerged in Latin America after a hiatus during the era of the Washington Consensus. These industrial policies are broadly different from the past. One of the characteristics of the region's new industrial policies is the use of public-private alliance councils (PPAs) to help guide their development and implementation. The deployment of public-private dialogue and related problem solving is considered an essential component of modern industrial policies. However, to be effective councils must be well governed. This paper approaches the issue of governance of PPAs with an overview of their rationale and framework, and then draws from the experience of several OECD countries, most of which have long experience working with councils, to illustrate how they operate and gain insights on good governance for Latin America alliances. The paper examines the intangible dimensions of governance, as well as tangibles involving the structure and procedures of councils.

**JEL Classifications:** F63, F68, L52, O25

**Keywords:** Public-private dialogue; Public-private alliance councils; Industrial policies; Governance; Economic development; Latin America

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## 1. Introduction

Industrial policies (IPs) are expected to mitigate the binding constraints on the increase of productivity, economic transformation, and sustainable economic growth. IPs not only aim to enhance the productivity and competitiveness of existing industries, but they also seek to build—directly and indirectly—more innovative local commercial and technological capacities for economic growth and diversification at a pace and quality beyond that of autonomous market forces. IPs also have been extended in relation to sunset industry shutdowns. In effect, when IPs are pragmatically aligned with markets, they are considered the “enablers,” rather than as a substitute, for market forces (Menon, 2010). IPs, historically, have been attributable to the success of most countries catching up with richer countries (Chang, 1994; Devlin and Moguillansky, 2011; Lin and Monga, 2010).

Contemporary literature relating to IPs has emphasized the importance of public-private dialogue relating to economic policy as a way to develop and implement IP (Evans, 1995; Devlin and Moguillansky, 2011; Karo and Kattel, undated; Rodrik, 2004; Wade, 2004). Such alliances supporting problem-solving dialogue would constitute a more effective way in which to gather knowledge and understanding among the market players to develop IPs than if governments, alone, were to select the policies and related initiatives.

With regard to the strategies required for economic transformation and development, public-private dialogue can operate at various levels and at varying times.<sup>1</sup> One level is when the mechanisms are in place to support relatively broad national development objectives for economic transformation and development (Figure 1). Another level of operation is when there is support for national strategies for specific sectors or crosscutting thematic objectives, such as innovation. Dialogues also can take place at the regional, departmental, or municipal level. Figure 1 illustrates the different levels of public-private dialogue, which should have available channels of communication that can enable a degree of coordination and synergy among them. Public-private dialogue can be established for short, medium, or long periods of time, or a combination thereof. This paper will explore dialogues that are formally structured national councils (hereon termed public-private strategic policy alliances or PPAs), with a focus on

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<sup>1</sup> It is important to note that public-private dialogues are not limited to economic transformation strategies, as they are also frequently used to influence government to adopt a specific economic reform. See, for example, Herzberg (2004).

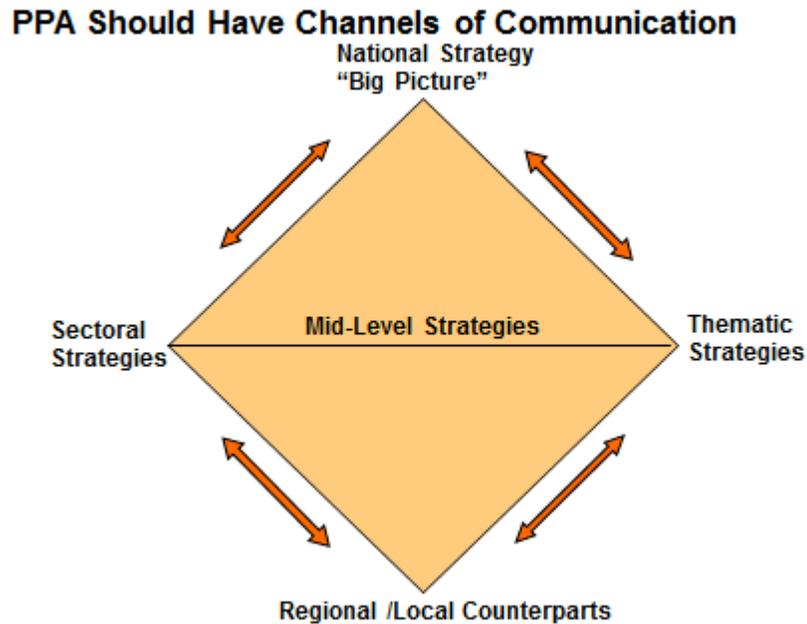
strategic issues in relation to a country's economy as a whole and/or the mid-level strategies of Figure 1.

A PPA can be analyzed from the perspectives of (i) governance and (ii) impact. A holistic view would require an analysis of both aspects. This paper, however, will only focus on the first: governance. PPA impacts are inherently difficult to evaluate (NES, 1997; Schneider, 2010; USAID, 2003). To evaluate the impacts of PPAs, indicators are required to measure the baseline, as well as the outcomes as they affect the national economy. In addition, an effective counterfactual would need to be developed. Hence, evaluation of impacts would require a separate methodology and research agenda, going beyond the scope and resources available for this paper. Evaluations are, in any event, valuable and can be done. There is sufficient evidence that PPAs can be effective at the national, regional, and local levels to contribute to the strategies that will support economic growth and development.<sup>2</sup> Moreover, good governance is a necessary precondition for effective impact. Ensuring that governance is effective, therefore, will substantially contribute to the impact of PPAs.

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<sup>2</sup> See Baccaro and Simoni (2004) for different aspects of the effects of the Irish Alliance. Devlin and Mognillansky (2011) also examine how the Irish Alliance was central to the country's short- and medium-/long-term strategy for adjusting to the economic crisis of the late 1980s. Fraile (2010) examines the impact of a number of tripartite alliance councils in developing countries to find positive contributions towards consolidating economic reforms and protecting social welfare. The World Bank (2011) examines the benefits of alliances in the Mediterranean countries, while Herzberg (2004) does the same for Bosnia and Herzegovina. See Griffins and Zammuto (2005) for an analysis of how the meat industries have evolved under four market governance systems: pure market, state governance, corporate governance of markets, and joint public-private governance, with the conclusion that the latter performed best.

**Figure 1: PPA Channels of Communication**



Source: Author's elaboration.

To draw out principles of effective governance of public-private strategic policy councils, this paper will examine the experience of a number of countries, especially the Czech Republic, Finland, and Ireland, which have relied on public-private economic policy councils for some time. The case for New Zealand also will be addressed, where a council was established to assist the government to introduce IPs.<sup>3</sup>

Section 2 of this document will elaborate on why PPAs are important. Section 3 will explore the origin of PPAs. Sections 4 and 5 will examine the characteristics of PPAs. Section 6 will include an analysis of the principles of good governance, based on the international experience. Section 7 will provide the conclusions of the study.

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<sup>3</sup> The cases relate to the first quarter of 2012. Hence, they are only examples and do not necessarily reflect current arrangements in place. Indeed, major reforms have been undertaken in the Czech Republic (<http://www.vyzkum.cz/FrontClanek.aspx?idsekce=535919>) and New Zealand ([www.msi.govt.nz/update-me/archive/msi-archive/statement-of-intent-2011-2014-archived/strategic-direction/supporting-outcome-1-building-high-performing-science-and-innovation-systems/](http://www.msi.govt.nz/update-me/archive/msi-archive/statement-of-intent-2011-2014-archived/strategic-direction/supporting-outcome-1-building-high-performing-science-and-innovation-systems/))

## 2. The Rationale for a Public-Private Alliance

Economic catch-up by a poor country to the new technological frontier can be facilitated by access to knowledge and capital, in order to increase productivity and economic growth. This is especially significant in lesser-developed countries that have experienced a substantial migration from subsistence farming to higher productivity activities in the manufacturing and service industries in urban areas (Lewis, 1955). Achieving middle-income status, however, comes with its problems. Hence, more sophisticated IP strategies to benefit from the advantages of catch-up should be in place to avoid being caught in the so-called “middle-income trap,” an affliction in much of Latin America.<sup>4</sup>

The challenges to fully exploit the opportunities for gaining ground are many and varied.<sup>5</sup> It is difficult for IPs to develop—with coherence over political cycles—the medium—and long-term strategies to directly and effectively tackle the challenges and other barriers at the macro, meso, and micro levels.

During the interwar years and the early decades following WWII, the “mixed” economies of Europe that successfully developed their economies had a strong state intervention in terms of policy strategy and direction. Likewise, less successful countries, as in the case of some countries in Latin America, experienced an era of state-led industrialization (Ocampo, 2006).<sup>6</sup> Governance of the market was hierarchical, where political systems and state bureaucracies dominated and exercised their authority through state enterprises and/or formal and informal directives aimed at the private sector in varying levels of force (Karo and Kettel, undated; Wade, 2004).

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<sup>4</sup> Some argue that the middle-income trap is conceptually and empirically flawed (Im and Rosenblatt, 2013).

<sup>5</sup> Broadly categorizing them as weak market signals across sectors that retard economies of scale, innovation, and upgrading; incomplete markets in labor, finance, and technology; infrastructure barriers, information, coordination, and network failures; problems of appropriation of returns on innovation; weak public policy and administration capacities that create “government failures”; and *status quo* bias, uncertainty and unexpected external shocks. Some proponents of IP go beyond the “market failure” justification for state interventions, which is based on a static neoclassical market framework (Bator 1957). Other justifications include considerations of obstacles to learning and capacity building that can involve political, institutional, historical, cultural, and psychological barriers to undertaking new upgraded economic activities. To compare and contrast this broader approach, see Peres and Primi (2009).

<sup>6</sup> Latin America and East Asia, however, experienced the state presence and its interaction with the private sector in a different way. In the terminology of Evans (1995), regarding the relation of the state with private markets, the Latin American state leaned more towards being a “demiurge” while, in East Asia, the state leaned more towards serving as a “midwife” for the development of new capabilities in the domestic private sector.

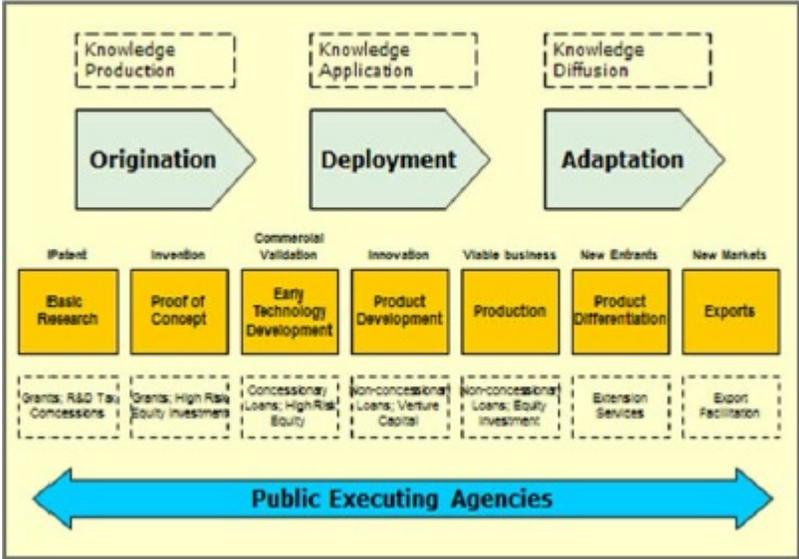
Today there are more opportunities, but the world is a more complex place for poor countries to catch-up to richer ones. Globalization has taken hold once again since the Great Depression and the two World Wars. The liberalization of national and international markets has been far-reaching, and privatization has diminished direct state intervention in productive activities. The private sector is now, undisputedly, the engine for growth. Technological change and world competition is intensifying; globalization is creating world integration; manufacturing and services are increasingly driven by global production chains, world networks, and domestic market-based industrial clusters. Innovation continues to increase, and the dissemination of knowledge is increasingly network-based on a global scale (Sabel, 2009). The policy space for state action is now bound by WTO regulations with some ambiguous measures that require identification and navigation. Hence, today more than ever, “all views are partial” in assessing market developments (see Devlin and Moguillansky, 2012; Radosevic, 2009; Sabel, 2009).

Governments must develop strategies to navigate this complex world economy and identify the constraints that hamper domestic growth. They need to design and implement public instruments and programs at the micro level that will incentivize private sector transformation and improve areas where markets may not be efficiently performing. As an example, Figure 2 illustrates the many areas that governments should support in terms of national innovation. Not only must it ensure that there are no gaps in the various phases of innovation where a public-support program may be required to supplement market forces, but it also should design the program in a way that it relates to the specific contextual framework of firms within a country’s heterogeneous productive structure.<sup>7</sup> This may require information that it does not have access to effectively develop and implement IPs, nor of the associated interventions in national markets.

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<sup>7</sup> Phases are presented in a traditional lineal model, but in actual successful innovation systems, the relationship is more often a circular flow, where the phases and components continuously interact with each other with feedback loops. See Dugan and Gabriel (2013).

**Figure 2: Public Support for National Innovation: Mind the Gap**



Source: Author’s elaboration.

In a globalized world economy, firms have substantial information about their markets, business opportunities, and the constraints they face, including about failures of government. However, employers often suffer from myopia and short-term perspectives, *status quo bias cum* risk aversion, coordination problems, and the like. While governments may not have access to better market information, they do have the advantage of being able to assess aggregate phenomena and propose strategic direction to facilitate investment, facilitate coordination, provide public goods to incentivize the private sector and, of course, oversee social welfare.

Ultimately, governments are, as Hausmann and Rodrik (2006) point out, “doomed to choose” among the different policy options to support the private sector in exploiting market opportunities. The concept of government and business working together in a collaborative way through a PPA is viewed as an avenue to contributing to the development of more intelligent strategies and effective public programs. A PPA would enable more effective market-based productivity transformation, compared to the government and each sector or firm addressing the challenges individually (and in a context of mutual distrust, as has occurred in Latin America). In

other words, the whole can be greater than the sum of the parts in a joint governance of the market.<sup>8</sup>

As Rodrik (2004) points out, the essence of modern IP is not the policy outcome as such, but rather it entails establishing a viable social process and institutional framework that will permit the voluntary collaboration between government and business without the public sector being captured by special interests. Evans (1995) framed this relationship as the achievement of a delicate balance, which will permit the “embedded autonomy” of the state.<sup>9</sup>

Other stakeholders may be able to contribute valuable insight and information, depending on the issues. Labor unions have relevant knowledge of the workplace, including in terms of wages and labor regulations that can affect enterprise and productivity. Academic institutions, on the other hand, have the technical expertise to apply some checks and balances to public-private dialogue. In addition, some organized social groups can, de facto, veto the allocation of public resources; hence bringing them into the dialogue can enhance public understanding of strategies, policies, and programs. Moreover, with globalization, developing countries are, increasingly, being governed by democratic principles, creating a demand for more civil participation and transparency in policy processes, as well as more public accountability for the policies that are implemented.<sup>10</sup> Latin America is no exception.

In recent years, Latin America has begun to implement new IPs that differ from those that were in place during the era of state-led industrialization (Devlin and Moguillansky, 2010, 2011, and 2013; Fernandez-Arias, 2010). An indication of this is the emergence of PPA councils in many countries in the region. These are designed to support IPs, but they have exposed serious governance flaws of one type or another, according to Devlin and Moguillansky (2013). A review of the governance of PPAs in countries that have had a longer experience with them will provide Latin America with more insight into governance structures for such alliances.

It is important to note that PPAs for productive transformation do not only relate to the building of new capacities in the private sector. The agents of government must become a

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<sup>8</sup> Some analysts, such as Porter (2007), have traditionally argued that competitiveness and upgrading is the exclusive domain of corporate governance: business management, not nations, creates competitive advantage. This has been effectively critiqued (Machinea, 2007). More recently, however, Porter, too, alludes to the fact that a national strategy may make better sense (Porter, 2008).

<sup>9</sup> One also must avoid appropriation of the private sector by the state.

<sup>10</sup> In a broader framework, some have referred to this approach as the new emerging “public governance” paradigm (Bovaird, 2004).

credible and competent technical partner to the private sector, if the latter is to commit the time and resources for serious collaboration. In setting its goals, the public sector should be capable of developing its national objectives coherently. It should follow through in implementing policy and effective support programs. All too often, in Latin America, ministries and executing agencies that have an alliance with the private sector (e.g., those that oversee areas, such as planning, industry, investment attraction, innovation, science and technology, and education) are the most weak in manpower, management, and/or resources. Therefore, as part of an alliance agenda, there is a need for capacity building in the areas of human resources and finance in the public sector that relate directly to productive sector activities, so that government can effectively assume its role in the joint governance of the market (Devlin and Mogueillansky, 2013). Without these capabilities, the private sector will likely ignore government initiatives, unless it sees an opportunity for rent seeking.

### **3. The Corporatist Origins of Alliances**

Some contemporary schools of economic thought have been somewhat skeptical of PPAs.<sup>11</sup> There is distaste for corporatist overtones and the belief that self-interest can lead to attempts of collective action to degenerate into favors for special interest groups (e.g., Buchanan and Tullock, 1962).<sup>12</sup>

PPA councils originate from the corporatist structures that existed in Europe during the vulnerable interwar period, when interest was generated to minimize conflict between business, labor, and government. Some of these tripartite alliances had overtones of authoritarianism and special privilege for groups represented to the exclusion of others (Doctor, 2007). However, in the Post-War era, “democratic or neo-corporatism” came to characterize collaboration between business, government, and labor, with some significant characteristics (Katzenstein, 1985).

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<sup>11</sup> Doubts relating to the facilitation of private sector coordination go back to Adam Smith. To quote Smith (1965): “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or on some contrivance to raise prices (...) But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary.” Thanks to B. Herzberg for reminding me of this passage.

<sup>12</sup> This same doubt is expressed in the so-called New Public Management, which has been influential since the 1980s (Bovaird, 2004; Christensen and Lægreid, 2001) and now is being challenged by the emergence of “public governance” thinking, mentioned in Footnote 10.

First, there was the general notion of “partnership” that placed group interest into the broader notion of “public” interest. In other words, a sense of compromise was ingrained. Second, democratic corporatist structures relied on a centrally organized group representation of business and labor, or what Katzenstein called “peak” associations. The third characteristic was the continuous bargaining and coordination of diverging group interests. Wage pacts typically were an important part of such alliances in Europe; for example, it was a key element of the Swedish public–private alliance until 1983 (Alexopoulos and Cohen, undated), a component of the Irish Partnership between 1987 and 2008, and, in Finland, it existed from the late 1960s until 2008. A fourth characteristic was technical expertise to provide credible analyses and data for setting the ground rules for bargaining and other issues to ensure a more rational and fact-based dialogue.

These aspects continue, in part, to characterize many of today’s alliances.<sup>13</sup> However, depending on the country and its objectives, they can be less concentrated in terms of participation, less based on formal social “representation”, and less exclusively oriented to bargaining. Moreover, many countries give more attention to methods that attempt to minimize the risk of state capture by special interests.

A modern PPA may have an advisory and consultative role with the aim of the channeling of information or interchanging points of view for policy development. However, the creation of a formal social partnership, where there is broad national agreement on a strategy—and basic parameters for achieving it that involve rights and obligations—continues to be a goal in other cases. The latter type of alliance is a more complex one since—as Brinkerhoff and Brinkerhoff (2011) point out—it must integrate a sense of mutual interdependence among stakeholders with their individual organizational identity, as well as blend politics with technical expertise. The features of a social partnership are jointly determined goals; consensus-based decision making; horizontal structures and processes; trust; synergetic interaction; and shared accountability. This is an obviously more ambitious mix than the former type of alliance, which,

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<sup>13</sup> Successful cases in post-war East Asia supported IPs in forms of corporatism that were significantly different from Europe. They typically were a more closed relationship, limited to government and business collaboration; more authoritarian and fully “directed” by professional public bureaucracies; and more reliant on informal networks and communication.

while not bereft of some of these characteristics, is more limited to the transmission of information and perspectives on policy direction.

#### **4. The Playing Field of Modern PPAs**

In terms of a framework for PPAs, Figure 3 exemplifies a playing field at the national level, for support of strategic policymaking. The far left column of boxes highlights the fact that alliances emerge from a path that is dependent on national politics (as well as culturally and historically); hence, there is no a priori formula, regarding their structure. At the same time, the public–private alliance is established with the aim of achieving or promoting public understanding of a strategic policy issue(s), or to reach public consensus for a strategy. It is government’s role to govern; therefore it must decide on the ultimate framework of policies for a development strategy, establishing the priorities and the programs necessary to implement it.

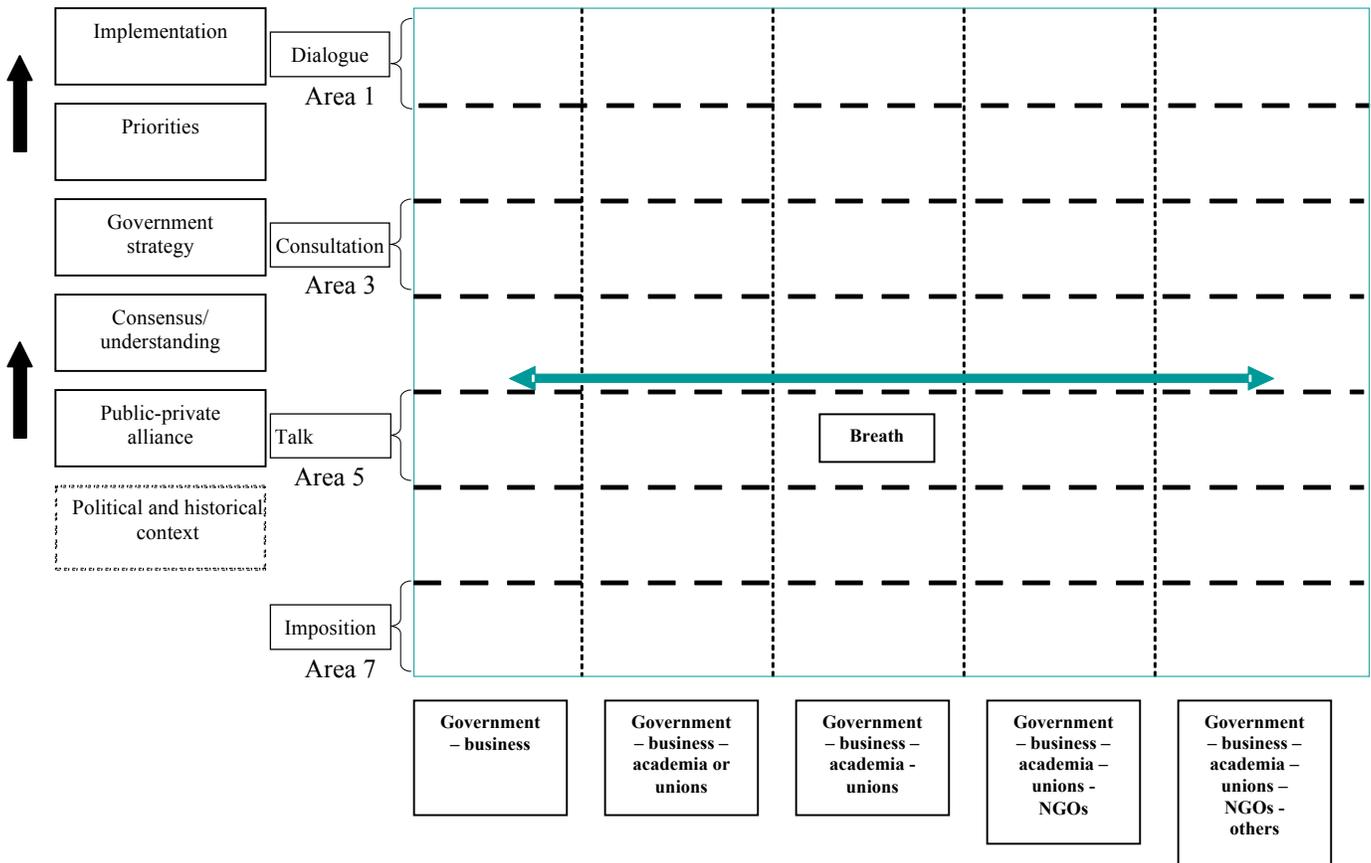
The vertical rows of Figure 3 show the types of participation in the alliance. It can be a public–private alliance, relating only to business, or it can incorporate a combination of institutional stakeholders, typically related to labor, academia, nongovernmental organizations (NGO) and, perhaps, political parties.

The horizontal rows represent the nature of discourse within the PPA over a non-discrete continuum. Area 1 illustrates an alliance that aims at dialogue and the consensus of decisions. Area 3 is an alliance where government consults alliance members about its policies, but makes no pretense of establishing a consensus. The main objective is to gather opinions as inputs for the decision of a strategy and its implementation; however, the consultation can contribute—directly or indirectly—to, at least, an understanding by stakeholders of a government’s intentions. Another type of alliance is one that simply promotes conversation among the parties (“getting to know you”) that, previously, had little or no structured form for interaction. Finally, Area 7 is a purely bureaucratic and hierarchical alliance, where the government imposes a strategy on the stakeholders with which it works.<sup>14</sup>

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<sup>14</sup> Note that the vertical access is stylized, and day-to-day alliances may reflect discourse in any of the areas of Figure 3. However, only one of the areas will dominate and characterize the alliance discourse.

**Figure 3: The Playing Field for Public-Private Alliances**



Source: Authors' elaboration based on Devlin and Moguillansky (2011).

Figure 4 (page 15) illustrates the position of players on the playing field by including selected, real country alliances.

- Ireland's National Economic and Social Council (NESC), established in 1973, has had the broadest participation, incorporating not only NGOs as a representative group, but also—most recently—an environmental pillar of representation.<sup>15</sup> For most of its existence, it has aimed towards consensus to advise government on development issues and its medium- to long-term strategy.

<sup>15</sup> The NESC started out as a tripartite business (including farmers), labor, and government forum, but representation has expanded over time. By the 2000s, the NESC had added NGOs to its representation and, more recently, has included an environmental pillar.

- Since the 1990s, Finland’s IP has had an overriding focus on technology and innovation, so much so that it has ceased to be a midlevel thematic issue and has become a complete development strategy. Preparing the guidelines for government support programs and the funding of basic and applied science and technology, as well as innovation, was the responsibility of the Science and Technology Policy Council (STPC), with the participation of government, the private sector, labor, and academia. Like the NESAC, the STPC operated through dialogue and consensus. The Research and Innovation Council replaced the STPC in 2008.
- The Czech Republic has a tripartite council for economic and social agreement, comprising representatives of government, enterprise, and the labor market. It provides advice on government policy and development strategy and is a consultative forum for new laws. From its origins in 1990, it was more a forum for discussion (Area 5) for groups whose interests had little—or were oppositional towards—interaction during the communist and early post-communist era.<sup>16</sup> In its current capacity, the council straddles Areas 1 and 3 of Figure 4, given that deliberations do not always lead to public consensus and disagreements tend to spill into the public domain.
- In New Zealand there was, until recently, the Growth and Innovation Advisory Board (GIAB). Established in 2002, it included government, enterprise, labor, and academia. It is placed in Area 1 of Figure 4, since it sought consensus on its recommendations.
- Singapore and Malaysia are placed in Area 3 of Figure 4. Both countries hold in-depth consultations with the private sector about development strategies, without necessarily intending to gain consensus. In Singapore, until recently, the Economic Development Board was the main “brain” of the country’s development strategy.<sup>17</sup> It received advice from a board of directors, composed of the private sector, the labor union (which is a quasi- government entity), and academia. Malaysia’s Economic Planning Unit collaborates with government, enterprise, and academia in the preparation and implementation of its National Plans.

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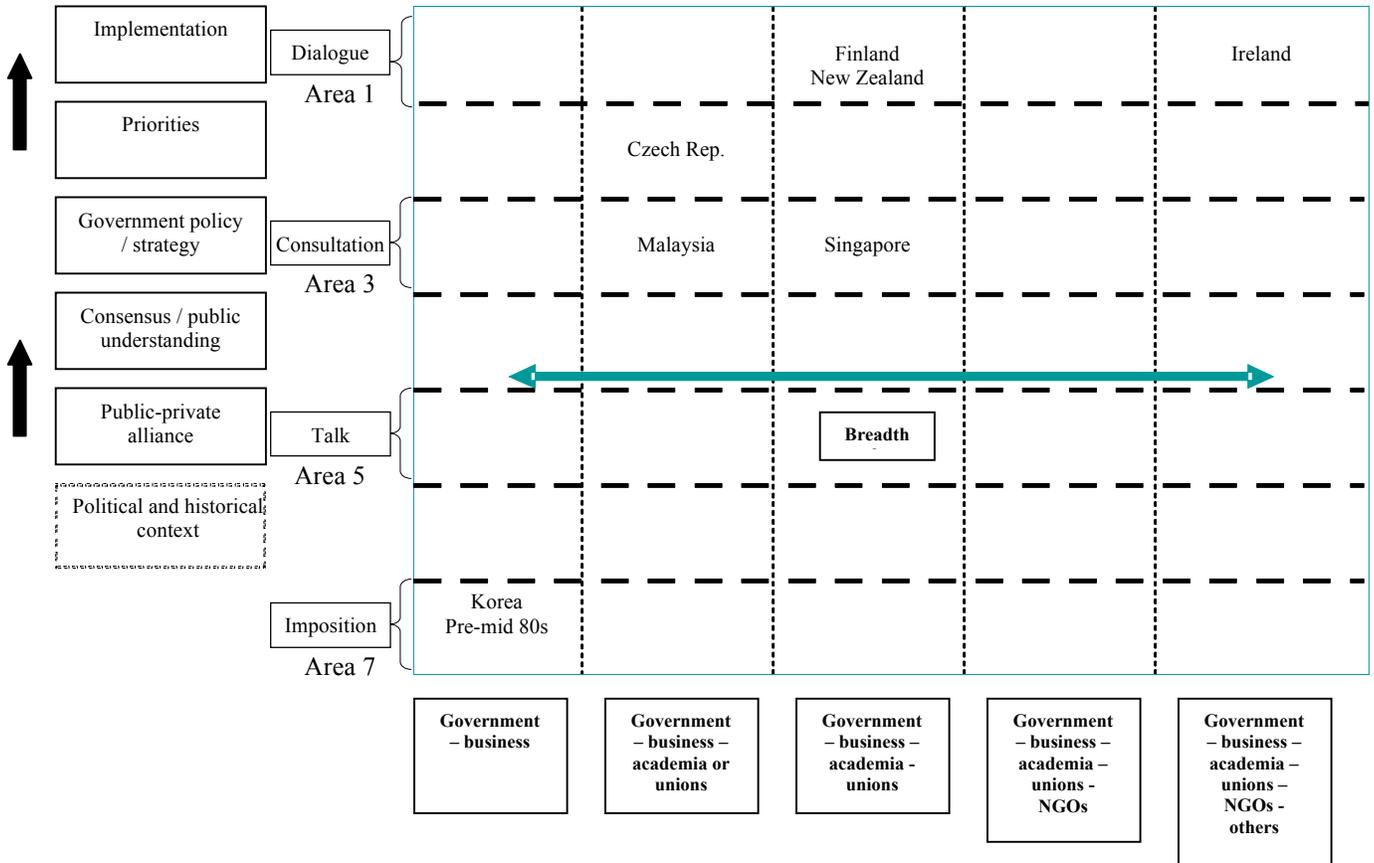
<sup>16</sup> Its name at that time was the Council of Social Agreement.

<sup>17</sup> In the 2000s, leadership was transferred to a new agency, the National Research Foundation (NRF), advised by the Research, Innovation and Enterprise Council. The Alliance membership was made up of government, business, and academia.

- Korea, before its democratization in the 1980s, had a hierarchical alliance between government and business, where the public bureaucracy, led by the Economic Planning Board and supported by government-sponsored research agencies, “informed” the large *Cheabols* of its strategy. It had a “carrot and stick” approach to ensure that the five-year National Plans would be implemented by the private sector. By the mid-1980s, with the advance of industrialization and the emergence of a democracy, economic liberalization led to national planning being abandoned. Korea’s strategic policy leadership shifted to the Ministry of Finance and Economy and the Ministry of Science and Technology, where advice and coordination is provided to the government by the National Science and Technology Council, a more contemporary alliance evolving towards Area 1 in Figure 4. The *Chaebols* now act independently of government, but do so in the framework of Evan’s (1995) “husbandry”, whereby the public sector supports these firms when they face an exceptional challenge.

It should be noted that some of the alliances incorporate multinational firms that are hosted by a country. This occurs, indirectly, in the Czech Republic and Ireland through membership of multinational firms in the associations representing the private sector in their respective councils. In Singapore, the Economic Development Board (EDB) includes the chief executive officers (CEO) of the local subsidiaries of multinational firms. Moreover, the government of Singapore has organized a permanent international advisory panel, made up of the CEOs of major multinational firms. It has also established other advisory councils, comprising distinguished international scientists, in order to create a global network of contacts for strategic intelligence and the transfer of knowledge (Kumar and Saddique, 2010).

**Figure 4: Players on the Playing Field for Public-Private Alliances**



Source: Author’s elaboration based on Devlin and Mognuillansky (2011).

## 5. The Types of Alliances

Alliances at the national level can be structured as permanent councils, or ad-hoc forums for time-sensitive issues, or they can constitute informal networks. In practice, such platforms for discourse can—and do—coexist, although one, or a combination of them, can be the dominant form of public–private collaboration on policy issues. The time an alliance is in place can vary; however, structured forums and informal networks remain for the medium to long terms, and, while time bound, ad-hoc forums can eventually evolve into more permanent structures.

In the Czech Republic, Finland, and Ireland, the dominant form of a public-private alliance is a council. In New Zealand, the dominant vehicle is a hybrid of structured and ad-hoc forums and informal networking. In Singapore, the alliance is formed of permanent forums and informal networking. Finally, in Malaysia, it comprises ad-hoc forums and informal networking.

## 6. Governance of PPA Councils

As mentioned earlier, good governance of an alliance should contribute to effective strategic economic policymaking and its impact. The three key characteristics of governance are that: (i) the intangible and tangible aspects of governance are equally important—both must work in tandem to be effective; (ii) there are tradeoffs in effective governance, where a delicate balance has to be struck; and (iii) while national alliances must essentially be *sui generis*, the experience of countries can support development of relative principles. In this regard, reference will be made to the experiences of the Czech Republic, Finland, Ireland, and New Zealand and, occasionally, to others.

Among the most important intangible factors is that with *political leadership and a commitment by government*, an alliance council can be effective. However, a government's lack of commitment and leadership can weaken it. An example relates to New Zealand, where the Labour Government, over its three consecutive terms from 1999 to 2008, progressively lost political interest in the GIAB. As a result, the advisory board's influence weakened commensurately.<sup>18</sup> Leadership can be difficult to exercise, in particular, when a coalition government is broad and politically diverse, as was the case in Finland during the late 2000s.

The government of the Czech Republic, for a short period in 1997, lost interest in the country's Council of Economic and Social Agreement (RHSD CR), given the president's erratic political commitment to the tripartite forum. Government interest towards an alliance council can also be affected during political cycles, when it may be viewed as a tool of the opposition, as happened also in the case of New Zealand, when the conservatives came into power in 2008. In

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<sup>18</sup> It is not completely clear why this is so, but some have attributed it to the government not getting all the engagement it had hoped for from the business community in support of its economic transformation program, which would have been a big shift from the neo-liberal policy framework that had governed markets since the mid-1980s (Interview with N. Haworth).

lieu of being reorganized, the GIAB was closed down. Hence, for an alliance council to remain as an entity and an effective tool through political cycles, its *raison d'être* should span across the political spectrum. That will more likely occur if it does not appear to be an exclusive political tool of the incumbent government. In essence, councils should be councils of state and not councils of government.

*Clarity of purpose* is another important intangible. When an alliance council is established, participants should be clear about what the council is suppose to achieve, as well as the public at large. Purposes that would be counterproductive are if the government's underlying motive is to use the council for short-term political "window dressing" or manipulating and influencing the council and its members to its own political advantage.

A government should clarify the degree to which it wants an alliance council to be the primary channel of communication for stakeholders vis-a-vis the more traditional bilateral consultations and lobbying by social groups and firms. Otherwise, the legitimacy of the council and its relevance as an interface with government officials could be eroded.

*The balancing of tradeoffs*, another intangible, relates to the lack of set formula for council governance. Indeed, there are many tradeoffs that will need to be managed with good judgment.

*Culture* is a fourth example that can influence the nature of governance; that is, cultural norms can influence good governance. For instance, Finland's STPC has no procedures for financial disclosure or measures relating to conflicts of interest on the part of council participants. A mutual understanding exists among council members allowing each member to know when it is appropriate to recuse himself/herself.<sup>19</sup> The small size of Finland and its relatively high standard of transparency enable such practice. Meanwhile, some countries have a culture of strong distrust between social groups. Governance, therefore, requires the necessary structure and procedures to promote social cohesion and common purpose.

*Backdrops* will also have an influence on the nature of good governance. For instance, the nature of effective governance will be influenced by whether the council is addressing long-term or time-sensitive challenges, or facing economic crises or major political and/or economic transitions.

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<sup>19</sup> Members of the STPC were surprised when they were questioned about the safeguards relating to conflicts of interest.

With regard to the tangible aspects of good governance, the successful outcomes of a PPA will be largely dependent on its structure. This will include the principal mandate, participants, procedures, and types of discourse that will be encouraged, among others. Achieving the appropriate institutional design should be considered an exercise of discovery that will involve trial and error in an idiosyncratic environment. Hence, local adaptations and redesigns are part of the good governance equation (NESF, 1997). A review of several tangible governance issues, drawn from the sample countries, will be discussed in the following subsections.

## 6.1 Establishing Objectives

When establishing a PPA council, statutory regulations should be clear, with objectives that are realistic and relevant. Box 1 summarizes the council statutes of the sample countries.

<b>Box 1: Statutory Regulations of Selected Public–Private Policy Councils</b>
<b>Czech Republic</b>
<u>Council for Economic and Social Agreement (RHSD CR).</u> It is an advisory and bargaining forum that “shall be a joint voluntary negotiating and initiative body of trade unions, employers, and the Government of the Czech Republic for tripartite negotiations aimed at reaching an agreement in essential issues of economic and social development. The RHSD CR shall enable to maintain, through mutually respected form of dialogue, social peace as a basic precondition of positive development of economy and living standards of citizens” (RHSD CR, 1997).  The council’s remit for negotiations is in the major economic and social areas of the nation and can involve short-, as well as long-term, perspectives on:  Economic policy Labor law relations, collective bargaining, and employment Social issues Wages, salaries Public services and public administration Labor safety Human resource development Integration into the European Union
<u>Research and Development Council (RDC)</u> The council’s remit is to advise the government on the National Research and Development Plan, the accompanying programs and subprograms, and the annual total public expenditure and

distribution among ministries and universities/research centers. (Czech Republic Parliamentary Act 130, 2002).<sup>20</sup>

## **Finland**

### Research and Innovation Council (RIC) (ex- Science and Technology Policy Council)

The council advises the government and its ministries on “important matters relating to the targeting, follow-up, evaluation and coordination of research, technology and innovation policy... The council shall assist the government and its ministries in matters within the purview of the council” (Finland Ministerial Decree 1043, 2008). These are:

- Follow national and international developments in research, technology, and innovation.
- Evaluate the state and the developments within the sphere of its authority.
- Address major matters relating to the development of science, technology, and innovation policy, including the related human resources, and prepare proposals and plans concerning these for the government.
- Address matters relating to the development and allocation of public research and innovation funding on a preparatory basis for the government.
- Coordinate government activities in the field of science, technology, and innovation policy.
- Execute other tasks assigned to it by the government.

## **Ireland**

### National Economic and Social Council (NESC)

Its original remit was agreed to by the participating interest groups as: “The main task of the National Economic and Social Council shall be to provide a forum for the discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the government<sup>21</sup> on their application.” The council shall have regard, *inter alia* to:

- i) The realisation of the highest possible levels of employment at adequate reward,
- ii) The attainment of the highest sustainable rate of economic growth,
- iii) The fair and equitable distribution of income and wealth of the nation,
- iv) Reasonable price stability and long-term equilibrium in the balance of payments,
- v) The balanced development of all regions in the country and
- vi) The social implications of economic growth, including the need to protect the environment” (NESC, 1997).

The reports, prepared by the NESC, are to be transmitted to the government for its comments, and a published version, in turn, is sent to Parliament. The procedures of the council are self-regulated (NESC, 2011b).

The statutory function was restated in a 2006 National Economic and Social Development Office Act as: “The functions of the council shall be to analyze and advise the Taoiseach [prime minister

<sup>20</sup> The Council was recently reformed and renamed the Research, Development and Innovation Council.

<sup>21</sup> The interlocutor to transmit advice was originally the Minister of Finance. Between 1977 and 1980 it was the Minister of Planning. Since 1980 it has been the Office of the Prime Minister.

in Gaelic] on strategic issues relating to the efficient development of the economy and the achievement of social justice and the development of a strategic framework for the conduct of relations and the negotiation of agreements between the government and the social partners.”

During 1987–2008, the NESc’s triennial report and recommendations for the economy and industrial and social policy also framed the context for the three-year, centralized labor-business wage bargains that were brokered by the Ministry of Finance in the name of the Irish alliance, or Social Partnership.<sup>22</sup> In the crisis of 2008–09, unions pulled out of the Partnership.

#### National Competitiveness Council (NCC)

The NCC is an independent body established by the prime minister to advise him/her on competitiveness issues facing the economy and advance recommendations on policy. The NCC was an outgrowth of Partnership 2000 (Department of the Taoiseach, 1996). More specifically, the main obligations of the NCC are to (National Competitiveness Council, 1997):

- i) prepare an annual report for the prime minister on competitiveness policy with a focus on the challenges of the business sector over the medium term and respond to them; and
- ii) prepare an annual report, benchmarking Ireland’s competitiveness.

#### **New Zealand**

##### Growth and Innovation Advisory Board (GIAB)

Established by the prime minister “to provide high-level, independent strategic advice to the prime minister and Ministers on growth and innovation issues”.<sup>23</sup> The remit was to:

- provide high-level strategic advice on the overall shape, direction, and priorities of the government’s growth strategy and its various themes;
- provide strategic advice on particular issues; for example, how to promote sustainable business;
- act as a catalyst for effecting change, for example, use the pulling power of members to bring disparate interests together to address particular issues; and
- serve as a mechanism for integrating perspectives and building consensus on growth and innovation issues.

The GIAB’s remit was designed to develop guidelines, rather than detailed policy advice.<sup>24</sup>

Source: Author’s elaboration, based on official information and interviews.

Box 1 provides a common element: the PPAs’ most important remit is to provide advice to the government. The specificity of the remit depends on the councils’ agreements on agendas and work programs. As mentioned earlier, it is government that must govern in the public

<sup>22</sup> The Partnership contributed to labor peace, at least until the early 2000s, and promoted wage restraint (Baccaro and Simoni, 2004). Wage negotiations were outside the NESc, but the council’s consensus principles guided the tripartite discussions.

<sup>23</sup> The original source was [www.med.govt.nz/templates/page\\_40405.aspx](http://www.med.govt.nz/templates/page_40405.aspx); note that the site has been closed subsequent to the termination of the GIAB.

<sup>24</sup> The source is the same as the previous footnote.

interest and, hence, only it should have the final decision on policy and its specific structure. Formal partnerships, nevertheless, do generate agreement(s) with rights and obligations; for example. Ireland's Tripartite Partnership wage pacts have been set within the strategic framework of parallel agreements, emerging out of the National Economic and Social Council, that contain recommendations for economic policy, such as on taxes, social safety networks, and support of industrialization and diversification.

Councils usually, however, are not involved in the day-to-day business of individual stakeholders, who often have their own channels of communication with government. When a council enters into the basic specifics of policy, it can complicate agreements and may increase the risk of conflicts of interest and rent seeking, which could erode trust. Moreover, it could lead to collusion with government. Consequently, in terms of governance, it is recommended that the advice of PPAs be only specific to the principles, guidelines, directions, and selected options for policy, framing them into a common understanding among stakeholders. Nevertheless, council recommendations should avoid ambiguity and, therefore, be operationally and politically relevant. This is a tradeoff that must be balanced in the governance of the council.

Most of the sample countries tend to strike this balance, with the exception of the Czech Republic, where the two councils enter policy specifics. The RHSD CR is a tripartite bargaining table on the day-to-day policy issues and future strategy. On the other hand, the Czech Research and Development Council (RDC), de facto, manages the R&D plans, policy, programs, and budgets. The RDC's work is primarily to advise the government on its national plan and the programs for research and development, as well as the annual budget. However, its advice is rather compelling in terms of national plan content and budget allocations<sup>25</sup>.

As mentioned earlier, the Czech tripartite RHSD CR receives the government's proposed laws for comment before they are sent to Parliament.<sup>26</sup> It also debates government policies in areas such taxes, infrastructure spending, labor relations (except wages, which are negotiated outside the council), and regulatory frameworks. While the council deliberates on long-term issues of national vision and competitiveness, its recent focus has been mostly on fleshing out tripartite positions on short-term policy issues/laws and providing feedback to the government.

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<sup>25</sup> In its new reformed role as the Research, Development and Innovation Council, the council is more powerful and a quasi-ministry for support of science, technology and innovation.

<sup>26</sup> There is a similar procedure for councils in the Republic of Kazakhstan.

Finland's RIC (and former STPC), similar to the Czech Republic's RDC, provides advice relating to science, technology, and innovation. Every three years, it submits a strategy proposal or guidelines for research and innovation, and it recommends the relevant budget allocation. Until recently, the strength of the budget recommendation has typically been strong; however, that outcome has relied primarily on the prestige of council members and the political engagement of the Minister of Finance rather than any rule as such. Executing agencies, such as the Academy of Finland and Tekes, traditionally are expected to (and typically do) strictly adhere to the triannual guidelines of the RIC in their annual work programs (Devlin and Moguillansky, 2011)<sup>27</sup>.

Ireland's NESC submits at least one major report every three years, recommending medium- and long-term economic and social policy direction to the prime minister.<sup>28</sup> As mentioned previously, this has established a backdrop for parallel triannual tripartite wage settlements that have been a major component in the Irish Partnership. The current government has expressed a desire to have the NESC focus more on short-term issues, perhaps as a reflection of the urgency for crisis management (NESC, 2011a). Some members of the Irish Partnership, however, do not wish to lose medium- or long-term focus in policy matters.<sup>29</sup> Ireland's National Competitiveness Council advises the prime minister on Ireland's competitiveness. Its major output is the annual Competitiveness Scorecard, which "redlines" the danger areas in the Irish economy.<sup>30</sup>

Finally, New Zealand's GIAB provided the government with advice at a high level, relating to the issues in its remit. Outputs were informal (briefing memos, private press briefings, contacts with senior officials) and reports were issued on a formal basis on topics, such as sector performance, innovation, workplace reform, and infrastructure development. These outputs tended to focus on the big picture rather than on policy details.

In terms of objectives, an additional two points should be raised. First, the traditional corporatist objective of minimizing social conflict still underpins most of these alliances. In the case of the Czech RSHD's remit, the interest in social peace is explicit in its statutes (see again

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<sup>27</sup> But they are free to determine how to meet the guideline objectives.

<sup>28</sup> Its credibility rose sharply in 1987 over recommendations that included short-term adjustments in the face of fiscal and balance of payments crises, coupled with messages pointing to the need for medium-long term IP (NESC, 1987).

<sup>29</sup> From interviews with stakeholders in the NESC.

<sup>30</sup> For example, see NCC (2011).

Table 1). Many in Ireland believe that the Social Partnership has been an influence in maintaining labor peace. Moreover, some have expressed the belief that stakeholder participation and a sense of ownership in the NESC has contributed to limiting the wide dissatisfaction about the effects of the current crisis to the voting booth. In any event, social peace is a legitimate political goal of any nation's development strategy.

All the PPAs mentioned emerged in response to some kind of crisis, or were empowered by one. While the NESC was created in the 1970s, it was empowered by its recommendations for adjustment and the introduction of industrial policies in the face of the severe fiscal and balance of payments problems of the late 1980s. The Irish Social Partnership emerged as a consequence. Finland's STPC was empowered by the country's economic crisis in the early 1990s, due to a housing finance crisis arising from an episode of liberalization and the fall of the Soviet Union, a major economic partner. The existence of the Czech RSHD materialized out of the fall of communism and the accompanying severe labor conflicts, coupled with an emerging private sector and the need to integrate ex-party members. Meanwhile, the New Zealand GIAB arose because of hostile relations between a new Labour Government and the business sector, coupled with lagging productivity and growth for many years. It also was motivated by Labour's political need for engagement with enterprise in order to launch its strategic IP program, and have its support for the goals of economic transformation (Haworth, 2008). On the other hand, while the economy's performance was not stellar, it was not in crisis, which may have led to a degree of apathy on the part of the business sector.

The second point relates to the fact that, while one cannot set a rule, focusing on medium- to long-term issues seems to be the natural setting for PPAs. On the one hand, governments typically need ways in which to escape from routine pressures and focus on strategic longer-term policy. The contextual inputs from stakeholders can be valuable. Short-term policy issues are usually well taken care of by local think tanks and public opinion polling. However, participants in the Czech tripartite RHSD, which recently has been, primarily, a short-term policy bargaining table, find their focus very much in the national interest.<sup>31</sup> In any event, a way in which to balance short- and long-term policy involvement may be to focus on work programs for medium- to long-term policy direction and monitor short-term policy implementation for consistency with the longer-term objectives.

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<sup>31</sup> Interviews with council members.

## 6.2 Legal Status

Experience suggests that, in most cases, a PPA can usually operate effectively, whether it is a legal entity or not. Government decree, ministerial orders, memoranda of understanding, and other similar instruments established the councils, with the exception of the Czech RDC. The Czech RHSD CR is based on a voluntary agreement among the tripartite members, themselves, while the corresponding council in neighboring Slovakia is written into the Slovak Constitution. Both councils function equally well (Herzberg and Wright, 2005).

The Czech RDC is an advisory body, established by an act of parliament, while Finland's corresponding advisory body, the Research and Innovation Council (RIC), is based only on government decree. Although the RDC is similar to the other councils, its recommendations for budget allocations, relating to national research and development (R&D), have been very close to representing a public decision. This fact, coupled with that where members assume state employee status, may explain the need for a legal framework.<sup>32</sup>

As mentioned earlier, Finland's ex-STPC and today's RIC were also established as advisory bodies, which include their recommendations for public expenditures for science, technology, and innovation. While the STPC was very influential in the 1990s and early 2000s in relation to the national budget, its influence depended very much upon the prestige of council members and the degree of engagement they received from the Minister of Finance; that is, it was not presumed that the RIC's guidelines would necessarily be adopted, as was the case relating to the Czech Republic's RDC.

For developing countries that still lack a stable, political culture, legal status can be a way in which to allow a council to survive (and maintain its institutional memory) a hostile government until the election of a more dialogue-friendly one. It also could, however, make it more difficult to modify or terminate a dysfunctional council—another tradeoff. With legal status, on the other hand, there is always the risk that the executive office or congress/parliament will feel threatened by what it may interpret as co-government.<sup>33</sup> Finally, when the strategic

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<sup>32</sup> “The Research and Development Council shall deliver to the Government the final proposal of research and development expenditure to be covered from the state budget, their division and the medium-term outlook of research and development support. After the matter is discussed within the Government, the Ministry of Finance shall include it in compliance with the budgeting rules into the draft act on the state budget” (Czech Republic Parliamentary Act 130, 2002).

<sup>33</sup> This has occasionally occurred with Panama's National Concertation (Concertación Nacional).

policy alliance council is a board of directors of a statutory agency, like Singapore’s EDB or NRF, it must of course be written into law.

### **6.3 Council Membership**

There should be a distinction between representation and governance. In the former, the participant speaks on behalf of a stakeholder group; while in the latter, the participant acts independently to oversee an entity, based on an objective and set of procedures. PPA participation is usually of the representative type; however, there are arrangements where members can participate as advisors in a personal capacity. PPAs that are formed as a board of directors of a public statutory agency, such as the board of Singapore’s EDB and NRF, are an example of governance.<sup>34</sup>

A first order task in the formation of a council of the representative type is the selection of stakeholders as members that are relevant for issues that fall under the mandate of the council and are truly representative of the group.” This should help minimize the risk of rent seeking. Selection of respected technical and academic members with relevant expertise further reduces risks as they can introduce an element of “contestatory” deliberation to the council discussions. Stakeholder representation can be “tight” or “loose”. Box 1 describes the types of participation of the example country councils.

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<sup>34</sup> The Board of EDB has no fiduciary responsibilities and is limited to advice. The public-private boards of the executing agencies in Ireland, such as Enterprise Ireland and the Irish Industrial Development Agency (IDA) do have fiduciary responsibilities.

### **BOX 1. Participants in Selected Public-Private Strategic Policy Councils**

The “tightest” representation among the samples is the Czech RHSD CR. Nominations are made by the two national business confederations (7 representatives) and the main confederation of trade unions (7), or what Katzenstein (1985) calls “peak” associations.<sup>a</sup> The government has eight representatives from the ministries. The prime minister is the chairperson. The term of appointment is for four years. The government must accept the nomination provided by the stakeholders.

With regard to the NESAC, stakeholders submit nominations for representation of the business sector (4), labor (4), farmers (4), voluntary sector [NGO’s] (4), and the environment sector (4). The prime minister selects from the nominations and names the representatives for a three-year term, with the possibility for renewal. The prime minister also names three to eight academic/technical experts at his/her full discretion. The chairperson is the general secretary of the prime minister’s office. The labor, business, and farmer nominations emerge out of centralized associations.

For Finland’s STPC, the ministry of education and culture requested nominations from the Academy of Sciences, TEKES, the Finnish Confederation of Industries, Finnish trade unions, UNIFI (the association of universities), and the Union of Managers. The minister selected and appointed the members of the council, ensuring that one member was appointed from the Academy, TEKES, the Confederation of Finnish Industries, and the Finnish trade unions. Total membership cannot exceed 18; the last council had 10 appointed and 8 government members, including the prime minister, acting as chairperson.<sup>b</sup> The appointed members are expected to perform in a personal capacity and not as a representative of a stakeholder group. The term is for the period of the government in power. For the new RIC, while it had not named its members as of early 2012 (those from the ex-STPC were its *de facto* members), the new remit stipulates having fewer quota-based nominations from specific stakeholder organizations, so that more members with specific expertise can be nominated, especially in the field of innovation.<sup>c</sup>

The Czech RDC membership depends on nominations that the council chairperson (prime minister) solicits from specific entities involved in financing R&D from public funds and those institutions involved in R&D, “in particular the Academy of Sciences of the Czech Republic, the Grant Agency, public universities and colleges, ministerial and other research institutes and institutions supporting development and also representatives of the professional public proposed by natural persons involved in research and development.”<sup>d</sup> The chairperson submits the names of 15 candidates to government for approval. Members act in a personal capacity. The term is for four years, nonrenewable.

With regard to the Irish NCC, the minister of jobs, enterprise and innovation selects, at his/her discretion, the members and the chairperson. The members must come from the centralized employer and union organizations, recognized experts of competitiveness, the Ministry and Forfás (a think tank under the aegis of the ministry). In 2011, the composition was: business (9), labor (1), academia (1), a chairperson, who was

nonaffiliated (1) and government (3). Members act in a personal capacity, as opposed to officially representing a specific sector or stakeholder interest. Their term is for four years, with the potential for renewal. The minister consults other ministers and nongovernment sources before making the appointments.

The members of New Zealand's GIAB were directly invited by the minister of economic development, after having solicited nominations and undertaking prior consultation with the government's cabinet. The advisory board could have had up to 21 members. In 2008, the membership numbered 17: unaffiliated business leaders (8), employer and union organizations (4), independent experts (2) and government agencies (3). The chairperson was from the business sector. The level of representation was at CEO level. However, the selection tended to avoid nominees who were hostile to the policies of government.

<sup>a</sup> Four of the seven representatives of business and labor, respectively, are permanent and three can be rotated, according to the issue being discussed.

<sup>b</sup> See [www.minedu.fi/OPM/Tiede/tiede-\\_ja\\_teknologianeuvosto/?!lang=en](http://www.minedu.fi/OPM/Tiede/tiede-_ja_teknologianeuvosto/?!lang=en). More recently, the number of government representatives was increased to ten to accommodate a broad coalition government.

<sup>c</sup> See [www.research.fi](http://www.research.fi).

<sup>d</sup> See [www.vyzkum.cz/PrintClanek.aspx?idsekce=10117&jazyk=CZ](http://www.vyzkum.cz/PrintClanek.aspx?idsekce=10117&jazyk=CZ).

Source: Author's elaboration, based on official data and interviews.

Several insights can be drawn from Box 1. Representation from centralized associations has the advantage of ensuring institutional technical support for the representative and high member density for representativeness (Donor and Schneider, 2000).<sup>35</sup> On the other hand, the need for mediation and reconciliation, relating to the many interests, dilutes the contextual information provided and weakens the positions. This can be somewhat offset if the votes are weighted, as in the case of the Czech Confederation of Industries which is represented in the Czech RHSD CR.

A PPA with strong institutional representation is prone to self-interested members and the political ideology of the stakeholder groups, as in the case of the Czech RSHD CR, which, in recent years, has acted as a bargaining forum. Discussion can be very tense and agreement difficult to achieve, unless a prior accord, for example, is reached between the private sector and labor unions, which makes the council a very powerful source of advice for the government that can forge a tripartite agreement. Moreover, bargaining and a focus on short-term policy issues

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<sup>35</sup> If associations represent the stakeholder institutions, it is important that the associations are competent. Spain has provided financial support to its associations to foster credible dialogue with government (Devlin and Moguillansky, 2011).

ensures that council advice is at, or close to, ground level. Regardless of whether there is an agreement or not, it is believed by the state that the RSHD CR serves as a useful sounding board for policymaking.<sup>36</sup>

Institutional representation in the Irish NESC is relatively tight and bargaining is inherent in its deliberations. As will be discussed further, however, bargaining takes place with a strong ethos and the aim to generate mutual understanding. Moreover, the NESC can emit only consensus reports. So while representatives can never fully take off their “team t-shirt”, they do, depending on the issues and context, partially slip out of their t-shirt to accommodate agreements.<sup>37</sup> The council’s strong mandate to reach agreement, coupled with its focus on the medium to long term, results in recommendations that are higher over ground level than those of the Czech RSHD CR, but still sufficiently concrete to achieve policy relevance and/or influence (NESF, 1997; O’Donovan, 2010). As mentioned earlier, the current Office of the Prime Minister of Ireland has requested the NESC to concentrate on short-term issues (NESC, 2011a). Regardless of member concerns, if the council were to shift its attention to short-term policy, it would probably have to adjust aspects of its governance to accommodate the new mandate.

PPA councils that have membership acting in a personal capacity should in principal deliberate without a “team t-shirt” on. This has the advantage of potentially releasing unfiltered individual technical and political expertise. The disadvantage is that the advice and agreements reached may lack broad political support and therefore may go unheeded by the government. This appears to have happened to some degree in the Irish NCC. There also is a higher risk of personal conflicts of interest. In addition, although in this governance framework removal of the “t-shirt” is expected, remnants of partisanship can influence policy advice in any event. The Irish NCC and Finnish STPC/RIC, generally, have managed to avoid the tint of stakeholder or self-interested deliberations.<sup>38</sup> However, that has not been the case with the Czech RDC, which (prior to a its major reform) has focused more on protecting the existing allocation of public R&D funding for its member constituencies at the expense of evaluating national plans and programs and more effective budgeting.<sup>39</sup>

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<sup>36</sup> Interview with a senior public sector representative on the council

<sup>37</sup> The Prime Minister’s Office has recently raised the idea of representatives collaborating more informally (NESC, 2011a).

<sup>38</sup> Interviews with council members.

<sup>39</sup> Interview with a member of the council.

The quality of council membership is important. Its composition should represent the council's remit, and the members should be considered competent and highly respected by the public. Having a local "champion(s)" for the remit of the council is another asset (Herzberg and Wright, 2006) and can be extremely helpful in maintaining the cohesion of the council.

As mentioned, the Finnish RIC is planning to reduce its quota-based membership, in order to allow for more members with expertise in innovation.<sup>40</sup> Meanwhile, overly politicized members will likely erode the quality of deliberations. When a prime minister or minister has discretion in accepting stakeholder nominations in representative-based councils, there may be space to carefully negotiate alternative, less disruptive, names without necessarily weakening the leadership credentials of the representation. This discretion in accepting nominations is functional only if the political leader leads in the interest of the public good and the mandate and legitimacy of the council (which leads back to the intangible of *political leadership and commitment*). The irrevocable nomination of labor representation in the Czech RSHS has, in the past, resulted in the inclusion of highly politicized members. The current labor representative is politically independent and, according to the private sector members of the council, this has enabled productive discussions.<sup>41</sup>

Representation of government ministries should be relevant for the PPA's remit and at the highest level to ensure political credibility and relevance in relation to institutional membership. It is no surprise, therefore, that the inclusion of the president or prime minister is a common practice in the sample cases. Regardless, due to a president's or prime minister's heavy responsibilities, experience has shown that some other public sector member of the council must serve as a champion to follow up on the agenda and conclusions. In a multi-stakeholder forum, care is needed to ensure distance is maintained between the lead minister and its associated stakeholders to avoid any bias. Bias has been an issue in the Czech RHSD, where the Minister of Labor has been the de facto manager of the tripartite council.<sup>42</sup> In addition, ministries that are not

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<sup>40</sup> This can be considered a tradeoff. Having non-experts in innovation on the council—for example a labor union representative—may facilitate political acceptance of budget allocations and grants for innovation, an exotic topic for much of the general public.

<sup>41</sup> Interview with a business sector member of the council and confirmed by an interview with a public sector member.

<sup>42</sup> Interview with a council member.

directly involved with the council remit can cause bottlenecks in dialogue, as has occurred in not only the Czech RHSD CR, but also in the Finnish STPC.<sup>43</sup>

Strategic policy recommendations that emerge from PPAs need public finance. As such, the membership of a minister of finance and his/her serious engagement is an important factor.<sup>44</sup> As was revealed in an independent evaluation of the Finnish national innovation system, the lack of such a council member has impacted detrimentally on the strength of the STPC over the last few years. The Finnish Minister of Finance did not attend many of the council meetings, thus weakening the relationship between the council's recommendations and budget allocations (Ministry of Employment and the Economy of Finland, 2009).

The role of the Chairperson in a PPA is critical to its good governance. The Chairperson must have balanced views and be able to mediate differences of opinion and debate, including with government representatives. In councils where the Chairperson is not a member of government (e.g., the Irish NCC), the qualities necessary are public prestige, political sensitivity, good knowledge of government, and interpersonal skills. An ineffective Chairperson can substantially weaken the work of a council.

What is the role of political parties? Political parties are not often represented at PPAs. Indeed, their presence could be disruptive to deliberations since this risks directly reproducing the party-in-power/opposition dynamics of parliament and raises problems of politicization. Parliament is typically the recipient of the wisdom of alliance councils. However, the parliament's receptivity to council reports can be affected by perceptions that the council is a competing forum for airing the views of civil society. In cases where this is the case the political leadership of the government is essential to clarify the complementarity of the public-private alliance council.

Membership size makes a difference, with larger numbers transmitting extensive contextual knowledge and experience that can be useful for policymaking. It can, however, hinder constructive dialogue, as well as make it difficult to reach well-grounded agreements that are operationally relevant. Limited representation allows for more in-depth discussion and increases the chance for consensus; however, it can be conducive to restricting the flow of

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<sup>43</sup> Interviews with council members.

<sup>44</sup> However, Devlin and Mogueillansky (2011) suggest that ministries of finance not have the lead in councils charged with IP because their competencies are often too narrow vis-à-vis the microeconomic dimensions of medium- and long-term development strategies and related public interventions to induce structural change.

valuable information. The number of civil representatives considered to be optimal for the effectiveness of a council is difficult to establish, given the many factors involved, such as its mandate, agenda, and number and length of meetings.

In the 1970s, NESC had three groups of membership (business, labor, and farmers) with 10 members each, totaling 47.<sup>45</sup> An evaluation of the council concluded that the size of membership did not prevent the council from meeting its objectives and recommendations (NESC, 2011b). This may have been due to the fact that members came from three respective stakeholder peak associations. With expansion, NESC now has five stakeholder groups (with only three having an association), as well as independent analysts and government representation, totaling 33 members. Presumably, in-depth discussion and dialogue can prove difficult and the binding consensus for policy recommendations may lead to policy positions that are less well grounded than those emerging from NESC's previous membership structure. Indeed, there has been discussion of abandoning the present consensus mandate (NESC, 2011a). The Finnish RIC, on the other hand, has recently increased the maximum number of government representatives from 8 (see Box 1) to 10, in order to accommodate the interests of the government coalition. As suggested earlier, this expanded government representation could make dialogue more complicated.

The Czech RHSD CR has 23 members from enterprise, labor, and government, and is under no obligation to reach consensus on recommendations. Civil representation at the council comes from major associations. A business sector representative felt that discussions would be more effective with less than 7 members each from labor and employers.

In any event, while there is no rule, it would seem that more than 20 members should raise a "red flag" about size and foster an evaluation of how functional membership is to the goals of the council. One important element is the use of alternates. Some PPAs, such as NESC, allow members an alternate. The Czech RDC, RHSD CR, and the Finnish RIC do not permit an alternate—although in the case of the Czech RDC, if a member cannot attend a meeting, his/her opinion on an issue can be submitted in writing. To the extent that building trust and understanding in an alliance council is an objective, and high level membership is needed for

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<sup>45</sup> The total of 47 members includes independents and government representatives.

relevance and political credibility, there is a strong argument that alternates should be discouraged, or at least of high level and with a permanent designation.<sup>46</sup>

Finally, in terms of remuneration, the PPAs typically cover travel, lodging, and other council-related administrative costs for individual members. Members of the Czech RDC receive, in addition, a government salary, while members of the New Zealand GIAB received a fee ranging from US\$3,000–4,000 per annum. The fee was assessed, depending on the type of work performed and the time that council members dedicated to their assigned tasks.<sup>47</sup> Nevertheless, given that alliance councils usually would want to generate an ethos of national purpose, a practice of paying fees or salaries for that service is a subject that requires serious discussion about the alternatives and their impact on recruitment and commitment. In theory, patriotism, prestige, and media coverage should be sufficient to provide councils with high level, competent members (Herzberg and Wright, 2005).

#### **6.4 Institutional Structure**

There are many possible issues, so we will just cover some of the more fundamental ones. A secretariat is critical to a well-functioning council. A line ministry or public agency can provide this function, as is the case for the sample countries, except NESC, which has a dedicated independent secretariat. All the secretariats perform administrative functions, which require highly competent personnel, since proposals and the preparation of agenda, documents, and minutes of meetings for the council are politically delicate assignments that can be influential in terms of dialogue and decision.<sup>48</sup> Secretariats, together with the Chairperson, should oversee compliance with the letter and spirit of rules guiding the council's work. As an example, the Irish NCC Secretariat recognizes the need to ensure that council members act in a personal capacity and not representative of their firm, sector, or association, and it has rarely had the occasion to remind members of this.

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<sup>46</sup> In one council that permitted alternates, a high level business representative from the council stated that he always sent someone else in his place.

<sup>47</sup> Allocating time for working groups may involve onerous assignments.

<sup>48</sup> Not all members in the Czech councils agreed about the independence of a Secretariat. Both the RHSD CR and the RDC are structured to have a Board with a Chairperson and two Deputy Chairpersons, drawn from the council. The Board meets frequently between council sessions to follow up discussions, work with technical support groups, and prepare proposals. Tripartite members, in particular select the Board of the RHSD CR, while the RDC is determined through secret ballot.

It also is very important that the council have first class technical support. This is because putting the facts on the table “corrals” the subjective opinions and ideology of members, generating space for more real problem solving and the promotion of common understandings. The sample country councils have addressed the technical dimension in three basic ways. The first option is for the council to form sub-committees and/or technical working groups that are made up of members and/or invited experts, who report to the council’s plenary on specific agenda issues, such as in the Czech Republic and Finland.<sup>49</sup> The second option is to have an independent technical secretariat, such as that of NESC which, in addition to attending to administrative matters, also undertakes analysis with in-house staff, consultants, and ad hoc working groups, as necessary. The third option is to use in-house public technical experts to provide support, a practice of the Irish NCC, which receives administrative and technical support from experts seconded from Forfás, a public strategic think tank now located in the Ministry of Jobs, Enterprise and Innovation. New Zealand’s GIAB had technical and administrative support from a dedicated unit in the Ministry of Economic Development.<sup>50</sup> A fourth possible option—not reflected in the samples—is reliance on an independent private think tank or international/regional organization to undertake the analytical work.<sup>51</sup>

Relying on the existing capacities in ministries and public agencies for administrative and technical support is cost effective.<sup>52</sup> In the case of the Irish NCC and New Zealand’s GIAB, this arrangement worked well. In Finland’s RIC, the secretariat function is split between two ministries (Ministry of Education and Ministry of Employment and Education) although, as has sometimes been the case in Finland, ministries can prove to be competitive. This can result in tension and political divide at the secretariat level.<sup>53</sup>

A potential disadvantage is that the government-based secretarial arrangement does not necessarily impart the quality of independence—in preparation of administrative details and in putting the most useful facts and analysis on the council’s table—needed to convincingly

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<sup>49</sup> When forming working groups, care should be given to ensuring that the qualifications of members are commensurate to the issues that are dealt with.

<sup>50</sup> Singapore’s EDB staff has much technical expertise.

<sup>51</sup> In a developing country, a multilateral organization may provide secretarial services, which can guarantee impartiality, as was the case in the early life of Panama’s National Concertation.

<sup>52</sup> EU members, for instance, can draw technical expertise from the European Commission.

<sup>53</sup> Interview with members of the council.

mediate a debate. The neutrality of government-linked Secretariats in preparation of agendas and minutes has been an issue for the Czech councils.<sup>54</sup>

The NESC Secretariat is independent, with a small staff of approximately ten that is made up mostly of analysts, have been selected competitively, and are contracted as temporary employees of the state. A highly respected, politically independent economist heads the Secretariat. The NESC budget—including funds for the fees of outside consultants—was approximately US\$1.4 million in 2007 (Devlin and Mogueillansky, 2011). The work of the Secretariat is, generally, considered to be of a high quality.

PPAs can benefit from the technical expertise of working groups, although the structures can vary. The Czech RHSD CR has nine permanent committees, with *ad-hoc* working groups formed as needed. Tripartite stakeholders establish the committees, and much of the hard work and debate takes place at this level. Union representatives, in this case, are considered to be exceptionally well prepared.<sup>55</sup>

The Czech RDC, on the other hand, has three permanent thematic committees with 5 to 12 members each for 4-year terms. They are appointed by the chairperson and support the work of the council. Members receive a nominal honorarium. There were problems, however, as financing of the commissions' work was limited, the council assigned few tasks, and the work that was transmitted up to the Secretariat did not always translate well into recommendations for council members. In New Zealand's case, the ad hoc formation of technical committees, according to the needs of the council, worked reasonably well.<sup>56</sup>

One can draw governance lessons from the Irish example in terms of structure and mandate. As stated by Devlin and Mogueillansky (2011), the effectiveness of the Irish PPA may have suffered from the ever-increasing number of uncoordinated forums that, to some degree, competed with each other. This created a balkanization of national social dialogue.

For many years, Ireland's NESC was responsible for evaluating and providing recommendations on strategic economic and social issues. However, four additional councils were subsequently established, each with an overlap to the work of the NESC: (i) the National Economic and Social Forum (NESF) (1991), to address longer term issues, especially in relation to employment and social cohesion, which overlapped with the work of NESC; (ii) the National

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<sup>54</sup> Interview with council members.

<sup>55</sup> Interview with a business sector representative.

<sup>56</sup> Interview with Nigel Haworth.

Competitiveness Council (NCC) (1997), in which membership is predominantly business-sector-oriented and is supported by Forfás, the government's international economics think tank (it also tended to partly overlap with the mandate of NESF); (iii) the National Center for Partnership and Performance (NCPP), in 2001, to recommend on innovation in the work place; and (iv) the National Economic and Social Development Office (NESDO) (2006), to coordinate the work of NESF, NESF and NCPP.

The overlapping mandates of the NESF, NESF and NCPP were not successfully coordinated by the NESDO, creating disperse messaging. NESF lost its business sector influence to NCC, which allowed the sector to have basically exclusive access to the Prime Minister's Office, leaving debate in the NESF to be dominated by the unions and NGOs. This was also aggravated by Forfás' assignment as the secretariat for the NCC, which apparently weakened NESF's access to data on competitiveness and growth. This in turn caused the NESF to increasingly focus on the national social welfare agenda. Meanwhile, the messages of the NCC about lagging competitiveness were not always absorbed well by the Prime Minister and government, perhaps partly because the NCC recommendations were associated with the sectarian interests of the business community.

This experience led Devlin and Mogueillansky (2010 and 2011) to conclude that the Irish alliance may have proved more effective had the NESF been responsible for all stakeholder interests under a single roof, thus having more political impact on its members and government. While the work of the NCC was more of a short-term analytical nature, it may have been more effective in messaging had it been under the umbrella of NESF. If the work of the NCC were undertaken in a high level working commission under the aegis of the NESF, with recommendations fed up to the NESF plenary, the messages—even if watered down in stakeholder dialogue—might have had, due to broad political legitimacy, more impact on the full spectrum of participants and more political impact on the government. Meanwhile, the NESF would have had more checks and balances in terms of the social welfare agenda. In sum, a more integrated dialogue among institutional stakeholders may have convinced the government to address the country's eroding competitiveness, as well as the impending property and banking bubble that developed.<sup>57</sup>

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<sup>57</sup> Questioning the sustainability of the economic boom in the second half of the 2000s was almost considered unpatriotic by ranking government officials. NCC, apparently, raised concern on the issue, but was largely ignored.

The Irish authorities seem to have partly shared Devlin and Mogueillansky's 'single roof' hypothesis because the NESF is now integrated into NESC and NCPP is dissolved. NESC and NESDO share the same director, and Forfás has been fully integrated into its ministry, with the possibility of more effective coordination with the NESC Secretariat.

Finally, the deliberations of national alliance forums can include issues of a regional nature, which is especially true in larger countries, where the political system is decentralized. Sub-councils in different regions within a country can be established for representation, although the big challenge would be to ensure that the regional sub-councils have adequate technical capacity and effective channels of communication and articulation with the national council. This is an exceptionally large challenge for developing countries where there is much heterogeneity between regions and between them and the capital.<sup>58</sup>

## 6.5 Rules and Procedures

While regulations and procedures are important in PPAs, they are no substitute for strong political commitment by the government. The Czech RDC is an example for having highly detailed formal rules of governance,<sup>59</sup> and the limited results beyond that of parties maneuvering to protect their allocation of public funds for R&D.

It is important that the frequency of PPA meetings be sufficient to develop a relevant agenda and to instill a sense of relevance for the members themselves. The sample of councils, below, appear to follow this principle:

NESC:	once a month
NCC:	five times a year
RHSD:	once every two months
RDC:	once a month or, at least, once every three months
RIC:	five-six times a year
GIAB:	six times a year

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<sup>58</sup> This has been a serious problem in Colombia (Mogueillansky, 2011).

<sup>59</sup> [www.vyzkum.cz/PrintClanek.aspx?ideskce=10117&jazyk=CZ](http://www.vyzkum.cz/PrintClanek.aspx?ideskce=10117&jazyk=CZ) (note, this site has subsequently been removed from the web).

The council working committees and groups meet with greater frequency.<sup>60</sup> The availability of high-level members (including presidents or prime ministers or their representative) is limited, so plenary meetings are relatively short, as in the cases of NESC (3 hours), NCC (3 hrs.), RHSD CR (2 hrs.), RIC (1-½ hrs.), and GIAB (3hrs.). Given the number of members and the issues for deliberation, the time allotted to council meetings may seem rather limited—a particular source of concern to NESC, which has considered extending its meetings to 4 hours (NESC, 2011a). The time constraint in other councils, however, is resolved by having pre-meeting discussions and delegating much of the work to the working commissions, executive boards or, informal groups.

Councils are required to make recommendations, and NESC, NCC, GIAB, in general, have relied on consensus. RDC works on the basis of a majority vote, while RIC seeks consensus, although its Chairperson can call for a majority vote, if necessary. RHSD CR seeks consensus, although post-session press conferences by each of the tripartite members may reveal areas of agreement or disagreement.<sup>61</sup>

While consensus is normally the objective of PPAs, depending on the rules in place, there is a risk of consensus vision being “locked in” to the detriment of flexibility and needed adjustment to strategies for change (Devlin and Mogueillansky, 2011). Moreover, the need to reach consensus can lead to self-censorship (limiting the sharing of valuable information) and the lowest common denominator, which may not always be policy relevant. NESC tries to raise the bar of consensus (with some success) with rigorous joined-up national problem solving, combining facts with, bargaining, consultation, and mutual agreement. The goal is to reframe problems in a way that reveal solutions that members had not been aware of or considered.<sup>62</sup> Nevertheless, for support of government economic strategies, perhaps councils should encourage consensus recommendations, but not force them as an outcome, thereby leaving an open field to diverging opinions that can reveal valuable information for policy making. The Irish NESC, at the request of the Prime Minister’s Office, is considering moving away from the rule of

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<sup>60</sup> In the case of the Czech councils, the Executive Boards meet frequently between council sessions.

<sup>61</sup> The press conferences are a relatively new procedure. They emerged because the discord in the meetings was systematically leaked to the public anyway.

<sup>62</sup> This is elaborated on in detail in NESF (1997) and Devlin and Mogueillansky (2011). A very good example of problem solving and reframing of an issue was during the fiscal and balance of payments crisis of the late 1980s. A NESC report shifted the public debate from one about debt and taxes to a need to change the Irish style of growth from one based on exports of agriculture to higher value manufactures, a shift that would require introduction of IP. The logic was that only through higher growth rates would debt sustainability be achieved.

consensus recommendations without discouraging it as a desirable goal (NESC, 2011a). The confidentiality of PPA deliberations is necessary to promote frank and honest discussion, while allowing for trade-offs and compromise that lead to agreements. And this indeed is the rule in the councils examined here. Minutes can be leaked, however, as happens in the case of the RHSD. Hence, the protection of confidentiality of discussion may be enhanced if minutes do not refer directly to a member. Where there are political pressures for public disclosure of minutes, one solution might be to lag their release (e.g., by 3 to 4 months). Meetings should also be structured to have a quorum, especially when alternates are not designated. .

Reports by PPAs to public authorities should be timely, and objectives should not be over-ambitious, in order to avoid delays in reporting or diminish the impact of proposals. Timely and impacting advice would be especially important when a council has been newly established, so as to elicit public credibility and a sense of relevance for the stakeholder members. An effective information technology infrastructure is essential for the efficient operation of a PPA. It enables membership processing, electronic communication, record keeping, accountability, and allows for timely decision making.

## **6.6 Other Governance Issues**

When establishing a new PPA, the initial agenda should include what is “doable”—the low-hanging fruit—in order to quickly instill a sense of relevance to its intent. In some PPAs, civil society members may favor the special interests of their constituency. Government members, and the council members acting in a personal capacity, can face conflicts of interest and enter into self-seeking lobbying. The disclosure of interests and proper codes of conduct are essential to good governance. Irish government representatives are required to practice good governance in state bodies (Department of Finance of Ireland, 2001). Its NCC recently introduced disclosure requirements for the council’s civil society members. In Finland, as previously mentioned, strong cultural norms provide a de facto code of conduct.

Advisory PPAs should have monitoring and evaluation mechanisms in place to determine the degree to which the government is heeding their recommendations (Herzberg and Wright, 2005) and whether intersecting public policies are consistent with their recommended strategy.

Implementation and monitoring issues are one of the more difficult challenges of PPAs (NESF, 1997).

Mechanisms for public outreach can reinforce the strength of an alliance council's recommendations. However, this must be done with care to maintain the credibility of the alliance council's primary role as an advisor to government. PPAs, to maintain their stature and relevance, should be adaptable to change in terms of remit, membership, structure, processes and procedures, and course of direction, in order to keep up with the national and international realities. Independent external evaluations are useful, such as that carried for Finland's national innovation system which included public support institutions (Ministry of Employment and Economy of Finland, 2009) as well as the one the currently underway specifically for the STPC/RIC. The Czech RDC has also undergone a comprehensive evaluation (which led to the major reform noted in footnote 3) while, in Ireland, the NESF's has been undertaken by its Secretariat.

## **7. Conclusions**

PPAs have a long history, dating back to tripartism in the mixed economies of Europe that emerged from the social and economic chaos of war and the Great Depression during the first half of the twentieth century. The concept has evolved into a broader dimension of democratic governance with less concentrated social participation, less rigid representational roles, less pure bargaining and more concern about protection of capture of the States by special interests. Moreover, in the face of a more complex, challenging world economy and democratic politics, PPAs in support of IP have spread to Latin America and other developing regions.

After witnessing the shortcomings of the Washington Consensus, the state has returned to be a proactive agent for structural change, productive transformation, and accelerated economic growth. The central governments of Latin America are, once again, implementing IP after a hiatus, during which the Washington Consensus influenced reforms. However, modern IP thinking stresses that strategies and programs should not be developed in the hierarchical State-dominated governance of the market as occurred in many developing countries up until the 1980s debt crisis. Rather, strategic public policy alliances should serve as a handmaiden of effective strategies and support programs. This is because in the era of globalization and rapid

change in markets, all views are “partial.” Hence, working constructively together on the basis of their respective comparative advantages in markets and society, government, business and other policy relevant civil society stakeholders can promote the emergence of more informed development strategies and public programs than if each were to go its separate way. In the close collaboration of public and private sectors, capture of the state by special private interests, or capture of private sector by the government’s political interests, is always a real and present danger. However that risk can be minimized by principles of good governance of the council, many of which have been outlined here. The integrity and statesmanship of the political leaders is critical as are checks and balances in structure and procedures of the council itself. PPAs are essentially a social process of public and private collaboration, and the design for governance is vital to its outcomes. To be successful, the PPA structure and governance must adjust to the particular characteristics of a society and its economy with specific objectives established. The experience of countries with a history of PPAs has provided an insight into what constitutes good governance.

This paper has approached the issue of PPAs with an overview of the rationale and framework necessary for their presence, and it has drawn from the experience of several OECD countries to illustrate how they operate. It has examined the intangible dimensions of governance, as well as the need to establish goals, legal status, participation, institutional structure, and processes, among others.

Finally, PPAs are complex human endeavors, involving the interaction of multiple stakeholders in fluid democratic and political settings. Not surprisingly—as has been observed in the cases examined in this paper—even in relatively developed democratic societies, PPAs still are far from perfect in terms of governance and outcomes. However, to judge their success or failure in a binary way would be wrong; it really should be a question of degree and the alternatives available given their objectives. In the face of the challenges brought on by today’s globalization, most would conclude that PPAs are, by their very nature a process of trial and error very much worth developing and improving upon. Indeed this was one conclusion that emerged frequently from council participants, who were involved in the research for this study.

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