

Redefining Public-Private Partnerships

Comments

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Public/private partnerships (P/PPs) are essential in an era of:

- **Globalization**
- **Fast technological changes**
- **Growing international competitiveness**
- **Supremacy of private markets**

R.Devlin y G. Moguillansky, Alianzas publica-privadas para estrategias de inserción internacional y el desarrollo exportador. CEPAL (2008).



The partnership is necessary because:

- The strategies demand a diagnosis and a systematic evaluation of opportunities of long/medium term.
- Capacities of private and public sectors.
- Realistic goals.
- Primary restrictions to be overtaken (macro, medium, micro).
- Priorities and consequences.
- Public actions that support the private sector.

R.Devlin y G. Moguillansky, Alianzas publica-privadas para estrategias de inserción internacional y el desarrollo exportador. CEPAL (2008).



The partnership is necessary because:

- Private sector (in a broad meaning) provide worth market information, but is not complete.
- Faults of the market: information, coordination, technologies, capacities, etc.
- It is truth that the public sector has also faults and incomplete information, although it can:
- Inspire and lead a strategic national vision of long/medium term.
- Support a coordination, access to the information, capacities, provide incentives, etc.

R.Devlin y G. Moguillansky, Alianzas publica-privadas para estrategias de inserción internacional y el desarrollo exportador. CEPAL (2008).



In conclusion:

- Public and private sector working together in a coordinate way produce:
- More intelligent strategies.
- More capacity to implement a successful strategy.
- The key of a modern strategy is in the process and design (“the know”) of an effective and sustainable public-private collaboration, without “capture” of the state by particular interests.

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Mexico: status of cooperation between the state and the private sector.

General demands of entrepreneurs.

- That the government adopts an industrial policy.
- Improved framework and more effective regulatory institutions.
- Consistency of support programs of various ministries and governmental institutions.
- That the Ministry of Economy has more powers, especially against the Ministry of Finance.

Mexico: status of cooperation between the state and the private sector.

Critical examination of government role.

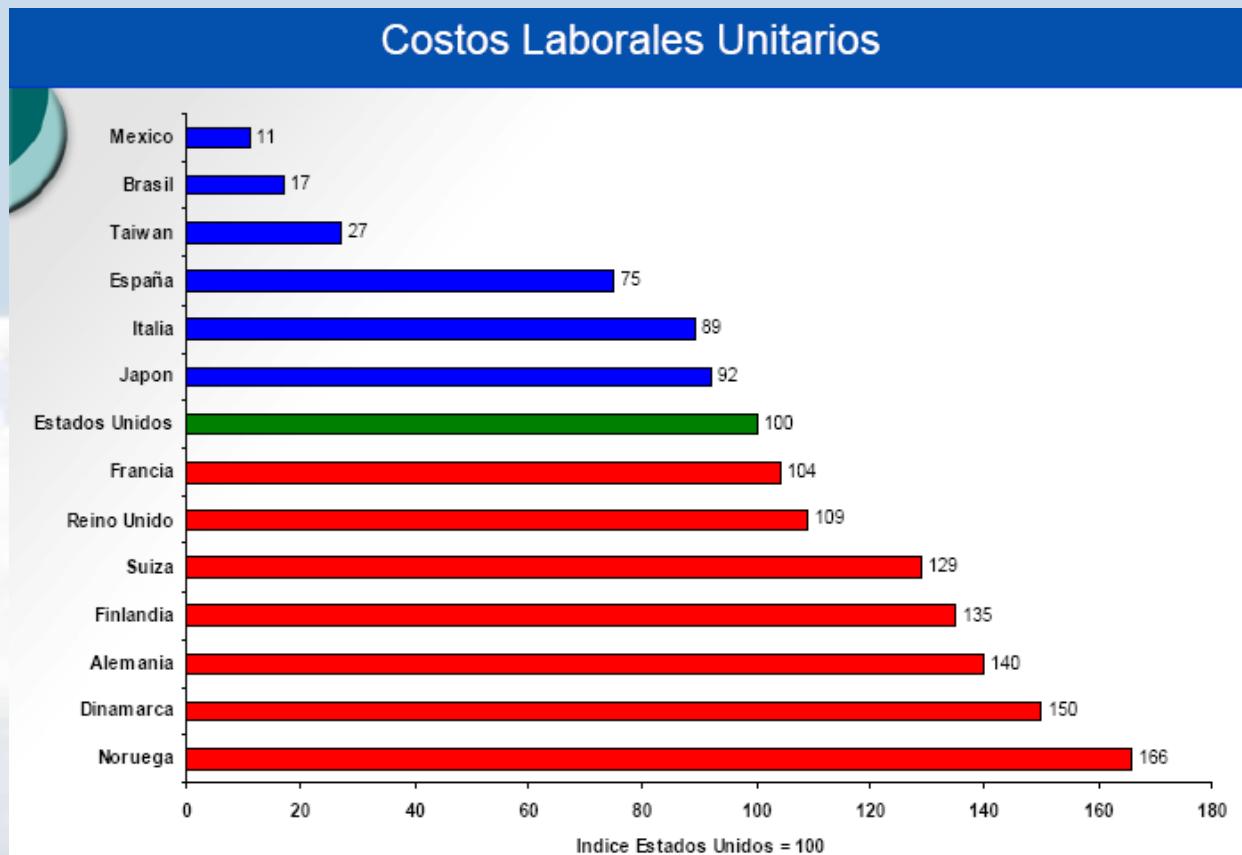
- Too many regulations, permissions and requirements that increase transaction costs.
- Some taxes, protected prices or tariffs, hitting the competitive position of companies against monopolies and trading companies.
- It has not been obtained a commitment from the government to buy from domestic suppliers, especially Small and Medium-Sized Enterprises (SMEs). Government's Acquisition Law should be amended.

Status of cooperation between the state and the private sector.

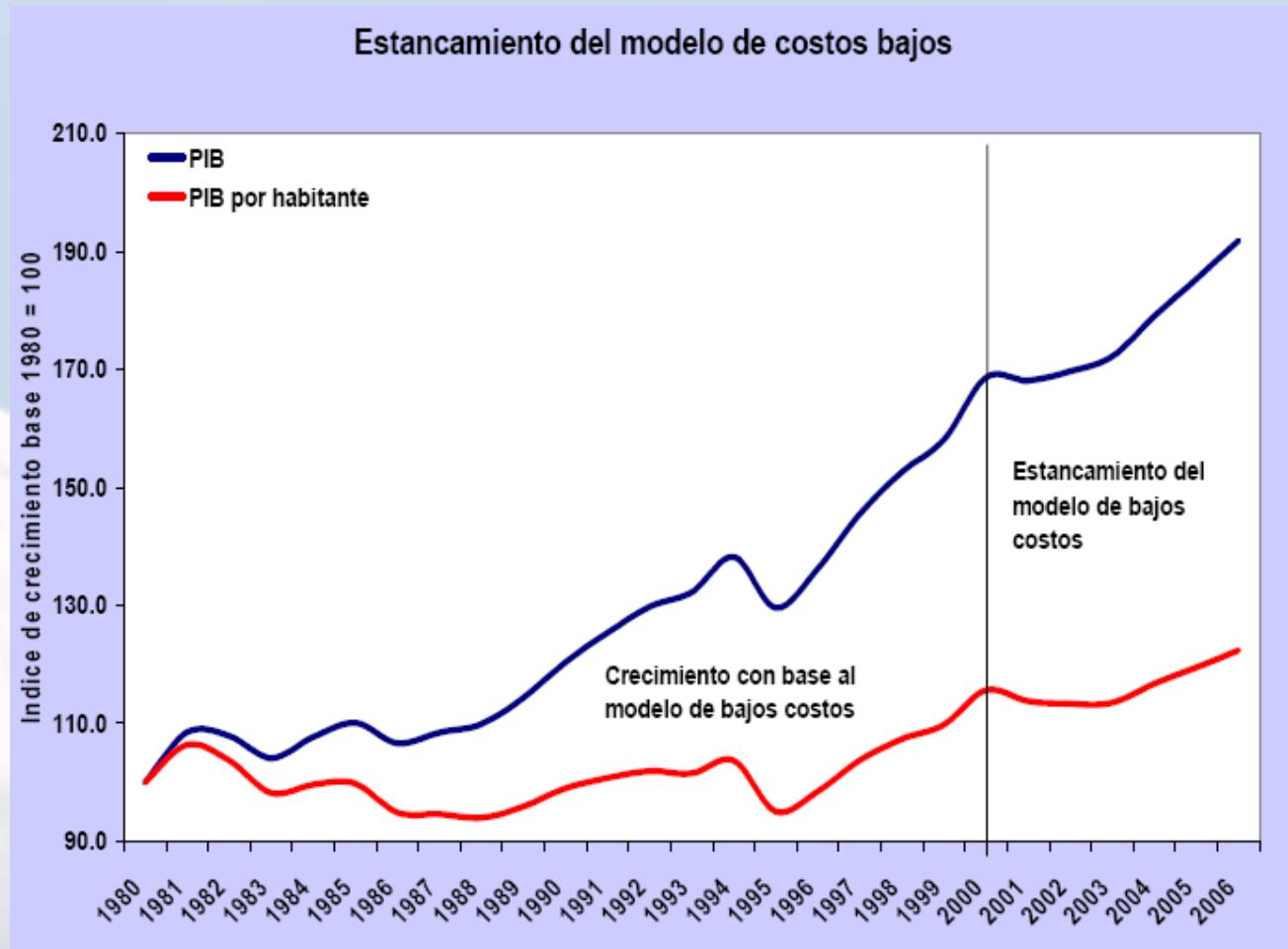
Programs limitations for the industry.

- There is a very large variety of programs that are managed by different institutions. Until 1996 there was no institution in charge of coordinating programs for industrial development.
- Decisions to participate in one or another program are carried out based on incomplete information on alternative forms of support .
- The programs are very narrow and demand that the entrepreneurs comply with them through many complex requirements.
- Resources are much smaller than the requirements: SMEs had only a fund of US \$225 million for 2007.

México followed a competitiveness model based in costs, not in innovation.



México: The model of low costs failed.



The competitiveness based in innovation.



Public/private partnerships: lessons from Brazil.

The P/PPs became an alternative form to finance the expansion and the operation of sectors where existed significant faults of the market and present deep economic and social repercussions. The attraction of private capitals via P/PPs is a mechanism to replace the poor public resources available and at the same time holds sectorial public policies.

To attract private capitals, several conditions are necessary.

First, the activity has to be profitable competitive. The recovery of the investment needs to be competitive in relation to other alternatives of similar risk. An issue is the acceptance of prices adjustment and public tariffs in order to warranty a competitive payment of capital.

Public/private partnerships: lessons from Brazil.

BIGGER THE RISK, BIGGER THE NEED OF RECOVERY BY THE INVESTORS.

Two sources of specific risk:

- **"Institutional" risk:** uncertainty caused by eventual changes in the regulatory frame and/or in the conditions of the contracts by political – institutional factors (elections, new priorities caused by a change in the trend of economic activity; these situations produce stress to modify the contract clauses).
- **"Popular" risk:** it rises because, in general, the sectors susceptible of P/PPs have strong social impacts. Population tend to see the goods and services produced in these sectors as responsibilities of the State and citizens rights, that must be provided with quality, opportunity, at reasonable prices (it is possible that a popular negative evaluation exists – separated from the productive reality, and of the involved costs – that promote political –institutional policies which framed the private partner).

Low operational costs are necessary to pay the invested capital (resources of the shareholders, funding or credits). In consequence bigger operational profits are produced, that create a forwarded situation for demagogic arguments of “enormous profits” and electoral pressures of reduction of prices and tariffs.

¿Why competitiveness?

- In a globalization era the commerce is an important source of grow.
- The grow of world commerce is > the grow of the world product.
- Encourage a culture of competitiveness.
- Encourage the investment and the diversity of production and consume.
- Encourage the knowledge / the innovation / better practices / integration of technologies.
- Opportunity of exporting development.
- More and better employment.
- Scale economy and productivity.
- More diversification and value added.
- Learning by doing
- It defends local industry.

R.Devlin y G. Moguillansky, Alianzas publica-privadas para estrategias de inserción internacional y el desarrollo exportador. CEPAL (2008).



Latin America has progressed a lot in the last 25 years.

- **Democracy, structural reforms, modernization and more. But.....**
- **The region stayed behind of others developing regions (particularly Asia) in relation to the competitiveness and exporting development, clues for:**
- **High and sustained grow for the convergence with rich countries.**
- **Reduction of poverty.**
- **The competitiveness for the exporting development and strengthening of the international inclusion involved complex efforts in public policies.**

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Strengthening collaboration and linkages between public research and industry.

Collaboration and partnerships

Public/private partnerships for research and innovation: a high leverage public support instrument.

- Conclusion of recent OECD work on the role of government in fostering knowledge based growth is that greater use of public/private partnerships (P/PPs) can enhance the contribution of science, technology and innovation policy to economic performance.
- P/PPs for research and innovation offer a framework for the public and private sectors to join forces in areas in which they have complementary interests but cannot act as efficiently alone (risk sharing and mutual leveraging effects). They can fill some gaps in innovation systems more effectively than other policy instruments.

Strengthening collaboration and linkages between public research and industry.

Collaboration and partnerships.

P/PPs are unique tools to promote collaborative research in areas where innovation is deeply rooted in science.

- Major programs to promote strategic R&D co-operation among universities, public research institutes and private firms have been launched or reinforced in many OECD countries since the late 1990s, following the pioneering examples of the Australian CRC and Swedish Competence Centre programs.
- P/PPs is the best approach to building innovative networks in new multidisciplinary research fields, either as stand-alone initiative, or as part of broader P/PP programs.

OECD Reviews of Innovation Policy: México. OECD 2009

