

# NATIONAL VISIONS MATTER: LESSONS OF SUCCESS



Proceedings of a Public-Private Sector Development Forum



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## PREFACE\*

Collaboration among the World Bank, the United Nations Economic Commission for Latin America and the Caribbean, and the International Institute for Democracy and Electoral Assistance, goes back to November 2000. It includes roundtables on national dialogue, country development strategies, and middle-income countries' development experience, with a focus on Latin America\*\*. This Forum is another example of this long-standing collaboration, and reflects an interest of its organizers in promoting a better understanding of the relationship between economic, social, and political factors in development.

Present and former senior public sector officials and private sector representatives from fourteen countries, together with representatives of the three organizing institutions, met in Santiago, Chile, July 25-27, 2004. They discussed the underpinnings and analyzed each countries' development experience with the aim of identifying key lessons of success.

The discussion and analysis is reproduced in the form of proceedings in order to give the readers of this report the full benefit of the discourse which took place. We have highlighted the main lessons and implications for the benefit of those countries interested in strengthening development strategy processes, as well as lessons on how international institutions can best help support these countries.

**National Visions Matter** encapsulates a set of central elements common to successful development experiences. **National Visions Matter** also confirms one of the main tenets of the Comprehensive Development Framework approach put forward by the President of the World Bank in 1999. Countries that have succeeded over time have invested in developing long-term visions, and have also created the institutions to translate long-term visions into reality, supporting them and following up.

Policy makers in developing countries can also draw additional valuable lessons from the Forum discussions, particularly on the crucial role of the private sector, parliamentary bodies, and think tanks. The Forum organizing institutions intend to disseminate this experience, and continue to provide advice and support in this area, by facilitating cross-country exchanges, knowledge transfer, and identification and mobilization of expertise.

\* This report was edited by the Forum organizers: Pablo Guerrero, Juan Martin, and Daniel Zovatto. The viewpoints expressed are the authors' and do not necessarily reflect the official views of The World Bank, the UN Economic Commission for Latin America and the Caribbean, and the International Institute for Democracy and Electoral Assistance.

\*\* See for example, "Experiences with National Dialogue in Latin America", November 2000 (<http://siteresources.worldbank.org/CDF/Resources/elsalvaenglish.pdf>) and "Roundtables on Latin American Middle-Income Country Experience - A Comprehensive Development Framework Perspective - Lessons and Implications", September 2002 (<http://siteresources.worldbank.org/CDF/Resources/latam-mereportenglish.pdf>)



# NATIONAL VISIONS MATTER: LESSONS OF SUCCESS

## INTRODUCTION

1. This overview captures the main messages that emerged from a two-day discussion of country experiences at a Forum which brought together government officials, development practitioners and civil society and private sector representatives from Africa, Asia, Australasia, Europe, and Latin America. It extracts key lessons based on country experiences and draws some policy implications to guide countries interested in their long-term development.

2. The Forum found that the countries with higher growth rates in recent decades had a national strategic vision. All participants agreed that development is more successful when there is a greater commitment on the part of all stakeholders to promote it through a common overarching vision. They also agreed that, although processes leading to a national vision must necessarily acquire a national imprint, other countries' experiences can strengthen them.

3. This Forum is a first step toward collecting, assessing and learning from cross-country experience in developing a National Vision. International institutions should collaborate and support interested countries in building their National Visions by drawing on lessons learned and policy implications based on other countries' experience.

### A. Balancing the Long- and Short-term

4. ***Lesson 1 - A National Vision is key to bridge the gap between the long- and the short-term.*** Experience shows that often short-term emergencies cause a kind of strategic shortsightedness, and actions that are responsive only to the emergency usually do not coincide with the priorities needed to build the Vision and develop the nation. The shared Vision must therefore translate into strategies which include clear priorities and be compelling enough to be acted upon in the short-term agenda.

5. Building the shared Vision requires all stakeholders to commit to the reforms required for its implementation. The changes or reforms needed to promote development are achieved through actions in the short term. It is these short-term actions that build the National Vision. Therefore, if there is not an appropriate balance between short-term actions and the long-term Vision, the Vision will never become reality.

6. The strength or conviction to implement the Vision is especially necessary because the priority reforms usually affect or benefit the various stakeholders differently. In other words, they create a distributive conflict. There will not always be unanimity: differences will have to be accommodated and arrangements made to compensate stakeholders who, at least in the short term, stand to lose in relative terms.

#### *Policy Implication*

- The countries that manage to implement their Vision have institutional procedures to bridge the short and the long terms. Evaluation of short-term and medium-term actions makes it possible to reorder priorities so as to achieve the long-term Vision.

## National Visions and Government Programs

7. ***Lessons 2 - Agreements are more viable and operative when they are the product of a shared Vision of the future.*** In order to achieve such a Vision, the first requirement is a shared diagnosis of the situation and the challenges involved; the Vision is largely based on this diagnosis. In the Vision, all stakeholders must see room for their progress and participation.

### *Policy Implication*

- The quest for agreements is designed to achieve not utopian unanimity regarding the actions required to achieve the Vision, but agreements on the reforms essential to pursue it.

## Balanced Development Strategy

8. ***Lesson 3 - A Vision must be holistic, balanced and well sequenced, reflecting and reconciling the multiplicity of interests and challenges existing in any society.*** It is not enough to agree on the main goals for the country; the priorities and methods for advancing towards the shared Vision must also be identified. A Vision only emphasizing holistic implementation could be paralyzing, since progress towards a shared Vision is necessarily achieved in stages. It is these partial advances that gradually build trust among stakeholders.

### *Policy Implication*

- It is crucial to set priorities reflecting the fact that reforms usually occur in a sequence that must be respected. The Vision must not only define what is to be done but also how and when, clearly identifying the results expected.

## Long-term National Political Consensus

9. ***Lesson 4 - A Vision is a multifaceted process building on participation and active commitment of leading stakeholders.*** The Vision is a confidence-building process designed to ensure that collaboration is the mainstay of the country's transformation. This trust exists when the leading stakeholders feel that there are shared values and principles in their country allowing them all to benefit from progress.

10. The building of a shared Vision is a multifaceted process. It is a cultural process, in which each stakeholder is able to transcend his personal interest, while not ignoring it, in order to satisfy the collective interest necessary to build the nation. It is a binding political process, the basis of democratic institutions. It is not possible to build a shared Vision solely outside the democratic institutions. It is also a social process, giving civic organizations an outlet for participation and thus enlisting their active support.

### *Policy Implication*

11. Although in some countries the Vision may be embodied in a document, the important and essential thing is the process whereby the stakeholders commit to working to build the shared Vision. A document without the active commitment of all is a dead charter.

## Institutional Arrangements for Formulation and Implementation

12. ***Lesson 5 - The process of building a national Vision does not have a unique format but must be adapted to the country situation and to the particularities of the participating stakeholders.*** The building process has different origins and takes different forms in the various countries. The Vision may be explicit or tacit. It may result from an initiative by the government or by another stakeholder, for example, the private sector. It may be binding on political stakeholders or on representatives of social organizations. The experience indicates that the more formal and representative the Vision-building process, the more effective and lasting it will be.

### *Policy Implication*

- A formal Vision is one emerging from an institutionalized process and commanding the explicit support of the stakeholders. A representative Vision is one in which the country's leading social and political stakeholders are involved. The greater the formality and representation, the stronger the stakeholders' commitment and the more effective the shared Vision. It then becomes a compulsory benchmark for all national stakeholders.

13. ***Lesson 6 - The key to successful social dialogue is to define the topics on which negotiations or consultations will be held, as well as the sphere in which the dialogue or negotiation will take place.*** Priorities must be set for the achievement of agreements. The achievement of agreements on where and how to advance is the *raison d'être* of these social dialogue processes. Indeed, the existence of a shared social objective, such as job creation or full employment, has sometimes prompted the creation of institutions and arrangements for social dialogue.

14. Once specific priorities are set, stakeholders emerge who are of special importance for the topic concerned. The participation of these stakeholders is essential for the success of the process. Since the relevant stakeholders are not always national, forums for dialogues are required that take this fact into account. There are many: regional and local governments for decentralized reforms, sector trade unions for health and education reforms, etc.

### *Policy Implication*

- In order to be effective, the social agreement must consider various spheres of dialogue or negotiation that are not nationwide. This may have to be carried out at the sectoral or territorial level, in order for the participants in the dialogue to be representative. If agreements are to be effective, they must be reached among the stakeholders who are to implement them. Therefore, there must be many forums for dialogue.

15. ***Lesson 7 - It is necessary to consider the varying capacities of the participants in the social dialogue (representation, internal cohesion, technical capacity).*** It is essential for the conditions of participation to be equal in order to preserve the trust of the stakeholders, but there must be instruments to support the weaker participants. It is also necessary to strengthen the role of the participants by disseminating their contributions and the results of the social dialogue process.

*Policy Implication*

- If some actors lack the technical capacity to join in the dialogue, that capacity should be generated. If some actors lack national organization and representation, this representation needs to be strengthened.

16. ***Lesson 8 – Independent institutional structures can manage conflicts and compensate stakeholders who might suffer short-term losses from the reform process.*** Since introduction of the reforms essential to development generate distributive conflicts, there must be institutions to deal with them. If there is no formal forum for resolving these conflicts of interest, the differences will usually be expressed informally. The unpredictability and opacity of these informal processes has clearly been an obstacle to the development of countries lacking conflict resolution institutions. In an informal setting, de facto authorities hold sway, usually composed of those who possess economic power. In turn, the unilateral nature of decisions emerging from informal processes creates instability, undermining development.

*Policy Implication*

- These institutions will be more effective when they share the Vision of the future, but their day-to-day tasks necessarily reflect short-term priorities. This is how they contribute to national development.

**Private Sector Support for Comprehensive, Balanced Strategies**

17. ***Lesson 9 – It is important for the private sector to coalesce around a common strategy and engage in dialogue with other stakeholders.*** The private sector is less homogeneous than commonly believed. It is made up of various sectors such as the service industry, manufacturing, commerce, construction, finances, which sometimes have conflicting agendas and priorities.

*Policy Implication*

- Dialogue between the different organizations and associations that represent the private sector can help define a common agenda for growth and development. This dialogue should benefit from contributions from other stakeholders within and outside government to build on the country's needs and reality.

18. ***Lesson 10 – Government and private sector can work together to set an effective policy agenda for long-term growth.*** Macroeconomic stability, international integration of the economy, strong institutions are important foundations for a competitive economy but are no guarantee for sustained economic growth. In order to create the competitive environment in which the private sector can develop, continuous improvement of the regulatory framework and strong incentives for innovation are required.

*Policy Implication*

- Government and the private sector should establish a continuous dialogue on key policy issues and identify areas such as education where public policies and private sector needs can best meet to foster growth and competitiveness.

## Social Participation and Strengthening the Government-Parliament Relationship

19. ***Lesson 11 - Governments must invest in institutions to facilitate the process of political and/or social dialogue and the relationship between the two.*** Governments can provide forums for meetings between parliaments and representative social institutions. The Government is necessarily a stakeholder in both institutions and thus is best able to manage or at least to convene a meeting between them. The social dialogue institutions must be publicly funded but independent of the government, with technical staff to ensure informed and hence responsible dialogue. The authority to which they report and/or which appoints their chairman may be the Executive or the Legislature. In any case, in addition to financing the institution, it is usually also necessary to support the weaker stakeholders so that they can be represented and in particular participate in dialogues requiring extensive knowledge of the topics under discussion.

### *Policy Implication*

- An effective form of empowerment is to transfer decision-making to the institutions hosting the dialogue and disseminate to society the results of the social and political dialogue. The transfer of decision-making gives the representative organizations a *raison d'être*. Dissemination of the agreements and of the results of the dialogue enhances constituents' trust in their institutions and leaders.

20. ***Lesson 12 - Political agreements are more solid and viable when accompanied by agreements binding on the public, as represented by social organizations.*** Many countries represented at the Forum have formal institutions for social dialogue, for example, with employers, workers and the so-called "third sector". The existence of agreement on a national Vision among these groups increases, or even creates, political viability. This viability also increases when there were clear and formal links between the social dialogue processes and the democratic institutions for political decision-making.

### *Policy Implication*

- The fact that social and political agreements are mutually reinforcing in the vision-building process is a good argument for formally linking the social dialogue institutions with Parliament, and obliging Governments to inform and consult those institutions. This strengthens the role of parliament and hence that of democracy in development. If parliaments, as permanent bodies, become more committed to the Vision, it is more likely to be reflected in the government actions funded under the national budget.

21. ***Lesson 13 - Democracy and the ability to build a national vision are strengthened by the participation and commitment of organized civil society.*** The social actors, representing specific and permanent interests relevant to a large majority, make political agreements solid and lasting. However, especially in countries that are relatively less developed, organized civil society is a rarity, particularly in groups with less economic power. At any spontaneous meetings of the leaders of a country's main social organizations, those who already have the most economic power tend to be over-represented.

*Policy Implication*

- Supporting the establishment of civil society organizations that are open, transparent and accountable, can create the conditions for meaningful participation from all sectors of society and balance the power of vested interests.

22. ***Lesson 14 - The existence within parliament of a formal body to define the Vision of the future and follow up and evaluate progress greatly assists in the design and implementation of a National Vision.*** This formal body may take various forms: the Finnish Parliament's "Committee for the Future", solely responsible for achieving consensus in this area; parliamentary approval and follow-up of national development plans prepared by the Executive; or approval of national budgets, which in some countries such as Brazil cover several years, facilitate the achievement of longer-term agreements.

*Policy implication*

- High-quality budget plans and processes, including formulation and evaluation, are the best source of agreements on the national Vision or at least on the main reforms to be undertaken. This is facilitated by the existence of multi-year programs allowing effective monitoring of the progress and of effectiveness of priority activities in the annual budget.

**Transparency and the Credibility of Government Policy and Program Results**

23. ***Lesson 15 - Policy transparency and quality are prerequisites for building lasting and enforceable agreements.*** This means responsibility and government accountability regarding the political and programmatic commitments made and consistency in promoting their fulfillment. Parliamentary and civic oversight is enhanced by greater transparency in government activity. Almost all the countries represented at the Forum had created mechanisms to make government actions more transparent and accountable.

*Policy Implication*

- Explicit and quantified objectives and evaluations facilitate participation and oversight. When there is a development goal and there is public and objective evaluation of its achievement, more rapid development progress is made.

**The Role of the International Institutions**

24. ***Lesson 16 - International institutions can be key in supporting the development of a Vision.*** The participants in the Forum agreed that the multilateral agencies can and must be instrumental in helping change this situation. The most common needs of countries in this regard are:

- Overall guidance on the contents of a Vision: the main areas to be considered and the technical proposals existing for this purpose.
- Technical support on how to link the main goals of the Vision with the discussion, approval and evaluation of the country's budget.

- Support to identify quantitative indicators for monitoring progress towards the various goals.
- Aggregated indicators to facilitate a systemic vision of development not based exclusively on traditional growth indicators.

#### *Policy Implications*

- International institutions can provide technical and economic support for the construction of social capital, using the extensive international experience acquired in this area. Informed support for these processes must be provided at the national level. Part of this support consists in cooperating in the construction of indicators to provide an objective basis for discussion and quantify the targets proposed.
- They can link their lending, especially lending for structural reforms, to the building of a national consensus on those reforms. Consensus building will have the twofold advantage of strengthening the countries' commitment to structural reform programs and of strengthening the institutions that generate the agreements. The lesson most frequently emerging from successful examples of social and political dialogue is that the National Vision must be based on problem-solving successes. Such successes boost the stakeholders' trust in the dialogue process, as well as strengthen their constituents' support for the building of national agreements. The successes, however partial, validate the processes and the stakeholders who are to build the National Vision.
- They can help to maintain a systemic vision of development: a balanced agenda reflecting the interests of the entire national community. This usually means that the international agencies must focus on the weaker stakeholders and offer them problem-solving options. It is precisely the problems of poverty and equity that are usually the ones most frequently disregarded in the more disadvantaged societies. An international agency generally stands apart from the interests of the various stakeholders, which facilitates shared diagnosis and understanding of these problems. It thus helps to create a more balanced agenda, representative of all national stakeholders.

### CONCLUSION

25. National development is a process in which society is transformed, its capacity and capital are built, and its institutions are changed. Accordingly, a development strategy is above all a transformation process within an overall vision, addressing the obstacles to change and identifying the reforms essential to its achievement.

26. A Vision is a prerequisite for development. The viability of a country's development strategy increases in proportion to the participation and commitment of all its social and political stakeholders. The experience of the countries represented at the Forum showed that a shared Vision of the future among the country's leading social and political stakeholders is a national asset.

27. It is particularly important to have a National Vision in the era of globalization, when countries' competitive advantages are being built up and are not a given, and when

the transformations required are structural and hence long-term. Several Forum participants mentioned that “the future is built not by looking in the rear view mirror but by looking forward.” The path to progress begins when a National Vision exists and the efforts of stakeholders are thus applied to similar aims.



PART 1

INAUGURAL SESSIONS

## 1. COMPETITIVENESS AND WELFARE: BALANCING THE LONG- AND SHORT-TERMS

José Luis Machinea

*Executive Secretary, Economic Commission for Latin America and the Caribbean (ECLAC)*

### **How do governments meet short and medium-term needs without sacrificing long-term development objectives?**

28. I will focus on the relationship between the long-term and short-term decisions made by governments, based on experience in Latin America. I will split my presentation into two parts: the first on conceptual issues and the second on Latin America's experience.

#### **A BALANCING ACT WITH THREE DIMENSIONS**

29. The question of balancing the short and long terms implies that these are mutually opposing positions. The opposition between them is strong when certain short-term decisions distance us from our long-term objectives, and weaker when concerns over short-term decisions divert government's attention away from forming, or, at least declaring, a strategic country vision in the form of policies and programs. I will address three dimensions of this sacrifice of long-term to short-term considerations: the economic, the political, and a third dimension, which I term "strategic shortsightedness."

#### **Economic considerations**

30. The first dimension, the economic, has to do with the longstanding controversy in economics of accumulation versus distribution. Since the mid-1940s and spanning at least three decades or even longer, we believed that economic growth was linked to the accumulation of capital. This implied that it was necessary to increase savings, and sparked the debate over the issue over whether the distribution of too much income favoring short-term demands would create problems for growth by making it impossible to accumulate enough capital. Today, this discussion between accumulation and distribution is essentially expressed in terms of competitiveness and equity. In most open economies, where this controversy also takes place, it is maintained that competitiveness in today's globalized world requires low payroll costs, flexibility in the job market, and relatively low tax rates to curb the distortions that these taxes can cause. The rise of the Indian economy, and especially that of China, has heated up this discussion further. Countries that intensively export products relying heavily on cheap labor (of which there are plenty in Latin America) will take a beating from the Chinese competition, which will intensify the discussion over greater job flexibility and lower payroll costs.

31. Whenever the debate has emerged over long-term needs (before, in terms of accumulation and distribution, and now in terms of competitiveness and equity), the goal of equity seems to be disregarded in the pursuit of competitiveness. Moreover, whenever the issue of equity is stressed, it is argued that this will imperil long-term objectives.

32. Nowadays the growth versus distribution tradeoff is not as evident as it used to be. We now know that growth is the result of a broader set of factors than just the mere accumulation of physical wealth. Institutional, technological, and human capital concerns also come into play.

For example, very inequitable societies have difficulties in developing human capital. Francois Bourguignon has stated that there are extreme inequalities in the distribution of wealth that hinder some sectors from accumulating human capital.

33. To reduce the incompatibility between the short and long terms it would be helpful to have income distribution policies by means of subsidies or some other mechanism. There would be certain distortion issues over the short term, but without the accumulation of human capital, it is hard for economies to grow over the medium term. Something similar can be said about technology, which requires the active intervention of the state, either to stimulate the private sector, to carry out research, or to create conditions for greater access to technological innovation. This issue takes on very different characteristics in the developing world, where technology is less easy to adopt and adapt than in the developed world. It also implies the creation of taxes that, to some degree, cause distortions over the short term in order to generate knowledge for the economy.

34. Finally, high levels of inequality and poverty lead to significant political instability in democratic societies. This is clearly borne out across the Latin American region. The political instability that is associated with inequality breeds uncertainty and lowers investment and growth. Hence, even from the standpoint of growth, this conflict between distributions over the short term versus growth over the long term does not now seem so stark.

### **Political Considerations**

35. There is an extensive literature on how the political cycle of democratic systems encourages short-term decisions that focus on winning favor among the electorate and on the costs of these decisions over the medium and the long term. Yet in Latin America today, it is less customary now than it was in the past for promises or short-term decisions to be made that conspire against long-term growth (for example by increasing the inflation rate or by some other means). This is the case in Chile, and the same trend is beginning to prevail in other countries of the region.

36. At the same time, however, the region has created institutions that reduce the discretion of governments, such as independent central banks, which are relatively common in Latin America, or ceilings on public spending or budgetary tax deficits. Such institutions that limit the government's discretion help to limit short-term decision making related to the electoral cycle.

37. A more serious problem from the political standpoint concerns the idea that many governments in the region are seeking to re-create their countries. It seems that we in Latin America are witnessing a re-founding mania whereby whoever takes office wants to institute a new country different from the old one. This is a characteristic practice of young democracies. It is a serious problem because, on one hand, it denotes instability, and because on the other, it means that time, effort, and experience are squandered, and sometimes efficient bureaucracies and government plans are dismantled, simply because they were put in place by the former administration. The idea of benefiting over the short term by politically blaming former administrations clearly affects economic growth and is a much more relevant problem than considerations dealing with the electoral cycle.

## Strategic Considerations

38. My third point has to do with strategic shortsightedness, whereby day to day pressures and emergencies hinder the development of a strategic vision. In Latin America, a region beleaguered by crises, we are aware of this source of conflicts between the long and the short term, and between joint political decisions and the strategic guidelines of government plans. When a crisis arises, the discount rate rises sharply, as we economists would say, and sometimes to the point where the short term becomes the only important issue and the long term fades from view; anything that would take one to two years to yield gain is virtually considered devoid of value.

39. An example of this is the behavior engaged in during crises, with regard even to countries that are fellow-members of sub regional agreements. When a crisis occurs in one country, in another they might say: "Well, based on the strategic vision and our sub regional agreement, let's see how we can help the country undergoing these difficulties to create this society, this cooperative interaction among the signatories." Needless to say, this is not what happens. What takes precedence is the urgent short-term situation, wherein everybody tries to differentiate themselves from the country in crisis to avoid contagion, and they say: "We don't know this country," even though it is a partner to the agreement. They do this because according to them, in a crisis situation such as this it is crucial to avoid becoming contaminated with this country's medium or long-term vision.

40. This shortsightedness is a very significant matter in the region. When the idea emerges of discussing the medium and long term in the midst of highly critical situations, a very different position from that taken by the minister of the treasury is usually observed; sometimes, our countries use these forums to criticize the minister. The other ministers team up with some private sector individuals, businesspeople, and workers to criticize the minister because "instead of dealing with the country's issues, he uses his time making short-term adjustments." That is when forums such as this one become political battlegrounds between the minister of the treasury and the rest of the cabinet. The result is that the minister of the treasury does not attend them and they end up being somewhat irrelevant.

41. I believe that when a crisis arises, there are two alternatives. Either a reasonable macroeconomic framework is worked out, and consensus and agreements are later sought concerning the type of country that is desired within a more long-term strategic vision, or a consensus panel is established to provide support for prioritizing the short term for the duration of the emergency. This is done, however, with the clear understanding that it is necessary to design a strategy. If this latter solution can be achieved, it would certainly be the better of the two scenarios. In that case, we would have to await the end of the crisis to sit down and begin dialogue aimed at reaching consensus, at a venue in which the minister of the treasury will not feel threatened by this search for medium and long-term consensus. Though not easy, it is the only reasonable way to do it, because this way we establish the idea of a more integrated country, the minister of the treasury does not feel that this organization is antagonistic to his concerns, and furthermore, the actors recognize the need to achieve certain short-term balances while considering the medium and short term.

42. These issues concerning the short and the long term may also be observed on the international scene. Countries face them when, for example, they need to create international

institutions to restructure foreign debt in the event of an emergency. If the minister of the treasury of the region is asked whether he is willing to go to Washington and state that his country needs an institution to restructure its debt, the very next day he will have to look for bonds on the international market. The result is that nobody will make the long-term decision to create the institution that would favor a more reasonable international financial system, due to short-term pressure to get bonds out to the markets.

43. Often, long-term decisions have been made as a response to short-term problems. In the 1990s, Latin American countries seemed to have reconciled the short term with the long term, because as they reduced the fiscal deficit and inflation, they were making long-term, structural decisions, privatizing, liberalizing, and deregulating their economies. Sometimes no strategic decision was made to privatize, but doing so was an effective way to handle short-term needs: it meant higher public revenues, it was what international organizations were asking for, and it conveyed the right message to the markets and allowed fresh resources to be sought. Sometimes the same thing happened with the economic opening: there was a short-term urgency and liberalizing the economy also helped to lower the inflation rate, to comply with a request made by the International Monetary Fund or World Bank, and to convey a positive message to the markets.

*Latin America needs a strategic vision, a navigation chart together with a political and social commitment. Productive development policies must be incorporated into this strategy, though they need to differ greatly from those of the past. Moreover, without minimum social cohesion strategies, it will be harder not only to build fairer societies but also to achieve growth.*

**José Luis Machinea**

44. Argentina's decentralization provides a similar example. We decentralized because we had urgent financial needs, and the management initiative was turned over to the provincial states to alleviate the short-term fiscal pressure. We did not reflect on how we were doing it, which were the appropriate incentives, or on how we were to train these states or regions. Short-term urgencies determined long-term decisions. That is perhaps the reason why other reform efforts were not made, such as in education or justice, for example, which were characterized as "second generation" reforms, though I prefer to refer to them as "the ones that we made" and "the ones that we did not make." Since these reforms had no short-term advantages, they yielded no resources, did not permit access to international markets, it was more difficult to obtain credit with these reforms, and they were postponed because they were long-term transformations that did not cater to short-term demands.

45. This reform design approach clearly had one problem: results were worse in countries where structural transformations did not spring from strategic decisions, since the domestic convictions and consensuses achieved were smaller in scope. As a result, complementary changes were often not carried out and institutions in keeping with them were not created. When structural decisions are not based on a conviction, consensus, or country strategy, they have less effect than they otherwise would, because complementary reforms are not made. Indeed, sometimes the process is reversed, as witnessed in the region.

46. Another lesson that can be learned from Latin America's experience in the 1990s is that the reforms were clearly necessary and that greater participation had to be achieved by the private sector in more open economies. Nevertheless, we also believed that structural reforms in line with the Washington consensus would be enough to overcome the growth-related issues. There was a simplification that consisted of considering the problem of development as a linear matter. Experience has revealed that countries that achieved higher growth did so in most cases by following a development strategy, which is a somewhat more complex matter than simply regulating or putting the macroeconomic situation in order.

47. Though with some exceptions such Chile, and maybe Costa Rica and one other country, Latin America has not performed well. Between 1990 and 2003, the region grew by 2.6 percent, the numbers of poor people rose to 217 million (44 percent of the population), while those living in extreme poverty rose to 105 million (20 percent of the population). Even though we increased our exports, opened up economies, and even diversified our markets, this did not yield higher growth rates.

48. Since reforms were touted as the great solution, the frustration associated with this outcome led to assigning blame, and what typically happened was that the blame was laid on the reforms. This has spawned a number of populist threats. The region continues to behave in a reasonable fashion, but in a very tense setting, because the economies are not growing, income distribution is getting worse, and consequently poverty will not roll back either.

#### **IMPLICATIONS FOR LATIN AMERICA**

49. How can we design a regional strategy in this scenario?

50. The starting point must be to recognize what we are. We need to gather up some reforms and, in many cases, reform these reforms. This does not mean turning back, but instead sustaining strong participation on the part of the private sector, for example, but regulating it or introducing more competition. In the globalized world of today, strategies that may have made sense during the 1950s and 1960s will not apply; what does make sense is to carry out certain reforms well.

51. In a development strategy within the framework of a representative democracy, political forces must put forward a country vision dealing with societal needs in general, containing a story line of the future in which different segments of the population can point themselves out as key figures in the history of their countries. This process has certain essential characteristics. It needs to move beyond the vision in place at the outset of the 1990s that argued for "more market and less government," to the current idea of "better markets and government." It needs to achieve a new balance between private initiatives and public interest that puts special emphasis on equal opportunity and social cohesion. The shared vision needs to be about how to create an inclusive future based on establishing long-term objective and adopting mutual agreements, instead of making unilateral concessions.

52. To illustrate these characteristics, I will present some of the points that we discussed in a recent document.<sup>1</sup> First, it is necessary to sustain and improve macroeconomic matters. To date

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<sup>1</sup> *Productive Development in Open Economies*, prepared by ECLAC for its Thirtieth Session held in San Juan, Puerto Rico, in June-July 2004.

we have been able to lower inflation and the fiscal deficit, but the region is twice as unstable as the rest of the world because of the very severe external shocks we have suffered and because we lack the capacity to develop anti-cyclical policies and to improve macroeconomic policies. We shall need to stabilize not only nominal variables but real variables as well, in addition to saving during good times, a practice not implemented in the region except in Chile. If anti-cyclical policies are not developed, the rather unstable situation could lead to many people being excluded from social insurance and health care. Similarly, if we do not have a stable macroeconomic, investments and productivity will lag, because productivity is also determined by the growth rate of demand.

53. My second point deals with providing more and better infrastructure at reasonable prices. Here the subject of regulations is very important because we need the participation of the private sector as well as public investment in infrastructure. In this regard, we have a series of proposals dealing with how to make fiscal restrictions more flexible, thereby providing some space within fiscal responsibility to allow for some public spending on infrastructure.

54. The third point relates to the integration of the region into the world economy. We are in an open economy; we need access to markets, and we are diligently seeking greater market access. Currently, 60 percent of trade in the region has something to do with regional or bilateral agreements: in the case of Mexico, 95 percent; Chile, more than 70 percent, and in Central America—if the Free Trade Agreement with the United States (CAFTA)<sup>2</sup> is approved—65 to 75 percent. It has never been proven, however, that merely opening up an economy alone will correct its problems or achieve faster growth. What we do know is that countries that export the most grow the most. Apparently, however, in this globalized world, countries that do not manage to increase their exports will surely not see their economies growing. In other words, opening up an economy alone is not enough, but failure to do so seems to make growth difficult.

55. International integration must be pursued on the basis of a strategic vision and not as a solution to short-term credibility issues. It must be viewed as a possibility and not a panacea; an opportunity, but by no means a resolution of the problems involved in development. On the other hand, a short-term versus long-term problem rears its head here also. The best option for countries in the developing world overall would be multilateral agreements that eliminate farm subsidies and allow market penetration, but since all developing countries have short-term emergencies, they sign market access agreements, and in so doing undermine the possibility of multilateral agreements. This is because developed countries also impose their own agenda—copyright laws, government purchases, investment issues—and when it comes time to attend multilateral forums, what incentives are there? What would countries with many bilateral agreements want with multilateral agreements if they already have preferential access?

56. The fourth topic is the need for productive policies. These are needed because of breakdowns of information and coordination; because regional experience has shown us that the market does not provide all the answers; because the experience of successful countries reflects the use of different combinations of productive policies over time (among successful countries, Chile has perhaps the least of this type of diversity); and because the productive structure should be heterogeneous. Productive policies must be based on acknowledgment of a growing

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<sup>2</sup> Central American Free Trade Agreement (CAFTA).

heterogeneity in the region. Heterogeneity increased over the past decade because countries opened themselves up to foreign markets, though not all of them were equally prepared to do so, and because they generally achieved varying degrees of access. As a result, our economies ended up with three sectors, each integrating with foreign markets at different speeds: the larger companies, comprised of multinationals and some national leaders; the small to middle-sized companies that compete over space but have no access to information and financing; and the informal sector, where 47 percent of the region's workers are employed.

57. To design an appropriate strategy and productive policies, we must bear in mind the different needs of these sectors. Three types of policies are needed: inclusion for the informal sector, which entails something a little more complicated than just handing out titles to land; modernization for small and medium businesses; and deepening of the productive system in large businesses, which means contributing knowledge and value added to the productive chains and to the export cycle. These production policies differ greatly from those of the past, because in open economies you cannot stimulate sectors by applying high tariffs, because rules have been established by the World Trade Organization (WTO), and because bilateral agreements are in place. They also differ because the demand for fiscal resources is far greater than in the past, to the extent that there is competition for them (which is where social cohesion policies come into play) and therefore different policies are required reflecting each country's size and respective institutions.

58. To deter the emergence of corruption in public spending, these policies must be much more transparent and more strictly evaluated than in the past. Furthermore, they demand concentrated effort. For example, Latin America spends \$17 billion yearly on science and technology, whereas the United States spends \$250 billion; Europe, \$180 billion; Japan, \$90 billion, and China, \$21 billion. Among the countries of the region, Brazil spends 0.7 percent of its GNP on science and technology, while all of the other countries invest roughly 0.5 percent. In Latin America, we need to carry out research based on certain existing advantages; we must always keep in mind the relevance of the example set by some countries in specific activities (Argentina, Chile and Costa Rica, for example), yet we should not try to enter the race for space. Concentrating efforts on just a few resources is crucial. Any policy to achieve consensus on national development strategy must determine what its focus will be. I believe that we should begin by focusing on the activities that we know how to engage in and to market to the world.

59. The last issue that I will touch on is that of social cohesion policies. History and current circumstances leave us no room to believe that we can leave the problem of social cohesion to some later date: 44 percent of the people under the poverty line and 20 percent of the people who live in extreme poverty cannot wait. Furthermore, lack of social cohesion is holding back the spread of development in the region. Social cohesion policies must be supported by four pillars.

60. First is the drafting of a tax and income policy, including a tax code. Even though the topic of income and compensation policies is frequently discussed, the tax burden in many of the region's countries amounts to only 14 percent of GNP. More equitable consensus, policies, or social cohesion cannot be developed like this, and that is why they must be based on the tax code.



61. The second pillar is the job market. During the 1990s, what I call *flex insecurity* came into vogue, meaning flexibility in the job market without the benefit of social protection. The challenge nowadays consists of maintaining enough flexibility to compete in the globalized world, but with enhanced mechanisms of social insurance.

62. This requires a basic supportive financing component, which is the third pillar. The social insurance systems in the region have moved toward capitalization systems and individual systems, meaning that trouble arises if the supportive financing component cannot be introduced. Even the most successful systems in the region, that of Chile for instance, leave a substantial portion of the public uncovered. If we want to avoid excessive increases in demands on the public sector, the supportive financing component must at least partially be the result of contributive solidarity and appropriate incentives.

63. The fourth pillar, of course, is training and education.

64. Basically, Latin America needs a strategic vision, a navigation chart together with a political and social commitment. Productive development policies must not be deficient concerning this strategy, though they need to differ greatly from those of the past. Moreover, without minimum social cohesion strategies, it will be harder not only to build fairer societies but also to achieve growth. These minimum mechanisms are education-related. They generate social capital and lessen the political instability created by uncertainty. The region cannot afford to waste time. Therefore, while maintaining convictions, it must avoid taking extreme positions in political discussion and the ideology of actors in the region must leave room for pragmatism.

## 2. COUNTRY'S VISION AND GOVERNMENT PROGRAMS

Álvaro García

*Former Minister of the Economy and former Minister Secretary-General of the Presidency, Chile*

### **How does a country vision translate into an agenda of policies and programs to be implemented during the government's term of office?**

65. I will focus on how a government prioritizes the topics in a country agenda or national vision. The scope of the challenges facing Latin America and the need to address them consistently over time makes it essential for each country to make a commitment on moving forward. The more manifest this commitment, the more feasible it will be to accomplish the objectives. In today's globalized world, not just companies but countries compete, with large amounts of capital of all kinds. Building up the necessary capital is a long-term task, and thus having stable, consistent policies is a crucial asset. I must stress that this national agenda has to move beyond identifying goals to determining specific methods for reaching objectives and setting priorities, recognizing the need for consistency and that mechanisms are necessarily consecutive.

66. Starting from the premise that we need a national vision, the question that follows is how to build it. International experience suggests we may categorize country visions into two major types: one explicit, expressed in a written document, and the other implicit, but frequently very powerful and pervading the conventional wisdom of political forces and social actors

(businesspeople, employees, and different representative organizations of civil society), and driven by them. As to explicit visions, one can distinguish between countries that develop such a vision in a political-parliamentarian setting and those that prepare it through the efforts of social actors. Better yet is the situation of the countries combining both approaches.

67. I will first describe the panorama of alternatives and afterward examine, according to the Chilean experience, which of them (if not both) is more likely to yield a vision that is implemented.

68. When a country has an explicit vision of the future in political, parliamentary, or social actor settings, it is very difficult for the government to disregard it when defining its priorities. The possibility of this happening is much lower if the vision is implicit. When no pillars have been defined, whereby organized society is putting its political or social vision forward to the government, it is easy for the government to become disoriented or blinded with short-term issues. Therefore, the first lesson that we can glean from this is that a government with long-term priorities is more viable when it has an explicit national vision than if its vision is implicit, or when it has none at all, of course. The more comprehensive and explicit the national accord, the more sound it will be and the more likely it is that governments will take it into account and act accordingly.

69. The possibility of establishing long-term objectives is strengthened substantially by the existence of social or political institutions that formally share and represent an explicit accord. International experience has shown us that the existence of an explicit agreement is usually associated with the presence of institutions created specifically for this purpose. In most European countries, there are economic and social councils or similar institutions that gather the social actors together for this purpose. Also, many European countries, the vast majority of Asian countries, and some Latin American countries, have institutionalized policies designed to attain an explicit accord through the process of defining long-term plans. These plans require approval of their respective congresses, or of parliamentary commissions whose permanent agenda is to maintain an active long-term vision. In this scenario, government programs are forced to reflect this long-term vision.

70. When the vision is implicit, it is best manifested in the government program itself. However, it suffers from the weaknesses pointed out earlier and may be focused excessively on the short term. Every government program is forced to focus on the short term because of its need to translate the national vision's broader purposes into priorities and programs that will be executed within a specific period.

71. I will now talk about which alternative seems best: the existence of political or social accords. Democracy has generated a way to develop political accords, formally and institutionally in some places, though democratic processes should normally lead to the creation of a country vision. If government programs compete in democratic elections, they should reflect what the country wants. Voters elect the administrations or candidates that best express this national vision, though always framed within prevailing issues. In turn, parliaments sometimes serve as sounding boards for the key pillars of a national strategy. In them, accords are forged dealing with extensive, essential reforms and more general guidelines that the country should follow. The foregoing, however, does not necessarily mean these decisions will be included in the

national vision. To ensure that the democratic processes are being guided by a vision that is national in scope, we must identify the factors that make them possible.

72. Some conditions have proven more effective in ensuring a better policy in the sense of leading toward a national vision. The first condition is that there be formal agencies within parliament to undertake this task. Finland has a permanent parliamentary commission responsible for maintaining a vision for the future and overseeing the duties of the executive branch in this regard. The second is transparency in public service. The more transparent and timely the information that parliament receives, the greater the capacity and efficacy it can wield in overseeing the activities of the executive branch, and citizen control will be stronger to the extent that this transparency is transmitted to the public. Transparency in the state's responsibilities facilitates a predominant long-term vision of the assessment of the executive branch. This is particularly effective in the discussion of plans and public budgets, which offers the best possibility of ensuring consistency between the short and long term. When the executive branch properly reports on what it wants to do, how it will allocate public funds, and, primarily, when it will assess and announce the assessments that it makes of the programs that it carries out, the possibility of building this link between the short term and the long term becomes more viable. Insofar as these processes are formalized or institutionalized, it is easier for political institutions to reflect the long-term vision, but this possibility is undermined if the agreements are only implicit.

73. Over many decades, and perhaps throughout its entire history, Latin America has paid a high price for hanging on to implicit, non-institutionalized agreements. Several studies suggest that the region reacts very unpredictably to external shocks because its institutions are weak. It is symptomatic of Latin America that we are still undergoing a crisis that did not begin here yet only here continues to drag on. Asian countries that suffered the last international economic crisis have already recovered a rather healthy level of growth. This has yet to take place in this region because the distributive conflicts and the lack of confidence in institutions cause the external shock and economic crisis to persist for a longer period.

74. Political agreements, at least in Latin America, are not solid or permanent enough to ensure that the mere dynamics of democratic institutions will facilitate a shared vision of the future founded on government policy. We need to strengthen political accords with the accords of social actors. We have to acknowledge, however, that in most of our countries, organized civil society is at a premium. Few countries can claim that simply calling organized civil society together can elicit national representation. The opposite is more often the case. If no encouragement is given for social organization, if the social organization process does not receive support, an appeal such as this would merely gather the most powerful stakeholders, which are usually those who are most organized and, consequently, can make their voices heard all the more. If we want to move toward

*If we want to move toward institutionalizing social participation and to strengthen political accords with social accords, we will have to invest in social organization and in the creation of effective channels of participation.*

**Álvaro García**

institutionalizing social participation and to strengthen political accords with social accords, we will have to invest in social organization and in the creation of effective channels of participation.

### **CREATING PARTICIPATORY INSTITUTIONS FOR A SHARED VISION**

75. When we observe international experience in the creation of participatory institutions and the development of a shared vision, the type of problems that we encounter is quite similar. First, the need to consider the different capacities of participating social actors and to take action accordingly. If certain actors lack the technical capacity to join in the dialogue, that capacity should be generated. If some actors lack national organization and representation, this representation needs to be strengthened even at the risk of weakening institutions.

76. Second, we need to define the topics to be negotiated or consulted. It is always a good idea to have a shared national vision, something that, in my experience, is relatively easy to achieve. The real discussion centers on how this vision is to be implemented, what priorities will be adhered to when it is implemented, and what methods that will be used to develop it.

77. Finally, we must also define the confines of the negotiation. National level actors are not always the most representative on specific issues. This type of institution normally operates by means of internal commissions that deal with specific issues and bring together the most representative actors with respect to the matter in question. Successful experiences hinge not only on creating a great institution that responds to all of the country's issues, but also on filling it with diverse work groups or environments, to address the different challenges posed by the great commission.

78. Having addressed these general matters, I will evaluate the recent Chilean experience in the light of these comments. There is no explicit shared vision in Chile, no document drafted or signed by the social or political actors. Nevertheless, we do have a rather firm, implicit vision that has made it possible for important developments to take place. The major themes that rally the country and are part of this implicit vision are very common in Latin America and the world today: economic growth, greater social inclusion, and institutional improvement. Wide-ranging objectives of this sort have been very prevalent in Chilean endeavors and have made their presence known in the country's political process. Over the last decade, we have noticed that the enactment of very significant reforms in practically all of these areas has either begun or has already been achieved for some time now. These areas were dealt with in political accords, since they required legislative approval. In this sense, the democratic process did in fact function coherently with respect to these objectives. On the social scene, educational reform was implemented and has been in effect for ten years. This involved not only a particularly significant modification of the education system, but also a very serious financial effort, and the legislative discussion reflected both events. Something similar is happening now in the health sector, which is undergoing a far-reaching overhaul at a fiscal cost well above current levels, which will mean additional fiscal pressure.

79. Analysis of Chile's economy leads to similar conclusions. The process of opening up to foreign trade has been rather extensive over the last few years. It has been pointed out, in Chile at least, that we owe this to the military government, but I do not share this point of view. During the democratic period, very important and unprecedented consensuses were reached,

among them the negotiated opening up to foreign trade, which now largely accounts for most of this phenomenon. The strategy of unilateral tariff reduction was preserved, of course, but the political and legislative discussion over liberalization did not deal exclusively with how much to open up the economy and who would carry it out, but also with the need for financing involved in the process. This is because a substantial part of the taxes that were collected came from foreign trade duties, which all but ceased to exist, and other taxes had to take their place. Legislative discussion also focused on determining how the country could resolve the difficulties created by liberalization in certain sectors. Progress was made in other areas of the economy, such as the Pro-Growth Agenda agreed on with the private sector. This addressed the country's macroeconomic challenges and the rules of fiscal conduct, which were jointly approved by parliament and firmly govern the behavior of public spending.

80. Chile has also begun very ambitious transformations in the area of democratic institutions: a radical reform of the justice system that took more than one hundred years to begin is currently in full swing; it also came at a rather substantial fiscal cost that was included as part of the discussion, along with state reform as well.

81. The implicit vision for the country's progress seems to have already gained strong support in Chile, because it has made possible accords on very significant reforms and allowed work to begin on others.

82. However, we have also seen where it has left gaps. In certain circles, political consensus has failed to facilitate progress. The most important of these gaps is that of labor reform, including social insurance, which is not surprising. This is precisely where the least amount of progress is made because here there are broader political differences and the predominant voice is that of the weakest, and therefore unrepresented, sectors. The same thing has occurred regarding issues such as political reform, and others of a more cultural nature, with which the country has taken more time to move forward. It wasn't until 2004 that the divorce law was approved in Chile, creating an enormous national consensus that lacked spaces for expression. In general, the gaps in what political consensus has been achieved are associated with matters where the social majority has a clear interest, but its voice lacks political representation. This adds credence to the notion that if they are to actually represent a country vision, political accords—no matter how rich and solid—must enjoy the support of social accords, an organized society, and institutions that allow the voices of the actors to be heard, especially those of the weakest actors.

### **INFORMATION AND TRANSPARENCY**

83. Something that has helped enormously to build these political consensuses in Chile is the information that the political system has at its disposal and the transparency with which the executive branch operates on the parliamentary level. Enormous progress has been made in transparency with regard to the government budget. The executive branch must submit a quarterly report on the progress of budgetary execution and prepare biannual reports on efficiency in the execution of the government actions contained in the budget. To accomplish this, an abundant set of 550 indicators was prepared, more than half of which measure biannual budget execution results and the success of public policies. There are also instruments that measure the effectiveness of social policies and their impact on issues of national interest, such

as poverty and the distribution of wealth. These information systems have enormously facilitated the creation of political accords such as the ones I mentioned.

84. Trust in parliament is important. Though it has not been easy, the government has succeeded in consistently accompanying social reforms with the tax modifications that fund them. A contributing factor to this achievement is trust in parliament, which has been gradually building because its oversight capacity can be put into action through instruments provided by the executive branch, primarily in terms of information. This asset has facilitated approval of political accords a great deal.

#### **WHY NO PROGRESS ON INSTITUTIONS FOR SOCIAL ACCORD?**

85. Why has Chile not made more progress in creating institutions for social accord? Several efforts have been made. Since democracy was reinstated in 1990, all three administrations have made efforts to create institutions for social dialogue. The first administration, the Coalition of Parties for Democracy (CPD) created the so-called Framework Agreements. They were very successful at the beginning of the term of President Patricio Aylwin in the creation of tripartite framework agreements between business, labor, and the government. Very significant political accords were achieved concerning the role of the market and the state, the need to strengthen social participation, but before long some actors pulled out of the accord (businesspeople, this time), essentially claiming that the issues that it dealt were not pertinent to their interests. During the administration of President Eduardo Frei Ruiz-Tagle, a broader effort was made, though more focused on economic development, and again some actors (organized labor, this time) desisted from genuine participation in the meetings, because they felt that their concerns were not being adequately addressed.

86. During the current administration of President Ricardo Lagos, which foresaw this difficulty, attempts were made first to deal with the process on the institutional level and move it away from the executive branch, so that ownership of the institution for social dialogue would be in the hands of social actors, who would propose the agenda, and not the government. They even reached agreement with labor unions and business groups on a bill to create this institution for social dialogue. Both of the main actors signed, but the labor union later stated its unwillingness to meet with this council for social dialogue.

87. The primary reason why the actors lost interest in participating was that it did not suit their union-related purposes. Most recently, the labor union chose more of an alternate route by politically opposing the viewpoints of the businesspeople, and sometimes those of the government, without ever sitting down at a negotiation table to try to reach an agreement. For those of us who have been following the Chilean process, it is quite clear that these agreements were not being sought until two years ago. Now they are not even interested in that possibility and we are seeing a very substantial weakening of the voice of the workers in the national dialogue.

88. The first requirement for a formal social dialogue authority is that it be useful to the actors, and what determines this usefulness is achievement of results that can be perceived positively by those whom the actors represent. Some conditions are essential to ensuring that usefulness. The first is that actors must be able to agree on equal conditions, something that has generally not happened in our countries, hence the need to support the weakest sectors. The

second is the need for a balanced agenda representing the interests of the different actors. It is a Utopian dream to expect that any of these meetings will generate some sort of unanimity—indeed, many times their usefulness consists of substantiating differences—but what is important is that the issues addressed represent all of the actors in attendance. The third is that it is vital for the country to be informed of the outcome of the social dialogue. The more that the dialogue resembles an internal process of the dialogue participants, the weaker the need of the attending actors to be represented. Therefore, it is very important for the social dialogue authority to have a way of lending support to the weakest actors and be very capable of informing the country on progress made.

89. In view of the Chilean experience, I will conclude by posing some questions for discussion:

- Should there be formal authorities for political and social consensus?
- How can dialogue be institutionalized so that actors will take ownership of it instead of considering it the property of an independent entity?
- What instruments allow the weakest actors to join in the dialogue under equal conditions?
- How can a link be formed among the processes of social dialogue to strengthen the development of a national vision, and the political and democratic agencies that are responsible for dealing with these subjects, at least on the level of legislation?

## COMMENTARIES

### **Manuel Sotomayor**

*Former President of the National Confederation of Business, Peru*

90. I would like to ask Álvaro García the following. How long ago did this implicit vision begin taking shape in Chile and how would you describe this process? There must have been some underlying element, a movement that created it. Do the interested parties participate directly by negotiating issues affecting them? Is it necessary for intermediate institutions with a perspective free of interests to participate?

### **Álvaro García**

*Former Minister of the Economy and former Minister Secretary-General of the Presidency, Chile*

91. In general, larger political processes, especially implicit ones as in the case of Chile, only occur after large national crises. Perhaps the most powerful reason for institutionalizing the dialogue is so that we do not have to wait for a crisis to occur before starting work on a shared country vision. Certainly, the political crisis that began in Chile in 1973 helped bring about a country vision. The most important of the changes I have described took place during the first seven or eight years of the democratic period.

92. Putting such accords together has become increasingly difficult over time, even though the shared vision has grown stronger. If we observe the latest government programs of the two candidates who each received almost 50 percent of votes in the presidential election, it is very hard to detect any differences between them. This situation got to the point that the two candidates promised to hold talks after the elections, regardless of the outcome, to promote the shared agenda. One meeting took place after one of the candidates won, but progress was never made on the accords.

93. In countries like Chile, where two powerful forces work at odds, circumstances do not lend themselves to the development of these accords, because the opposition customarily, and in my opinion, correctly, considers that arriving at an agreement will strengthen the current administration to some degree, and thus weaken its own political strength. By the same token, it is essential to institutionalize the dialogue to force political forces to honor what they put forward at the discussion table.

94. The participation of intermediate institutions is both indispensable and difficult. In Chile, we had the so-called Development Forum, which brought together representatives from several different areas, scholars, and even religious representatives, but it soon ran into representation-related problems. Can a social actor representing a national organization and the interests of specific actors sit down to the same table on equal terms with a distinguished scholar or a professional association that undoubtedly has a lot to contribute, but does not represent the other actors on equal terms? I believe that formal dialogue authorities should at least have representatives of solid social organizations and draw from the vision of the member actors, who can make substantial contributions, but who do not participate on equal terms with the institution.

### **Joan Prats i Catala**

*Executive Director, International Institute for Governance, Catalonia*

95. Why this urge to constantly re-found countries? Probably because the country has operated under a development model of import substitution and has experienced another model based on the Washington consensus, but along the way, it has continued to be plagued by problems of inequality, exclusion, low living standards, and the absence of a genuine civil society. These problems also distort the quality of democracy and hinder development of the state's true economic institutions. My impression is that the countries of Latin America are not undergoing a democracy crisis, but a crisis in the processes of democratization.

96. My second comment is that strategic decisions are always short-term decisions. Peter Drucker said that a strategy is not a matter of imagining how we want the future to be, but of deciding what we need to do today so that the future, which by definition is vague, won't slip away on us. It is not true that strategic vision and short-term decisions are at odds with another. What is true is that short-term decisions driven by urgent needs do lend themselves to reproducing institutional structures where decisions are made, and that they thus block institutional changes that would modify the distributive balances within which we make decisions.



97. Regarding the presentation by Álvaro García, it is very difficult to build institutions for dialogue in very inequitable, polarized societies. Institutional development is not the same as dollarization, but there is an interesting correlation between them. In a firmly established civil society, the proper setting for dialogue is parliament and interaction between parliament and the executive branch, and only exceptionally do we resort to complementary institutional mechanisms. Most of us tend to forget that economic and social councils even exist. But in very polarized societies, institutions lack the necessary capacity to represent asymmetrical positions in processes of political conflict and consensus. When politics has no institutional channel to take, it takes to the streets. Many actors will have no place in the system with the incentive structure that democratization brings with it, and they will engage in politics in the streets until the institutional establishment changes. Hopefully, this will end up strengthening democracies. Since the formal institutional establishment cannot adapt efficiently, it does not permit enough dialogue to bring about institutional change. Our greatest challenge, then, is to discover how to combine institutional politics with politics in the streets that can bring enough pressure to bear to bring about institutional change.

**Lewis Holden**

*Deputy Secretary, Ministry of Economic Development, New Zealand*

98. Even in cases in which little social polarization exists, there will be tension between the need for consensus regarding a shared strategic vision, and the need for some form of political differentiation. This may be one reason why reforms undertaken by one government are later rejected by another. In institutionalizing shared visions, one of the greatest challenges is to leave room for such a differentiation.

**François Bourguignon**

*Vice President and Chief Economist, World Bank*

99. I would like to complement Joan Prats' comments on the relationship between the short run and long run, an issue to which José Luis Machinea referred in his presentation. We must remember that the long run is essentially a sequence of short-run periods, and that the nature of these short-run periods will necessarily condition what results can be expected in the long run. In Latin America, short-run issues and policies have been directly influenced by macroeconomic problems and instabilities, for which they have sought to compensate. If one views time as a series of short-run macroeconomic crises, the true long-run issues will necessarily be neglected, and as a result, the long run will be constant economic and social volatility.

100. Studies carried out at the World Bank on investment climate have shown that macroeconomic and political stability is a fundamental condition for a favorable investment climate. If we are faced with a succession of short-run periods characterized by microeconomic instability, a positive investment climate will be impossible to achieve. A clear vision of real problems and suitable policy solutions will be difficult to obtain, as decisions will inevitably be made in response to crises, and seeing beyond the current crisis becomes an almost impossible task.

**Juan José Daboub***Former Treasury Minister, El Salvador*

101. I would like to comment on José Luis Machinea's assertion that the market is not everything. The imperfect market that has prevailed in most Latin American countries is preferable to having perfect bureaucrats telling us what to do.

102. South America is basically in the wrong hands, and this is partly due to a lack of leadership. Leadership is one of the most important functions of the state, but it is being diminished to almost nothing. We hear and see evidence of this daily in our attempts to reach consensus—which mean moving at the pace of the slowest participant or accepting the proposals of the most belligerent.

103. In my country, El Salvador, we went through three phases of accords to end armed invasion by the opposition during the 1980s. The last phase was the one we have observed recently as, for the fourth consecutive term the same political party has been elected to office. For the last few years the party has been doing something similar to what Chile did during its period of extensive transformations.

104. Leadership is important. We must not supplant institutions such as the Legislative Assembly and the Supreme Court. However, we must carefully analyze the issue of NGOs and consensuses because we sometimes simply lose a clear country vision. A president is elected on the basis of a proposal and not to co-govern with another interest group that usually ends up imposing or trying to impose the agenda.

**Jyrki Kasvi***Member of Parliament and Member of the Parliamentary Committee for the Future, Finland*

105. José Luis Machinea presented competitiveness as the opposite of equality. In Finland, this is not the case. It is a country in which wages are high, taxes are even higher, and unions are extremely strong, some would even say too strong. Nevertheless, our performance in terms of national competitiveness is very impressive. While the Finnish history and context clearly differ from those of other countries, we must not forget that Finland experienced a serious recession in the early 1990s that brought the state and municipalities to the verge of bankruptcy. Some have also said that the International Monetary Fund (IMF) was ready to assume control of the country, and the situation was exacerbated by the fact that Finland's main export market, the Soviet Union, had recently collapsed.

106. As regards Alvaro García's presentation, I would like to offer my view on how to establish and institutionalize social forums or dialogues, from the perspective of a country where this kind of negotiation has become increasingly important. No law concerning labor conditions or wages can be successfully established or implemented without negotiation and consequent agreement among employers' unions, workers' unions, and the government, with a democratically elected government as host to the negotiations. In Finland, for example, there is consensus among political parties on the fact that the cost of parenthood to employers should be distributed among the sector as a whole. Such a policy cannot, however, be implemented, as there are both employers' unions and workers' unions that strongly oppose the measure.

### 3. KEY FACTORS FOR A BALANCED DEVELOPMENT STRATEGY

François Bourguignon

*Vice President and Chief Economist, World Bank*

#### **How can balance be achieved between macroeconomic/growth objectives and institutional, social, and distributive objectives?**

107. My contribution today focuses on an issue that many of you might not expect to hear or read of in a presentation by the Chief Economist of the World Bank, and that is the issue of social institutions. What is perhaps less surprising, however, is that I shall place specific emphasis on the close relationship between these institutions and economic development. My point of departure is the holistic view behind the Comprehensive Development Framework, and more specifically a lecture given by Joseph Stiglitz in 1998 as part of the United Nations Conference on Trade and Development's Raul Prebisch lecture series. In his lecture, Stiglitz insisted that our analysis of the development process should combine a number of different levels: economic, social, cultural, religious, and political, among others. According to Stiglitz, we need to understand the interdependence of all of these dimensions of development if we are to fully comprehend the development process, and most importantly, what is working and what is not.

108. I shall focus today on the economic and social objectives of development, and will cover three main issues. The first is the very tight relationship between economic and social development, a relationship that demands that greater attention be placed on the social aspects of development. Second, I shall illustrate this relationship by reflecting upon social insurance and redistribution mechanisms as growth-enhancing social institutions. I shall seek to show how these institutions are essential for producing social change in today's economies. I shall conclude with a reflection on the implementation of social reforms, identifying the difficulties encountered in such a process, and drawing lessons from experience in developed and developing countries.

#### **ECONOMIC AND SOCIAL DEVELOPMENT**

109. It is clear to us all that the economic and social dimensions of our societies are becoming more closely linked. When economic growth takes place, a series of important changes are produced within the economic structure. People move from one sector to another, education levels change, as do salaries, and social structures are modified as a direct result of the process of economic growth. These modifications in social structures also bring about changes in the social relations that operate within society. As people move, for example, from traditional agriculture to the urban sector, a shift is produced from an

*...in many cases a complementarity between social and economic development is generated—rather than a trade-off, as many people supposed in the past.*

**François Bourguignon**

extended family system to a nuclear family system, and from community decision-making to much broader public decision-making. Similarly, political participation increases, and these changes are in fact effects of the growth process itself.

110. Changes in social structures and social relations will in turn affect the growth process. Modifications in the behavior of the economy and the rate and structure of economic growth will be produced in societies with considerable social cohesion, where social institutions have developed in such a way as to maintain such cohesion, or in societies in which there is clear progress towards democratization. It is this set of interactions that we are particularly interested in and the challenge now is to understand why such interactions can work so well in some countries, generating a high rate of economic and social development, while in others, the whole process simply stagnates: if the economy does not move, social institutions are not modified, and vice versa.

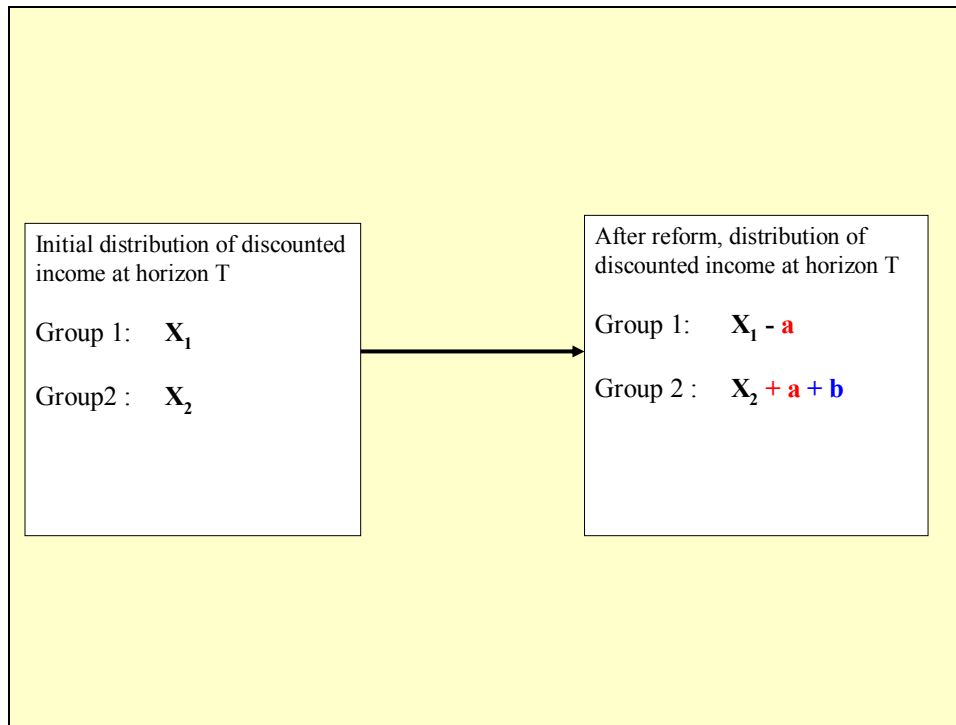
111. The trend in economic development analysis is toward a full incorporation of both economic and social issues in the development equation. Progress has been made over the past ten years or so, and certainly since the introduction of the Comprehensive Development Framework in 1999 and Joseph Stiglitz's lecture in 1998. On one hand, economists are becoming more receptive to social analyses and at the World Bank; for example, social institutions are being considered an increasingly important element of development. On the other hand, social and political scientists are also placing greater emphasis on economic issues in their development analyses, examining in particular the ways in which social institutions are modifying economic processes.

112. What is clear is that in many cases a complementarity between social and economic development is generated—rather than a trade-off, as many people supposed in the past. In many senses, by modifying social institutions, we can produce both greater equity—an important social objective—and economic efficiency, which in turn generates faster economic growth. It is this relationship that I would like illustrate today.

#### **SOCIAL INSURANCE AND REDISTRIBUTION MECHANISMS AS GROWTH ENHANCING INSTITUTIONS**

113. To do so, I shall reflect on two institutions that I define as *social insurance* and *redistribution*. The importance of these institutions will be examined from two perspectives, first in aggregate terms for what we could call macro decision making, and second from the microeconomic or micro-social perspective. In both cases I shall try to demonstrate that by developing these institutions, progress can be made in both equity and efficiency.

Figure 0.1: Policy reform and redistribution



114. Figure 0.1 shows a typical example of policy reform, and helps illustrate the implications of redistribution on the aggregate or macro decision making process. In this example, society comprises two groups: Group 1 and Group 2. In the absence of reform, the welfare of those two groups both today and in the future—calculated with a discount factor for the future and the uncertainty associated with the future—can be expressed as  $X_1$  and  $X_2$ . This is our reference status quo situation.

115. Reform will modify this situation in such a way that Group 1 will receive not  $X_1$ , but  $X_1 - a$ , and Group 2 will receive  $X_2 + a + b$ . If we look at the aggregate of the two groups, we will observe a change in total welfare, expressed as  $b$ , and if  $b$  is positive, there will be an aggregate gain for society as a whole.

116. When  $a$  is positive, the policy reform is also generating a change in distribution. The change is that Group 2 is receiving slightly more and Group 1 is receiving slightly less. In this case, Group 1, which is losing out in the process, will probably oppose the reform while Group 2, which seeks to gain from the reform process, will be in favor of the changes proposed.

117. This is a very general framework within which many different reforms may be analyzed. Let us look, for example, at trade liberalization, a process to which José Luis Machinea referred, and which the World Bank is currently encouraging. We know that if a country liberalizes trade, there will most probably be an aggregate gain for society. We also know, however, that some groups may lose and others may gain from the measure. While the owners, managers,

employees, and suppliers of firms that are competing with imports will effectively lose, those firms that directly benefit from a reform to increase export will gain from the change. The reform has both economic and political dimensions, in the sense that a potential gain at the aggregate level is not necessarily the reason why such a reform will be adopted. As  $b$  is positive, the World Bank may well consider the reform as favorable, while other actors may point out the resulting losses that will accompany the reform for certain sectors of society. The decision to implement such a reform is not an easy one, and it is very possible that the reform process will not proceed.

118. Before continuing with this negative scenario, I must point out that there are also positive situations in which all groups can effectively gain from a reform. Where  $a$  is negative, and the sum of  $a + b$  is positive, we will find ourselves in a situation where both groups gain—which in economics we call a Pareto-improving reform. In such a situation, we might expect the reform to be accepted, provided that we can convince the relevant groups that everyone will gain from the reform. The problem lies, however, in that this is not an easy point to demonstrate, in part because we have serious communication problems and also because it is difficult to carry out the appropriate economic and social calculations by which to establish values for  $a$  and  $b$ . It is likely that in some countries, people may never be adequately informed of these values and their implications, and will consequently be misguided in their decisions. It is therefore possible that a Pareto-improving reform may not be undertaken for lack of adequate information or communication.

119. Returning now to the situation in which one group loses and the other gains, we must identify the institutions that help undertake a reform that is beneficial from an aggregate point of view. When I say that a reform is beneficial from an aggregate point of view, I mean that following the traditional economic rationale, the gainers—Group 2—may compensate Group 1 for their loss, and Group 1 will therefore also gain. In this sense, one can say that there is a potential gain for the whole of society.

120. Our concern now is to determine how Group 2 can compensate Group 1, and this is where social institutions play an important role. Let us imagine an economy with a well established redistribution mechanism by which any additional income produced in the economy is taxed at a rate that greatly reduces incentives for the private sector to continue investing. In such an economy, tax proceeds are being spent on public goods that will benefit society as a whole, for example education or health care systems, and there is therefore a broad distribution of tax-derived income. In such a scenario, this redistribution process may be sufficient to compensate for the fact that one group is losing and the other one is gaining from any particular reform. The gainer will essentially gain a little less, and the loser will not only lose a little less, but also will gain from additional public goods that are financed by the taxes received. In this case, if a redistribution system is already in place before the reform is discussed, there may well be no conflict between *Group 1* and *Group 2* over whether or not the reform should be undertaken. We see here the great advantage of redistribution systems.

121. You might well think that these issues are purely abstract. I must insist, however, that there are very good examples of such systems in operation. In some small countries with open economies, the redistribution system is more developed than in others. In the Nordic countries, Ireland, and Belgium, the economy faces a high risk of being seriously affected by the shocks

produced in the rest of the world, and very strong redistribution systems have therefore been installed. These systems help protect the different groups within society from the negative effects of such shocks, and there is consequently little opposition to policies that favor an open economy. Danny Rodrik, an economist from the Harvard University Kennedy School of Government, carried out a detailed analysis in 1998<sup>3</sup> that illustrated how more open economies have bigger governments, in the sense of greater redistribution. His analysis clearly illustrates the importance of the redistribution as an institution.

122. What we need is an institution with which to carry out redistribution. We may have a scenario in which Group 2 is so interested in a reform that they are willing to compensate Group 1 for their loss. The problem is, however, that the benefits of the reform will be produced some time in the future, and this raises the issue of Group 2's credibility. Continuing with the trade liberalization example, Group 2 may propose such a reform process and assure Group 1 that they will be compensated for the losses they will suffer as a result of the liberalization process. Five years later, however, when liberalization is fully in place and the losses and the gains clearly felt, Group 2 may well have forgotten about the commitment it made during reform negotiations. In such a scenario, the reform may in fact never be undertaken, as Group 1 will simply not believe that they will effectively be compensated for their loss.

123. There is indeed an institution that can solve these important problems and that institution is democracy. Let us imagine that in a democratic system, the political parties that support Group 2's position regarding the reform, commit to compensating for losses once liberalization is in place and the consequences are felt. If these commitments are not upheld, the party or parties will no doubt receive a political sanction that could cost them an election. To some extent, therefore, the democratic system in itself is a means of guaranteeing such commitments, and this is in fact what makes the kind of reform we are discussing here possible.

124. It is also interesting to observe what may happen if the democratic system is not operating correctly, for example in the case of corruption. Going back to our reform equation, if  $b$  is negative, the reform will generate a loss for the whole country. However, if  $a + b$  is positive, Group 2 might be interested in adopting the reform, and may even consider imposing such a measure on to the government, bypassing democratic channels and using corruption as a means to achieve its aims. Democracy is therefore essential for ensuring that societies adopt reforms that are truly in their interest, namely those that will encourage economic growth and increase the overall size of the pie.

125. What of the importance of this system at the micro level? The redistribution mechanism I have been reflecting upon is, in many countries, directly associated with social insurance. Within this system, when times are good you pay your taxes, and when times get tough you receive benefits as cash payments or in other forms, because unemployment systems, health care systems, and pension systems all form part of the larger system of social insurance, which is essentially a redistribution mechanism.

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<sup>3</sup> Dani Rodrik (1998), "Why Do More Open Economies Have Bigger Governments?" *Journal of Political Economy*, October.

126. At the micro level social insurance has a number of clear advantages. First, it will prevent loss of human capital when a household, group of households, or even the whole country suffers an adverse shock, and this will have significant positive impact on the country's future growth and efficiency. Second, as with insurance in general, when a social insurance system is in operation, people are inclined to take more risks, and higher-risk projects undertaken in the economy, with a consequently higher expected rate of return, will again lead to greater levels of efficiency. Third, social insurance permits a more flexible labor market, as the country is essentially ensuring people directly as opposed to indirectly through labor market regulation. Finally, in the presence of social insurance, government macroeconomic policy becomes more credible, as the different actors on the macroeconomic scene effectively know that social insurance will relieve the pressure on the government to carry out redistribution in the case of a crisis. Thus, government has greater credibility when announcing the measures with which it proposes to confront the crisis.

127. Social insurance does, however, have a cost, and that cost is the tax that must be paid in order to finance the system. These taxes will presumably reduce incentives for entrepreneurs and the private sector in general to increase investment and innovation, but the benefits are nevertheless clear. What we have to determine, therefore, is whether or not the benefits I have mentioned are compensating for the cost of private sector disincentives. Analyses carried out at the World Bank conclude that the benefits will certainly offset the costs, albeit in the future, as in many cases these benefits only become evident in the long run.

128. For a long time, fast growth and high levels of savings were considered the best type of insurance possible. In a country where GDP is growing at a rate of six, seven, or eight percent a year, the population will not be greatly concerned by the problem of unemployment, convinced that if need be, they will be able to find a new job with which to make ends meet. A similar situation is when high savings rates, such as those that were observed in East Asia, provide a country with a kind of self-insurance system managed by each household.

129. It might therefore appear true that in a fast growing economy, there is no need to develop this type of social insurance scheme, and this was indeed a common view before the East Asian financial crisis in 1997 and 1998. After the crisis, however, considerable concern emerged as to what should be done to prevent a similar occurrence in the future, and some of the countries in the region developed social insurance systems. In Korea, for example, it was increasingly recognized that fast growth was not regular enough to substitute for a social insurance system.

### **IMPLEMENTATION**

130. I conclude by saying a few words about the implementation process. Korea's experience illustrates how the evolution of social institutions and the incorporation of social insurance within the social apparatus was provoked by crisis. Crisis has often been responsible for positive reforms in the social sector. If we look at developed countries, for example, the Great Depression was very important in the creation of the welfare state shortly before World War II, but it was the war itself that triggered such an important change in these societies. The question is whether it is necessary to wait for such a crisis to promote the development of social institutions, or whether it is possible to anticipate crises and convince the various constituencies



of the ultimate importance of the reform process. This, I believe is one of the main issues we should be debating here today.

131. Some interesting Latin American experiences illustrate what I have been discussing. One is Mexico's national education, health, food, and nutrition program PROGRESA, now called *Oportunidades* (Opportunities). This cash transfer program is directed at the poorest sectors of the population, and has the original feature that recipients must show that their children are attending school and undergoing yearly medical check-ups. This is one way of encouraging the accumulation of human capital among the poor, transferring human capital assets towards these sectors. The initiative has been extremely successful, and other countries have adopted variants of its approach. Brazil recently created the *Bolsa Família* (family subsidy) program, which followed the *Bolsa Escola* program (subsidies to raise school enrolment), and there are similar initiatives in Colombia, Ecuador, and other Latin American countries.

132. These are undoubtedly innovative and effective instruments, but it is not clear whether they can be considered social insurance, because their transfer of assets is a one-off and not a continuous process of redistribution. If the economy grows faster, PROGRESA will not automatically be scaled up, nor will it necessarily be scaled down in response to slower growth. The redistribution mechanisms and social insurance systems to which I was referring earlier must, however, have this characteristic. They must be directly linked to fluctuations in economic activity.

### CONCLUSION

133. I shall finish by reiterating that there is a strong complementarity between social cohesion, participation, and the process of economic growth, which is an issue of great importance for the World Bank. My presentation has sought to illustrate the relationship between equity—the result of satisfactory social institutions—and development, and to demonstrate that this relationship, contrary to what many people have thought in the past, is not based on tradeoffs but rather on complementarities.

#### 4. FOUNDATIONS OF LONG-TERM NATIONAL POLITICAL CONSENSUS

**Joan Prats i Catala**

*Executive Director, International Institute for Governance, Catalonia*

##### **How can elected officials and other institutional, political, and social actors agree on long-term sustainable policies?**

134. I will make my presentation from a non-academic perspective. First, I will touch on the interrelationship between institutions, policy, and development; then on the measurement and evaluation of institutions; then I will address the relationship between inequality and institutional change; and finally I will propose a reconceptualization of politics as strategic leadership for pro-development institutional change.

##### **INSTITUTIONS, POLICY, AND DEVELOPMENT**

135. Let me introduce a series of assumptions. First, countries are not firms, and to develop an effective vision and strategic management a country cannot use the same techniques and methods as a firm. Second, states are not firms, either. They have two dimensions: they are institutional systems and they are also more or less systemic aggregates of organizations. Therefore, it is not the same to establish a vision and a strategic plan for a government organization from within a government organization, as it is to establish a strategic plan for a country. The latter implies distinguishing clearly between institutions and organizations. Institutions are the rules of the game among the actors, individuals, or organizations, and the enforcement mechanisms for these rules of the game. Consequently, institutions set the restrictions and incentives for individual and organizational interaction. Societies can be visualized as institutional systems and not as organizations. Organizations are organized social systems, but they differ greatly from the institutionalized social systems that we call societies. Changing an organization is a very different process from that of changing an institutional system.

136. Institutions explain both long-term economic development and human development in general, and they are important for human liberties. They must be measured and assessed based on their contribution to development (and then, depending on what concept of development we apply, some or other institutional measurement and assessment criteria will be established). Institutions also influence the quality of policies. A set of policies, even if splendidly designed, cannot be processed by all institutional systems in any state. Institutions and the formulation of a policy are the social fabric of public policy, regardless of whether the institutional capacity exists to make it and put it into practice. It is ignorant or cynical not to accompany this social fabric with the creation of institutional capacities to produce the results sought from it.

137. For example, it is hard for a bad state, or one with weak institutions, to achieve a good privatization of state assets, simply because the costs of uncertainty borne by the private investor are very high, especially if a good proportion of them can only be recouped over the long term. This uncertainty will involve high transaction costs for the weak state because it is unable to resolve the issue of this commitment. Thus, institutions make a difference in the quality of

politics and development. An interactive relationship exists between development, institutions, and politics, the latter being understood as public policy, and also as politics.

138. We will never understand the problems of development until we understand the correlations between political and economic institutions. Building the institutions necessary for development and politics must be made a part of the development agenda or vision of every country. We need public politics and policies for institutional reform and development, without which we will not achieve sustainable development.

### MEASURING AND EVALUATING INSTITUTIONS

139. Here, too, let me list some assumptions. Institutions cannot be transplanted, exported, or copied. There are precise limits to good practices with regard to institutional development. Institutional development is fundamentally endogenous, even though an exogenous influence is very important in many cases. When we measure and assess the efficiency of institutions, we should consider a distinction inspired by Judge Richard A. Posner. Referring to the internal and external efficiency of public administration, Posner said: “to set a value on efficiency we must not only consider internal efficiency, the cost-product ratio; basically, we should measure external efficiency.” This means that in a development model for our era—which is market-based—we should measure how much efficiency we stimulate from the public sector in terms of private sector behavior.

140. What are the indicators of external and internal efficiency of the institutional system? We have already established the external efficiency indicators. We have universally defined and guaranteed the level of civil rights. The public enjoys a certain level of economic rights, liberties, and opportunities, involving, for example, measurement of the extent to which property rights are universally defined and guaranteed. Another external efficiency indicator is the level of administrative legality in the relationship between the administration and the company. Another is the facilities that exist for entering and exiting markets; and then there are several different indicators for business settings. Another is the population’s actual level of social insurance, from coverage of basic needs to protection against social or natural risks. Another is the level of effectively free political participation.

141. Indicators that measure the internal efficiency of the institutional system are representation, institutionalization, programming capacity, and the discipline of political parties as organizations. Following these are the quality of the political party institutional system, including the electoral system and political party funding; the level of political pluralism and party discipline within the parliamentary system; the quality of relations between legislative and executive branches; the political coherence of the executive branch; the effective presidential powers of the political administration of the executive branch overall; the quality of the regulatory system; the level of meritocracy in civil service; the efficiency of the government in providing basic services; the degree of transparency and accountability of public administration; the quality of the decentralization system—in short, independence, impartiality, transparency, accountability, efficacy, economy, and efficiency in the administration of justice.

142. This set of indicators always involves a model that I can summarize as democracy, but with a social market economy and an effective social democratic state. From there on, no set of

institutions should be imposed; each country must find its own way to achieve internal and external efficiency of its institutional system.

### INEQUALITY AND INSTITUTIONAL CHANGE

143. My third point concerns how institutions change. Regardless of type, institutions always reflect the (more or less permanent) results of past distributive conflicts, which were resolved in a precise way at a specific moment. Moreover, strategic actors have acquainted themselves with their institutionalized problem-solving formulas and have committed to resolving their conflicts in the future according to these rules of the game and providing for enforcement mechanisms in the event of noncompliance. These mechanisms are effective only when actors have familiarized themselves with the rules of the game. If the rules of the game depend solely on enforcement, the rules of the game have obviously not been guaranteed. Therefore, sanctioning the members of the group to which institutional rules apply is just as important as the institutional sanction; hence the strong correlation between institutions and the political, economic, or civil culture. This is similar to Roman law, according to which the law is only enforced when, in addition to being guaranteed by the power of the state, the parties concerned are convinced that the law must be enforced because it guarantees the best collective course of action that society is capable of providing. This does not mean that the institution necessarily represents a social optimum. But it could also turn out that the actors as a group, at a specific point in history and in a specific country, will conclude that a true market economy cannot be institutionalized, and they may resolve the commitment issue in a way that allows them to invest imperfectly through institutional arrangements. By this, I mean through a buddy network among business and political groups, in which, through different procedures, the true regulatory rules of the system are produced. Later on, some of these rules translate into parliamentary or administrative provisions, while others live on in the informal realm. A system of this kind is capitalistic, but it is not a market economy.

*Institutional change always implies conflict, and for it to be positive, it always requires consensus as well. No society can exist without conflict, or mechanisms for producing or resolving conflict through consensus.*

**Joan Prats**

144. Institutions change, usually when relative prices and preferences change, and actors decide that they can profit by investing in institutional change, which is always costly. When the balance of the costs and benefits derived from investments in institutional change is profitable for an actor, this individual will decide to invest in institutional change. Or a group of citizens that until that time had not organized as actors will decide to bear the costs of organization or strengthening, and work through a certain actor. When a business sector believes that it has opportunities because of a change in institutional economic arrangements, it decides to strengthen the intermediate organization of its representation and management. When, for example, a social sector that has been excluded because of an incentive structure permitted by a democratization process, it manages to acquire its own resources to organize and act politically. If it thinks it has enough strength to do so, it will take action within the formal institutional system if the political institutions allow it, or it will take to the streets until it can prove strong enough to be included as a strategic player to be reckoned with after institutional change.

145. Not all institutional change is necessarily for the best. Juan de Mairena<sup>4</sup> said that there is nothing in the world, regardless of how poor of a state it is in, that cannot be made worse. Institutional arrangements or balances can go from bad to worse, or a country could destabilize or fragment. For example, in many Latin American countries, large groups of the public sector understand that the formal institutional system is very suboptimal, but since its balance is fixed, they cannot afford to organize themselves to alter the institutional balance, hence their tendency to pursue other channels. Illicit trade in all its forms, delinquency, and violence are phenomena we are all experiencing regionwide, precisely because the actors in the formal institutional system are not representative. Excluded sectors see no hope of organizing, either, or of participating in the formal institutional system, so obviously they seek out solutions by informal means. Sometimes it is not even a matter of political agitation for political change, but simply social erosion.

146. Institutional change always implies conflict, and for it to be positive, it always requires consensus as well. No society can exist without conflict, or mechanisms for producing or resolving conflict through consensus. We need institutions and the capacities of actors to recognize and process conflict through consensus that develop new institutional arrangements and represent better collective solutions. The political institutions that are needed are those that help process the conflict within established, formal, institutional frameworks and allow consensus to be reached.

147. What happens when we live in circumstances of strong inequity and social exclusion, and actors are organizationally weak, because many are but poor representatives of their constituents? Representational weaknesses translate, for example, into the need for businesspeople, unions, or social leaders to consult with their constituents beforehand to reach an agreement (some have even organized preliminary referendum mechanisms for this purpose). Furthermore, there is no guarantee that, by consulting with their constituents, the agreements established will actually achieve social legitimacy and be implemented.

148. Going from a conflict to consensus is extraordinarily difficult when the actors are weakened by internal factionalism or feeble representation, and when some of them articulate their interests in a very short-term fashion and are incapable of subsuming them into a national project or national development vision. In these situations of low institutional development and lack of actor capacity for processing conflict and building consensus, it is normal for acute social polarization or acute social erosion to occur. I estimate that close to 70 states could now be classified as failures, incapable of guaranteeing minimal governance to their societies, or at risk of getting into such a situation.

#### **POLITICS AS STRATEGIC LEADERSHIP FOR INSTITUTIONAL CHANGE**

149. How do we move forward when there are no institutions to guarantee adaptive efficiency? Here emerges a very important factor: the quality of politics and political leadership. Sometimes, as in Venezuela, we see severe polarization brought on by rather poor leaders. There is a tremendous difference between Venezuela's situation and the democratic transition in Spain. The current electoral map in Spain very closely represents the electoral map of the Republic,

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<sup>4</sup> One of the pseudonyms used by Spanish poet and writer Antonio Machado; see Antonio Machado (1936) *Juan de Mairena. Sentencias, donaires, apuntes y recuerdos de un profesor apócrifo*. (Editor's note).

with two blocs that fought against each other in a civil war. But both blocs have shared the understanding that Spain's future must lie within the institutional framework of the European continent, and hence they have been able to reach an accord that eventually emerged as the Constitution.

150. It is very important that accords be capable of creating truly constitutional governments. Norberto Bobbio tells us that politics always develops through conflict and that conflict will never be resolved once and for all. Sometimes we reach momentary agreement, truces, and he says that "most important of all are those longer-lasting peace treaties that we call constitutions." Democratic constitutions exist to protect political pluralism and to harmonize it with social cohesion and the sense of belonging of a common state. A truly constitutional government exists where constitutions also guarantee human rights and a democratic state.

151. Leaders require the capacity to manage conflict and consensus building, and this involves the need to safeguard spaces for dialogue at all times. The ability to engage in dialogue is a very difficult leadership skill. When participating in dialogue, I put my assumptions on hold so I can pay attention and listen to another person, which requires an enormous sense of security and forces me to learn. Insecure leaders are pseudo-leaders because they never put their assumptions on hold. When we come out of genuine dialogue we are still the same people, but we have been transformed. If this is not the case, no progress has been made. This means that a leader is not just a transmitter to his constituents, but somebody who queries them about their actual needs. Nobody has ever transformed a company by considering himself or herself representative of all the people that make it up, but rather by questioning those people and changing his or her perception about the true needs of the company and its employees.

152. The same thing happens in political parties: authentic leaders are not those who interpret the lowest common denominators, but instead are those who are capable of dialogue within their own party over what the real needs are. Using this as a starting point, they also establish dialogue with actors, and the political need and skill to invent and hopefully institutionalize, albeit informally, generate spaces for dialogue. In very fragmented and unequal societies lacking spaces for dialogue and leadership capacity, political parties will always tend to be non-programmatic, the sum total of the fragments representing private interests. Hence, they will not be the standard-bearers of a national project, nor will they be able to discipline the political fragments that make them up, or be able to build a shared (not meaning plural, but mutual and acknowledged by the actors) vision for development either. Furthermore, they will be unable to arrive at strategic decisions on building minimal consensus on the immediate needs for institutional and public policy changes.

153. In the societies with which I am most familiar—those in Europe and Latin America, the greatest obstacle to these processes is the enormous inequality in them. Poorly managed by the actors, inequality can generate irreconcilable polarization and a lack of spaces for dialogue. This can lead to a situation that can only be overcome by adhering to the rules set forth in the constitution. Inequality drastically diminishes the efficacy of the state authorities in making development decisions. To move forward in this situation, we must admit that we cannot achieve further social cohesion without simultaneously developing the markets and greater institutional capacity in strong states. The latter will make it possible to meet demands for a legal system, provide basic universal services, and guarantee national identity or a sense of

belonging—within a context that in many Latin American countries must respect multiple ethnicities.

154. Finally, all of this would be impossible without politics and political reform. There can be no development if the quality of politics is not improved. Development is impossible without politics, and it is impossible with the politics that we have now. The greatest challenge will be that of reforming political institutions, political organizations, and the framework of incentives for political behavior, and strengthening political leadership capacities. This task is not for politicians only; it must be dealt with as a joint responsibility of the actors who are truly committed to a long-term national vision for development. Don't forget about politics.

## COMMENTARIES

**Andrés Solimano**

*Regional Adviser, Economic Development Division, Economic Commission for Latin America and the Caribbean (ECLAC)*

155. François Bourguignon stated that a complementary relationship exists, or can at least be pursued between equity and growth. This involves, however, two implicit assumptions, as pointed out as well by José Luis Machinea. Reconciling economic growth with greater social equity assumes that reform requires an increase in national revenue, whereby the nature of the problem would instead be distributive, that is, “how can the winning group compensate the losing group?” First, this assumes that redistribution does not affect the incentive structure and that the growth of the pie does not depend on the redistribution made, since efficiency can be separated from distribution. Second, it assumes that political or economic institutions will allow the redistribution to be carried out. If, however, they are reliant on political power, and the winners take over these institutions or have the capacity to immobilize them, regardless of any potential gain for the national income and desire to redistribute assets from Group A to Group B, the political system or institutional structure could paralyze the initiative. This is extremely complex.

156. To Álvaro García’s remarks, I would add that political systems are often designed to redistribute frequently, considering the exception of Chile, where the binomial electoral system leaves little room for change in the system and greater redistribution of profits from growth or efficiency. Distribution can be reconciled with growth, but this implies two important assumptions: first, that efficiency and equity can be separated, which would first mean that the incentive structure, accumulation of wealth, or innovation will not be affected by redistribution, and second, that the political institutions will allow the possibility of implementing redistribution without destabilizing the entire system or killing the goose that lays the golden eggs, which helped to improve efficiency in the first place.

157. I agree with Joan Prats that institutions are very important. Some experiments have been conducted on the subject. For example, of two countries—North and South Korea—with the same languages and other fundamental characteristics but very different institutional structures, one has attained a very high per capita income and the other lives practically on the verge of famine or stagnation. Also, after World War II, one Germany managed very well and the other did not.

158. In Latin America, there is in fact a risk concerning stability and consensus. Nobody disagrees with the need for stability, but, as José Luis Machinea mentioned, stability is insufficient to achieve growth. The risk I see regarding consensus is that Latin America underwent very complex, dramatic periods without consensus and democracy. It would also be necessary to avoid the issue of corporate balance, wherein consensus is obtained on the level of corporate groups, which can lead to low economic dynamism, paralysis of the drive to reform, and unequal income distribution. The first phase of reforms in the region was an attempt to alter and create more dynamism in systems that were facing crisis or had become paralyzed. As a result, the first reforms had rather unimpressive results in many areas. After ten years of this reform campaign, we may be arriving at another balance: a balance of political institutions that



paralyzes change, and a high rate of income redistribution with low economic growth. I would like to draw attention to this risk.

**Luiz de Mello**

*Senior Economist, Country Studies Branch, Economics Department, Organization for Economic Cooperation and Development (OECD)*

159. My question is relevant to both presentations, but more directly related to social insurance. How can one deal with each country's initial conditions, and assure that in societies where social insurance is most urgently needed, the services required will be provided? It seems that societies with greater inequality are less willing to carry our redistribution efforts, either due to market failure, institutional weakness, or simply a higher tolerance for inequality. Meanwhile, these countries are also more vulnerable to socio-political crises, which in turn creates a greater need for social insurance. In this scenario, what can be done to foster the implementation of appropriate social insurance policies?

**Oh-Soek Hyun**

*President, Trade Research Institute, Korea International Trade Association*

160. It is well known that Korea adopted a government-driven economic strategy, placing greater emphasis on growth than on equity. One must understand, however, that during the 1960s, 1970s, and 1980s, there was considerable national consensus regarding this economy-first principle. As a result of this principle, social insurance was significantly reduced. Such a choice was possible for two reasons. First, because social actors agreed that scarce resources should be used to stimulate economic growth, and second because of the belief in Korea that the government should bear only a small burden of responsibility for social protection. Traditionally in Korea, the economically needy have depended directly on the social group to which they belong; while from a Western point of view, it would have been appropriate for the government or society as a whole to bear the costs of welfare, in Korea—and Asia in general—the private sector covers a greater proportion of these expenses. As a result, while low priority was given to social welfare, social conflict was also minimal, in the most part because economic growth led to the creation of new jobs. Those who lost their jobs in shrinking industries had little difficulty finding new posts in newly emerging ones, and industrial restructuring was possible with minimal conflict.

161. While the design and implementation of institutional reforms normally requires time for adequate consultation and negotiation among the parties concerned, in Korea—where national consensus was broad, and the government faced the urgent need to provide quick solutions to imminent problems—the state took on the role of primary instigator of the process of institutional reform. What requires greater time and attention in Korea now is the process of consolidation of the new measures, the adaptation of various actors to the newly introduced institutional norms, and the identification of problems in reform implementation. Similarly, if the new institutions are to take firm root in Korean society, economic players must embrace a mature mindset and attitude, which will allow them to respond adequately to a changing environment. Finally, social constituents must have a true understanding of the structural changes Korean society is experiencing in both social and economic terms, in order to understand, assimilate, and accept the reforms required for the future.

**Raj Makoond***Director, Joint Economic Council, Mauritius*

162. François Bourguignon discussed trigger mechanisms for change, concluding that we should not wait for crisis to produce change. My question is the following. In what conditions does a crisis stimulate a certain level of development? There are a number of countries currently in crisis in Africa, for example, and nevertheless the changes required are not produced. Perhaps only at a certain level of development can crisis bring about the necessary changes. If this is the case, it would be interesting to look at countries below this minimum level of development that are currently in crisis, and explore mechanisms by which in such circumstances change can nevertheless be triggered.

**Mary Doyle***Assistant Secretary General, Prime Minister's Department, Ireland*

163. In Ireland, our experience is that in a modern society there are multiple stakeholders, each of whom has a legitimate role to play and contribution to make. If we focus on the interaction between political and social actors, there is no doubt that government has played a central role in mediating change and leading the way forward, and this issue has emerged on a number of occasions during the debate. In Ireland, however, the government is required to share power with its social partners in a new and different way, managing existing complexities, and perhaps more importantly, attempting to manage future complexities, and providing a scenario in which innovation and experimentation can take place safely.

164. As regards fostering the capacity of actors to engage in such a process, a major starting point for us has been to share basic information among a wide range of social partners. In our experience, the adoption of a problem-solving approach to social dialogue has been central, and one of the keys to success has been to identify and focus on a limited number of key issues, rather than trying to solve all of our problems simultaneously. We have learned to keep the process as simple as possible and build on success, because success undoubtedly breeds success. It builds confidence and has a major impact on the behavior of the actors involved, who will support an initiative that is ultimately beneficial to them.

165. I believe that the process of building an institutional edifice that is tailored to each country's particular circumstances requires us to focus on delivering wins, making a larger pie, and dealing with the associated distribution issues. With this as a starting point, we can find the key that opens the door to dialogue.

**Datuk Mustafa Mansur***President, Federation of Malaysian Manufacturers, Malaysia*

166. Malaysia is a multi-racial country, and the basis of its political stability is the distribution of power among all races, a process that transcends political parties. The country is fortunate to have a strong government, and its ruling party has experienced a process of consolidation since Malaysia's independence 47 years ago. Since that important event, the same political party has remained in power, and its policies and reforms have been implemented smoothly.

167. I believe that in countries such as Malaysia, socioeconomic issues are of utmost importance. We have racial issues to deal with, as well as important differences in development between rural and urban areas, and I am convinced that social insurance must be conceived of in terms of the future needs of each community, with the view of preserving social harmony among races and ethnic groups.

**François Bourguignon**

*Vice President and Chief Economist, World Bank*

168. In response to Andrés Solimano's comment regarding the difficulties faced in distribution and the lack of adequate instruments, I would like to complement what I said in my presentation, concerning redistribution as a way of preventing conflict between losers and gainers from any particular reform. The redistribution system I had in mind is one that predates the reform itself. It provides institutions through which any kind of financial income produced within an economy can be taxed, and the tax receipts put to use within the public sector. If we simply try to identify mechanisms by which to compensate those who will lose as a result of a particular reform, distribution will become an extremely difficult task, and we will generate nothing but disincentives. What we will be doing is killing our goose and therefore halting the production of eggs. Redistribution should therefore be considered in institutional terms, and not as one simple operation.

169. To pick up on Mary Doyle's comment about information, institutional reform can be viewed within the same framework as the one I used for single policy reform. Institutional change, however, can be considered as a meta-reform, which enables any number of reforms to be dealt with in the future. In the institutional reform process, it is absolutely essential that all of the actors involved are kept continuously informed about the state of affairs. Unfortunately this rarely happens. Information is not always transparent, the analyses required are not necessarily performed, and when they are, the results are not adequately disseminated. In this sense the World Bank, which cannot become actively involved in the political process, strives to provide the information needed by those involved in the debate, with the conviction that information is a fundamental part of the reform process.

170. On the subject of crisis and reform, while I said that reform often follows a crisis period, this does not mean that all crises will generate reform. What is required is not only a crisis but also an awareness of the need for reform. An in-depth process of analysis, as I mentioned earlier, is essential if the appropriate decisions are to be made. My point is that while crisis can offer an opportunity to implement reform, such decisions must be taken with great care, and I fully agree that too many crises may well weaken a country's capacity for reform.

**Joan Prats i Catala**

*Executive Director, International Institute for Governance, Catalonia*

171. I believe that squaring the circle is impossible. We say that growth with equity can be achieved in a globalized world by decreasing inequality and improving social cohesion. But this will not work if, in the end, all we are saying is that the state must strengthen its redistributive capacity. The cost of universally provided services, even minimal ones, cannot be borne with only a tight tax base of businesses that have no capacity to expand. (This is due to national

economic structures in which high proportions of businesses are outside the formal sector and remain outside the tax net.)

172. To achieve broader development requires broadening the tax base by creating a more productive middle class, which stimulates the formal economy, discourages crime, and generates medium to high quality employment. I would like to draw attention to the economic, social, and political milieu for the development of thousands of small and medium-sized businesses. The small business sector is a revolution waiting to happen in Latin America. Formal businesspeople do not constitute national bourgeoisies in the region. They are not supports of national change, but rather of projects for interest groups. This is because they really cannot pay the cost of taking on projects for the entire population.

173. Breaking away from the internationalized enclave economy, which has prevailed since the colonial era and is one of the historic foundations for inequality in the region, requires state capacity to conduct active policies such as expanding and promoting developing markets. This is much more complex than just applying policies to simplify administration and to formalize titles to property. Not included in the development programs is the difficult issue of security for universal property rights, real access to assets (credit and land), the creation of productive capacities, and obtaining market information. If we do not deal with these issues, we will find it difficult to grow with equity.

174. I will touch on one issue presented by Mary Doyle: the approach of social dialogue on key issues—not national visions, but issues that must be resolved now, because if we do not, opportunities will slip away from us. Strategic vision consists of knowing what cannot be left undone today (because if it is, the future will be lost), not in knowing everything that remains to be done and will consume the time of many governments. Consensus must be sought on these issues, and not on the lowest common denominators. Moreover, it is through this process of conflict and consensus building on key issues that a long-term national vision truly begins to emerge. This process of social learning is illustrated, for example, by the natural gas issue in Bolivia, which has significance for the management of conflicts, consensus building, and a problem-oriented learning process. New institutional arrangements are being produced, along with formulas for dialogue among actors, including transnational actors, and new visions about what that country can be and must be, given that the actors have very dissimilar mental maps.

175. Institutional reform comes about by lending support to actors involved in processes of conflict and consensus building. Consequently, it has more to do with process-related consultancy than with a set of prescriptions for institutional solutions imported from abroad. After 40 years of experience in international cooperation toward development, we must devote time to our own lessons learned.

### **Álvaro García**

*Former Minister of the Economy and Minister Secretary-General of the Presidency, Chile*

176. François Bourguignon argued that the long-term process has been hindered by distribution-related factors; whoever ends up with “A” or “B” is what hinders the forward movement of the process. This issue is more complex if you consider that actors do not value “A” and “B” in the same way. Joan Prats provides us with a very clear response to this concern: by providing spaces for genuine dialogue, institutions are what could facilitate resolution of this

distribution-related conflict. The dilemma lies in how to create the institutions, and I agree with him that no single, valid answer exists for all countries.

177. I would also like to underscore several conclusions that subsequently emerged. First, if the problem is a difference between social and private profitability, as stated by Bourguignon, the answer is clearly social. The state plays a role; it will not spring forth independently from actors, and it must take on the task of building these institutions and resolving this difference between social and private profitability.

178. Mary Doyle made very important contributions by asking what the state can do. A clear response, also stressed by Bourguignon, is information. Something that has been especially lacking in countries throughout the region is information about distribution. Currently, all Latin America is aware of the gross domestic product and the consumer price index, but nobody (least of all society) knows who benefits from each structural reform. Therefore, it is essential that information be generated to facilitate dialogue. I consider it necessary to create spaces for dialogue, as suggested by Joan Prats, and we must be aware of the limitations of the spaces that exist to face this challenge, that is, governments and parliaments, where our societies have traditionally given their responses. They must be created for a very practical reason: these types of reforms are very different both politically and socially. Governments end after four or six years, and parliaments change after four or eight years; by contrast, reforms and the distribution-related conflict can take decades.

179. Since the incentives created by governments and reforms are not always well balanced, it is necessary for there to be a third actor, social partners, as pointed out by Mary Doyle, who lend greater stability to the process. Once again, there is a role for the state in empowering these actors, transferring to them a little of the power that societies have given it, so that they may effectively participate in dialogue and get results.

180. I will illustrate the importance of empowerment with the example of small and medium-sized business. The most significant economic actor in terms of social impact is small and medium-sized business, which accounts for between 40 and 70 percent of all employed people in almost all of the countries in the world, and certainly in Latin America. Nevertheless, this sector has almost no voice whatsoever in our countries. Even in countries where official authorities exist for social dialogue, leaders of large business are present. The issues pertaining to small business are discussed in academic circles and international organizations, but not among social dialogue authorities. The state has a hand in the creation and transfer of power to this sector, which, moreover, is a necessary condition for resolving the distribution-related conflict currently bogging the region down. This certainly also applies to other social actors that will not become empowered on their own.

**José Luis Machinea**

*Executive Secretary, ECLAC*

181. With regard to the references by Joan Prats to the long term being built with the short term, I believe it is easier to accomplish this in stable countries than in unstable. Latin America's problem is that the short term is built by means of political, social, and economic crises—which is incompatible with a long-term project. In stable circumstances, the long term would be built with the short term. The problem is that the series of crises make the short term not necessarily

compatible with the long term, and therein the need arises for a country concept. The Bolivian natural gas example is apt: if there were a social and political crisis, the response could be a short-term one, “let’s go ahead and nationalize natural gas.” That this was not done suggests the existence of a long-term vision. But sometimes the short-term considerations outweigh the long-term vision. Making this tradeoff does not require a broad consensus, but it should at least have the backing of a group of individuals in power.

182. The long and short terms are reconcilable in Finland, as Jyrki Kasvi stated, and it is necessary to accomplish this here in Latin America. Nevertheless, we agree that, in a world where technology favors skilled labor, it is easier to achieve this reconciliation with the Finnish labor unions than with those of countries that base their integration into the world economy on cheap labor. Strategies to add value and knowledge are required because, otherwise, we will forever face this same problem.

183. Many long-term reforms were made because they produced advantages over the short term; but others that were just as important were not made because they did not produce short-term advantages, did not attract markets, and were not called for by international organizations. Not only would these reforms have failed to bring in a return, they would have cost money to implement, as in the case of many reforms in education and health. The pressure of the short term drives reformers to resolve these problems rather than long-term problems, whose solutions require resources and complicate budgets.

184. I spoke about three speeds in the region, related to inclusion, modernization, and deepening, and the need for a strategy that takes this heterogeneity in Latin America into account. Without such a strategy we again run into the problem of making political and economic agreements only with big business. It tends to be assumed that policy is made to cater to big business, not to small and medium-sized businesses, which I maintain need modernization, access, and inclusion. These smaller businesses never have voice, policy, or economic influence. Consequently, every project should be based on knowledge of this vast heterogeneity, whereby policies and political conditions must be generated in terms of these three speeds, those who have no voice must be given one, and be empowered to demand the needed policies.



PART 2

NATIONAL EXPERIENCES



## 5. INSTITUTIONAL ARRANGEMENTS TO IMPLEMENT A COUNTRY'S VISION

**What kinds of institutions have been established to promote convergence of a country vision and resultant government programs?**

### **BRAZIL**

#### **Jaques Wagner**

*Minister of the Secretariat of the Council for Economic and Social Development, Brazil*

185. In a newspaper article about this Forum, a very important Brazilian writer, Luis Fernando Verissimo, tells us a story about a time when Egypt was invaded by Israel, and how some of the Egyptian military sought the advice of the Russians on how to fight the battle. The Russians told them: "look, allow them to enter your country and when they are just outside your capital city, we'll resolve the situation then." As the Israelis were going into Egypt, and each day they drew increasingly closer to Cairo, it was no longer just a hypothetical issue; the Egyptians again asked the Russian advisors what to do, and once more they said: "allow them to enter and we'll resolve the situation then." Eventually, when the Israelis were near Cairo, the Egyptians sought advice one last time and the Russians said: "allow them to come in and when the snows come, they'll be destroyed." Of course, it never snows in Cairo and the Russians' advice was of no use to the Egyptians.

186. This might begin to illustrate that when we talk about social dialogue and a country's vision of the future, even with the globalization we are currently undergoing, we must consider the individual characteristics of each country, because even with the wonderful little models that we import, things will not function exactly as they do in other countries. In Brazil, President Lula believes in social dialogue, as does our government and that it is possible to get the country moving with the involvement of both the government and civil society. When talking about social dialogue today in Brazil, we must consider that this process has been obstructed over the last 15 years, because there is a topic that nobody wants to discuss. That is, "How can we achieve balance and build a virtuous cycle between the macroeconomic adjustments (which we all agree are necessary) and growth with social inclusion or development?"

187. In Brazil, we have two types of spaces for social dialogue. One has been earned by organized civil society, such as the Health Council, Education Councils, the Transportation Council, for example. These councils reach out from the municipalities to the national council, and their job is to accompany public policies in each of these sectors, such as the areas of health and education. The people are involved because the councils have earned legitimacy through their own development process.

188. The other space for social dialogue is the Council for Economic and Social Development, spearheaded by the President of Brazil. It was formed 19 months ago, and its existence is unprecedented in Brazil. The Council comprises 90 individuals from civil society, including business people, union leaders, religious organizations, and cultural and academic non-governmental organizations. These 90 individuals plus 12 state ministers occupy seats on the Council, which was created by presidential decision and decree. Participating members were

invited by the President of Brazil, who by presidential decree appointed them to two-year terms on the Council.

189. I agree with Álvaro García regarding the need for greater independence from the government so that a Council of this type can become more efficient. We are preparing organizational changes in the Council that we will submit to the President of Brazil, according to which an allocation from the federal budget would fund this institution. The Council would be made up of three different parts, as is the European Economic and Social Committee, with businessmen, workers, and other sectors, including liberal professionals and non-governmental organizations in a third sector. Not all of the members would be invited to participate by the President, but a shortlist of three candidates would be submitted to the President, from which he could choose, and therefore each member of the Council would more solidly represent their respective segments. Social dialogue must acknowledge differences and pursue negotiations, possible agreements, and consensuses, and to accomplish this, it is more appropriate for a balance to exist between the various segments of society.

190. Since February, the Council has been focusing on building a national agenda for development, along with a project that is also being organized by the government, known as Brazil in Three Periods. This consists of a vision of the country up to 2022. The first portion of this vision of the future ends in 2007, when the (first, I hope) term of office of the administration of President Lula runs out; the second will end in 2015, the year designated in the UN's goals for the Millennium, and finally ending in 2022, when Brazil will celebrate its 200 years of independence. The year 2022 was chosen because of the historical milestone of the bicentennial celebration of the country's independence and because it also marks the 100-year anniversary of the Modern Art Week of 1922, a cultural movement in the country that is very meaningful for Brazilians.

191. We are working on what has been termed a difficult task at this meeting, namely the combination of the vision of the future and pressing challenges. The precise rallying point is the Council, which is involved in organizing the Brazil in Three Phases project and the national agenda for development. The Council serves to position society on this vision of the future, to a degree.

192. Fifteen years ago, macroeconomic adjustments were instituted as absolute, sacred dogma. Though we in Brazil have shouldered a great deal of fiscal responsibility in the municipal governments, we do not believe in macroeconomic adjustment as dogma. In Brazil, we are going through a period in which macroeconomic adjustment is achieving tremendously positive results, but we are still not in a position to celebrate a development process that looks after the prevailing needs and social inequalities that currently exist in our country.

*We must have the audacity, not to do away with the adjustments or with fiscal responsibility, but rather to conduct mediation.... This mediation is essential, because we need development and this is synonymous with the creation of jobs, or remunerated work.*

**Jaques Wagner**

193. We must have the audacity, not to do away with macroeconomic adjustments or with fiscal responsibility, but rather to conduct mediation. In Brazil we have a very limited budget at this time because of interest payments on the debt, due to the primary surplus required to maintain the country's stability. At the same time, however, the businesses and banks that conduct risk analyses on the country continue to rank Brazil as a high-risk country. Brazil faces the historic problem of having an effective interest rate that is at least six times higher than the mean interest rate of 40 major countries, including some in the developing world and others in the developed world.

194. This mediation is essential, because we need development and this is synonymous with the creation of jobs, or remunerated work. Before I became a Minister in the Council, I was Minister of Labor and, at that time, I would constantly tell President Lula, and the work team at the Labor Ministry, that the best social policy is the generation of jobs, work, and income. Even though the PROGRESA program in Mexico and the *Bolsa Família* program in Brazil are efficient and well designed, I do not believe that a country will achieve development by means of an income transfer program. The citizens and the people will develop by being included in the production process. Poverty is not synonymous with violence and marginalization, but exclusion is. *Bolsa Família* and PROGRESA do not put an end to exclusion, because people do not just want money in their pockets, they also want to feel part of the society. Income transfer programs are monetary compensation for exclusion, and they neither include people nor put an end to marginalization and violence.

195. It is necessary to have the dialogue and have a vision of the future, and this is difficult. We must balance the need for a vision of the future with the day to day activities. I do not see a contradiction between the two, but must not lose sight of the intended goal.

196. Our sense of the economy or finances as an instrument for carrying out society's decisions has been subverted. Today, indeed, we observe that society must adapt to the dictates of the world of finance or the economy. This discussion is currently taking place in Brazil. It is difficult to debate the future because people prefer to deal with the present, and in a society such as Brazil's, with high unemployment and social problems, the exigencies of immediate decisions hinder longer-term thinking. It is necessary to combine these two concerns.

197. Development depends on investments. If a country has a very restricted budget because of its efforts to maintain macroeconomic balance, we go around in circles looking for a way to break free from this situation. Experience has shown that after a few years of growth a setback is suffered, and that even during the years of growth there is no process of redistribution of income among the social strata. This phenomenon is not just peculiar to Brazil: income concentration builds up in all societies.

198. Even within the Council, there are inquiries because people want this entity to discuss what will take place tomorrow. The difficulty lies in combining the construction of the present with the medium and long-term vision that must be built.

## EL SALVADOR

### Juan José Daboub

*Former Minister of the Treasury*

199. In 1989, when El Salvador was still engaged in armed conflict, a set of ideas was put together to create what we then called “2021 Vision,” since the country will be celebrating its bicentennial year of independence in 2021, and in it we were resolving to emulate Spain as it was then. With this objective in mind, we drew philosophical, structural, quantitative, administrative, and public policy guidelines. We have been able to preserve this guiding thread for the national vision built in that era because we have had four consecutive administrations sharing the same line of thought, allowing El Salvador to move forward with some degree of success, while acknowledging that many challenges are still pending.

200. Unlike Chile, for example, whose model and system we observe with a great deal of respect, we have had to generate several reforms and carry out structural reforms within a democracy, which is more difficult than doing so in an authoritarian state. Doing this has entailed the capacity to explain things, convince, and persuade people about results and the road that we have chosen.

201. Even though we still have a long way to go, we have gleaned the fundamental teaching that the economic and social dimensions are two sides of the same coin. We are aware that a state without macroeconomic stability lacks the resources to carry out its role as subsidizer. This is why, moving on to the subject of private sector participation, we have chosen to trim down the state significantly, cutting it by 25 percent, and by 12 percent over the last five-year period alone. Doing so has generated enough resources to allow us to exchange soldiers for teachers, or guerilla fighters for politicians, who instead of roaming the mountains are now participating in the Legislative Assembly. This has made it possible to allocate more resources to areas where the state plays an important role, such as security, foreign affairs, health, and education. Meanwhile, in everything else, efforts have been made to maximize private sector participation, based on the fundamental principle of maximizing competition and minimizing regulation.

202. We chose not to create more bureaucracy, which would have hindered optimal market performance, but rather to create just the bare minimum and, of course, put it under strict surveillance to make sure that it would work. In electric power, telecommunications, and pensions, we are relying on the private sector, and a port and a road will soon be contracted out to the private sector.

*We have gleaned the fundamental teaching that the economic and social dimensions are two sides of the same coin.*

**Juan Jose Daboub**

203. The advantage of this approach has been that, over the last five years, we have doubled public investment in health and education, tackled the cost of the old pension system, and all that while keeping our country’s sovereign risk rating comparable to those of Chile and Mexico. These are the only Latin American countries with a high level of investment, maintaining an overall level of indebtedness (internal and external debt combined) below 40 percent of the

GDP and with very positive social and economic indicators. Extreme poverty, according to the United Nations Development Program (UNDP), has fallen by 22 percent over the last eight years, while poverty has fallen by close to 40 percent over the last ten years. Unemployment went from 12 percent to 6.2 percent and average annual inflation has remained between 2 and 2.5 percent over the last ten years. We reinforced all of this with the 2001 dollarization, which snatched away from politicians the possibility of meddling with the exchange rate.

204. This structural vision took effect following the 1992 Peace Agreements, and it has remained on a course that is yielding good results. We are well positioned, right on the starting line, to take advantage of our expected economic recovery, and to go the distance that still lies ahead to achieve levels of development comparable to those of Costa Rica or Chile.

205. I will conclude by pointing out that this has required renewing our energy, especially over the last five years. With a very good vision in this period, the National Development Commission lent support to efforts being made. In fact, ours was extremely compatible with the vision put together in a think tank and eventually turned into government programs and state policies, as a result of which the participation of the National Development Commission was facilitated.

### **Francisco de Sola**

*Member of the National Development Commission, El Salvador*

206. The institutional arrangements of El Salvador's National Development Commission are quite rich. A very intense civil war took place in El Salvador and, even though peace accords were signed in 1992, no social cohesion or unified vision really existed, because many passions were raging and there was severe political division. The Armando Calderón Sol administration<sup>5</sup> created this Commission by appointing independent apolitical members that were not necessarily members of any political party or cause: one is a university rector, I am a businessman, another is a political scientist, and yet another is an economist.

*Even though El Salvador is small territorially, a rather complex program has been built with an international vision.*

**Francisco de Sola**

207. This presidential commission was instituted in a rather magical fashion, as we say in Latin America: even though it hadn't been allocated a budget, was not part of any ministry, and lacked the statutory legitimacy of a legislative decree, we were told to "get going on it." The magic worked because the Commission embarked on a program to get right down to the nitty-gritty, to the philosophy of what type of country El Salvadorans wanted. This led to a rather all-inclusive process of participation, building from the bottom up a blueprint of wishes, vocations, and projects to identify the population with their country, region, municipality and even their own department. Even though El Salvador is territorially small, a rather complex program has been built, with an international vision, and a very proactive network of consensus has been achieved.

<sup>5</sup> President of El Salvador from 1994 to 1999.

208. Seven years after we began, we are at a very special, complex juncture. The process described by Juan José Daboub, which has a strong positive momentum, has won immense credibility and has designed a very competent, sensible program of social, economic, and infrastructural investment. But though it enjoys credibility, it lacks the institutional capacity required to deliver. If it fails to deliver soon to all of the people excited about this vision (which should materialize not in 2020 or 2015, but much sooner) the effort put into it will have been wasted. Furthermore, our state has many priorities and cannot cover them all. It needs to incorporate and prioritize many of these ideas so that it can deliver on them.

## **IRELAND**

### **Mary Doyle**

*Assistant Secretary General, Prime Minister's Department, Ireland*

209. Ireland's performance as one of the fastest growing economies of the Organization for Economic Cooperation and Development (OECD) since the 1990s is an interesting and complex story that goes back many years. The country began to open up its economy in the 1960s, a process that was strengthened by its accession to the European Union in 1973. The increasing pace of global change since that time has been a challenge to policymakers around the world and, in particular, those of small, open economies such as Ireland's, where the scale of change has indeed been very great. In Ireland, the challenge was met in part by the implementation of significant institutional arrangements, supporting a consistent policy framework which underpins long-term economic and social progress.

210. The answer to the question "what types of institutions have been established to promote convergence between Ireland's vision and its government programs?" is rooted in the process of social partnership in place in the country since 1987. The specific genesis of the current Irish model of Partnership and Social Dialogue can be traced back to the critical economic situation in which Ireland found itself in the 1980s. At that time, Ireland was far from being a Celtic tiger, resembling more closely a Celtic kitten. The country was in crisis: unemployment had reached 17 percent by 1987; employment in manufacturing registered a drop of 25 percent between 1980 and 1987; and inflation ran at an average of 12 percent during the ten years prior to 1987. Real take home pay decreased by more than 7 percent between 1980 and 1987 and emigration was at its highest level since the 1950s.

211. This sense of national crisis prompted a concerted search for ways to escape the vicious circle of stagnation, rising taxes and spiraling debt, and the search began at the National Economic and Social Council (NESC). Established in 1973, the Council brought together representatives of business, trade unions, farmers, government departments, and independent actors to advise government on economic and social policy issues. It is, indeed well acknowledged that in 1986 and 1987 this institution played a fundamental role in the country's recovery, thanks to its capacity and credibility in the area of strategic analysis and its prestige in policy advice.

212. It was a strategic report from the Council in 1986 that prompted the first social partnership program: the Program for National Recovery. The NESC document established a vision of a successful Irish society characterized by a dynamic economy, a participatory society, a commitment to social justice, and consistent socially sustainable economic development, which

responded directly to the constantly evolving requirements of international competitiveness—a necessary condition for continued economic and social justice.

213. This vision was accepted by a wide range of stakeholders, as was the premise that achieving it required a convergence between the NESC proposal and government programs and expenditure. The NESC's central message was that Ireland needed a strategy by which to balance the interlocking elements of its economy and the behavior of economic agents. It argued that in order to be successful, a small open European economy such as Ireland's would need a consistent policy framework that contained the following main elements:

- a macroeconomic policy approach that guarantees low inflation and steady growth of aggregate demand;
- an evolution of income that ensures a steady increase in competitiveness and that handles distributional conflict without disrupting the functioning of the economy, and
- complementary policies that facilitate and promote structural change capable of maintaining competitiveness in a constantly evolving external environment.

214. Ireland has met the first of these requirements with its adherence to the European Exchange Rate Mechanism (ERM) and its eventual transition to the European Monetary Union (EMU). The second requirement has been met by a negotiated determination of incomes, encompassing pay and taxation, public finances, exchange rate and monetary policy, the main areas of public provision and social welfare. The third has been met through major programs of structural reform in taxation, social welfare, housing, industrial policy, manpower policy, and the management of public enterprises.

215. None of these achievements occurred by accident or coincidence. They were the result of a process of analysis, planning, and preparation that began in 1987, and for which Ireland has invested heavily in a range of institutions. At the center of the process are the three sister organizations of the National Economic and Social Development Office (NESDO): the National Economic and Social Council (NESC), the National Economic and Social Forum (NESF), and the National Center for Partnership and Performance (NCPP).

216. NESC was established by the government in 1973 to provide advice on economic development and social justice, replacing the National Industrial and Economic Council, which had existed since the 1960s. NESC members are representatives of the Irish Congress of Trade Unions (ICTU), the Business Employers' Confederation (IBEC), a range of agricultural organizations and, more recently, the community and voluntary sector, and have also included the secretaries general of five key government departments. The Council has normally been chaired by the Secretary General of the Department of the *Taoiseach* (the Irish Prime Minister) and advises the government through that department. It is also supported by a small secretariat of economists and social policy analysts.

217. NESC prepares and publishes reports on a number of economic and social policy issues, based on drafts from its secretariat or independent consultants. Since 1974, it has prepared more

than 100 reports, and these studies provide the Irish government with a concerted view of social partners and senior civil servants. The Council works by deliberation and consensus, rather than votes, and it is rare for reports to contain minority opinions or reservations. It establishes its own agenda and strives to ensure that its work is relevant to public policy concerns.

218. Since 1987, the negotiation of each of the six social partnership agreements has been preceded by a NESC Strategy report. The Council takes approximately one year to discuss economic and social performance and identify the key issues and parameters that will be included in each program.

219. In 1993, the government established a new partnership body, the National Economic and Social Forum (NESF). NESF membership encompassed traditional social partners and representatives of the community and voluntary sector, as well as members of the main political parties in the *Oireachtas* (Irish Parliament). Its primary role has been to develop social policy initiatives with which to combat unemployment, and to contribute to a national consensus on social and equality issues. Since its creation, the Forum has published a number of key reports and opinions, of which the 1994 report *Ending Long-term Unemployment* was of particular importance, playing a significant role in the development of active labor policy. It is widely seen as having prompted the development of the Local Employment Service, which actively seeks to assist the transition from welfare to work.

220. In late 1996, during the negotiations that led to the fourth National Accord, the government, trade unions, and employers all recognized the strategic importance of translating national level partnership to the enterprise level, particularly considering the need for ongoing change and innovation. The National Center for Partnership (NCP) was created to facilitate such development, establishing partnerships at the enterprise level and providing encouragement, training, information and support to employers and employees. Over the years, the role of the NCP has been enhanced and the institution is now called the National Center for Partnership and Performance (NCPPI), located within the National Economic & Social Development Office along with NESC and NESF. The word performance was deliberately added to the center's name. The National Center for Partnership and Performance is not only promoting partnership for its own sake but is actively supporting and facilitating organizational change and improved performance through partnership, consensus building and dissemination, monitoring, research and analysis, and training and facilitation. The Irish government recently requested the NCPPI to establish a *Forum on the Workplace of the Future* with a view to developing a strategic guide to the complementary set of competences and skills required by the Irish workforce of the future.

221. The establishment of the Social Partnership Agreement in 1987 was accompanied by the creation of a new central mechanism comprised of social partners and key government departments. In addition to monitoring the implementation of the agreement, the mechanism provided ongoing contact between government and its social partners, which facilitated the resolution of unforeseen crises.

222. The current National Accord, *Sustaining Progress*, which was ratified in early 2003, established an additional mechanism, the Steering Group, with members representing government and four key social partners. The group is responsible for overseeing the implementation of the Agreement, and reviews, monitors and reports on progress made. Its role is also to identify, prioritize and timescale those issues that require further study or examination



within the institutional arrangements established in the Agreement, and the Group has recently submitted a formal report on the advances of the *Sustaining Progress* Agreement to date.

223. The National Implementation Body (NIB) created in December 2000, seeks to facilitate full adherence to the industrial relations terms of the agreement in effect. In the case of disputes, it does this by encouraging the parties involved to use the mechanisms for industrial relations provided by the state, while in no way seeking to duplicate or substitute for the relevant institutions. On occasion, however, it constitutes a useful forum in which obstacles to participation in such procedures can be discussed and ultimately removed.

224. In addition to its role in industrial disputes, the NIB also seeks to monitor evolving trends in industrial relations, and issues with a bearing on the effectiveness of social partnerships at both the national and enterprise levels. The informal discussions it organizes provide an opportunity for the actors involved to exchange opinions and reach understandings, thus facilitating early engagement in potential problem areas.

225. The institutional arrangements established at a national level reflect the fact that in order for the reforms required to be successful, the active consent and participation of a wide range of stakeholders is needed. Such participation in turn requires institutional development at the local level, at which the government, social partners, and communities have developed expertise in dialogue and negotiation.

226. In this context, significant progress has been made in the reform of national public services and the local authority system, as well as the development of area-based responses and partnerships, particularly in the more disadvantaged areas, to deal with emerging issues of social inclusion, health, infrastructural development and regulatory reform.

227. The conciliation of Ireland's economic and social policy is a fundamental element of the country's success. In 1987, for example, consensus was reached among social partners and political parties on the requirements for successful participation in the European economy. Similarly, a significant degree of consensus was reached on public finance, while wage coordination was achieved through centralized bargaining, which relied heavily on a cohesive trade union movement and coherent strategy. Complementary to this, Ireland had a set of supply-side characteristics that ensured international competitiveness and encouraged fast economic growth. These included a young, well-educated, English-speaking workforce, growing infrastructure, an inflow of leading international enterprises and deregulation of the service sectors.

*Perhaps the real value of the various institutions is their ability to provide a safe space in which the various economic and social policy actors can engage in analysis and deliberation, while remaining focused on the larger picture and the longer-term strategic interests of Irish society.*

**Mary Doyle**

228. In conclusion, the performance of Irish economic and social policy since 1987 reflects some of the core elements of the Irish model of economic and social governance. The first is the firm belief that wide participation in social life, economic activity and policymaking is a basic

requirement for the well being of Irish society. This is combined with an acceptance of Ireland's participation in the international economy and the European Union, which in turn implies that the competitiveness of the Irish economy is a precondition for the pursuit of all other economic and social goals.

229. The third core element of the Irish model is the fact that the achievement of a consistent approach to macroeconomic policy, incomes, and structural adjustment has been strongly associated with negotiated social partnership agreements. These have aligned the social partners to consistent and competitive actions and provide an institutional framework within which the government can adopt a strategic perspective on important policy issues.

230. But perhaps the real value of the various institutions is their ability to provide a safe space in which the various economic and social policy actors can engage in analysis and deliberation, while remaining focused on the larger picture and the longer-term strategic interests of Irish society. Separating this process from the actual social partnership regular income negotiations has helped to provide a coherent context and continuously evolving framework for such negotiations.

231. Finally, it is the quality of the working relationships, built upon trust and confidence, which makes the dialogue process work. In Ireland, we have long been aware that a robust institutional structure to support the process is essential, and that significant resources of time and expertise must be invested in its consolidation.

## **PERU**

### **Rafael Roncagliolo**

*Technical Secretary, National Accord*

232. I will try to make my reflections from the business people's standpoint. Peru's National Accord came into being due to the crisis of transition to break away from the authoritarianism that marked the decade-long administration of Alberto Fujimori. To negotiate the transition, harmonization processes took place initially among the opposition and then at the Dialogue Table of the Organization of American States (OAS). Gradually a sort of collective commitment emerged that it was crucial to create a long-term harmonization to lend stability to some state policies. There was much talk about re-founding the republic, but not in the sense of each government wanting to start everything all over again. Re-founding actually meant setting certain commonly shared courses, and that Peruvian politics would no longer be a parenthesis between military governments, and also that politics would no longer follow the military analogy according to which all opposition is considered the enemy, to be annihilated and defeated. Instead, the term re-found was used in the sense of having a democratic culture and lending stability to the country.

233. The Peruvian National Accord is now two years old, and aspires to last for 20. The effort has three elements: a pact, a scenario, and a proposal for political culture. It is a pact because its text contains 30 state policy commitments focusing on 2021, when we celebrate our second century of independence, and because each of these policies has a template wherein quantified goals are incorporated into a 20-year timetable. The policies are divided into four chapters. The first chapter deals with strengthening democracy and the political process, along

the lines of what was described by Joan Prats. One of the first results achieved by National Accord is a political party law that attempts to formalize the political process and establish some requirements for internal democracy and financial transparency. The second chapter deals with equity and justice; the third chapter, the competitiveness of the country, and the fourth concerns itself with building a state that is transparent, efficient, and decentralized. Clearly, the most important discussions have focused on chapters two and three.

234. One example of the policies envisaged in the National Accord is the education policy. Peru has one of the smallest budgets for education in the region in terms of its percentage of GDP. The commitment made was to increase education spending to 6 percent of GDP by raising it annually in 0.25 percent increments, regardless of the government that comes to power. Another very important example is that of tax burden, since (again) ours is one of the lowest in Latin America. The state is practically non-existent in a large part of the country's territory, but in other parts, especially in the capital, it must be cut back, modernized, and reformed. The tax burden already accounts for 20 percent of the GDP, lower than in developed countries, which is sometimes forgotten when discussing the tax burden that accompanies growth in Chile.

235. Following these 30 policies, other documents were drawn up as a short-term commitment. These contained steps for applying these state policies over the next two years, in view of the complex crisis that the country entered at the beginning of 2004. This situation has been complicated even more by the recent election of an opposition slate for the National Congress. Now we are attempting something more difficult, to build a social pact linking employment and remuneration with productivity, in which both the labor unions and the businesspeople signatories of the National Accord participate. The latter are extremely interested, but as we all know, this is the most difficult part.

236. Second, we have a somewhat peculiar scenario because, on the one hand, the government is participating, represented by a six-minister commission presided over by the president of the Cabinet, while it is the President of Peru who officially presides over National Accord. Also participating are the seven political parties with parliamentary representation and seven social organizations, among them the Confederation of Businesspeople, the General Workers' Union, the National Association of Industries, the Conference of Catholic Bishops, the National Council of Evangelicals, the Coordination of Regional Fronts (which has organized decentralization regional protests), and the Harmonization Tables. There is a balance between political forces and social forces.

237. A distinctive aspect of the National Accord is that political parties and social organizations have been able to come together in a common forum. This is a very complex phenomenon. Political parties take the view that they were created to rule, rather than to sit down with the people they rule. But from the standpoint of civil society, in an era of crisis in political party legitimacy, political parties are to blame for all of the vices, and the social organizations for all of the virtues. Even so, the process works, though with many difficulties and plenty of seminars on the role of civil society.

238. The National Accord has completely smoothed out the relationship with the Congress. Some scholars had feared that it was going to pose difficulties because it creates a type of parallelism. Nevertheless, National Accord does not replace or compete with the Congress, but complements it in that it allows legislating political parties' access to another setting where they

can exchange views with social organizations that, in turn, feel that these parties are not doing the job of representing them. The legislative agenda is organized according to National Accord policy and the relationships are very smooth because it has no power of its own: it is an authority based on consensus and the political will of its members, but has no veto power. It works in a very peculiar way, with no press, even though the public is informed of results. No vote is taken, so that its decisions are made through consensus and therefore each organization wields a certain degree of veto power; and no lobbying is engaged in within it. Instead, attempts are made to convince. This perhaps explains why it has the blessing of the current government, but political opposition forces have also endorsed these policies. For example, the predominant opposition party has announced that its government plan will be based on the National Accord. In fact, all of the government plans will have to be based on the National Accord. In other words, in the upcoming electoral campaign we will have a common referent, endorsed by the participating organizations.

239. I will refer back to what I was saying at the beginning of this presentation, about a political history played out in a warlike fashion. With the banning of political parties, persecutions, and very few intervals of democracy (during one of the latest coups, a great Peruvian poet, Martín Adán, declared on the very day that it took place that “Peru has returned to normalcy”, and he was right, because democratic periods have been the exception in our history as a republic), what we strive to understand is that democracy is conflict plus consensus, competition plus cooperation, centrifugal forces plus centripetal forces. It does not involve eliminating conflict or differences, but rather providing a space for conflict and consensus building. This is what has been missing in our history, so that some conflicts can at least be processed. This is why the National Accord is primarily a proposal dealing with political culture, a way of understanding democracy and a process that, we hope, can be gradually transferred to other spheres of Peruvian life beyond debating major national issues.

*As time goes by, the National Accord will need to continually adapt to incorporate other organizations. Currently, there are 15 participants, but political forces exist that are active in the streets but not in Congress, choosing to remain outside of this setting, and a way must be sought to coordinate with them.*

**Rafael Roncagliolo**

240. As you can imagine, there are many problems to solve. Perhaps the most important of these is the tension that exists between the short term and the long term. Regarding the long term, everyone agrees about participating in the National Accord, and regarding the short term there are political forces that have said it is not worthwhile for them to sit down with the government. The government seems to be saying that the Accord isn't doing it much good, by putting it under pervasive pressure.

241. As time goes by, the National Accord will need to continually adapt to incorporate other organizations. Currently, there are 15 participants, but political forces exist that are active in the streets but not in Congress, choosing to remain outside of this setting, and a way must be sought to coordinate with them. All non-governmental organizations participate through commissions, but solutions to membership-related problems must be gradually worked toward.

242. The latest problem is in the political context of Peru. Everything I am saying at this Forum is esoteric if seen in the light of the current situation in Peru. The government has an approval rating lower than 10 percent, corruption scandals, and all kinds of difficulties, make the National Accord process little more than a very constructive, tiny microclimate within the society, with enormous solidarity among its members and a great capacity for dialogue. This is the case since there is virtually no other space where the government and the opposition meet with businesspeople, labor unions, Catholics, evangelicals, and so forth. The Peruvian crisis is developing. We have to wait to determine what validity the National Accord will have, to see its capacity for bearing fruit and for lending continuity to state policy. Whether the National Accord will prove useful for anything at all remains to be seen.

### **Manuel Sotomayor**

*Former President, National Confederation of Business, Peru*

243. To put into context what has happened in Peru, I believe that an implicit vision does exist (at least in the sphere of economics) regarding the route that we should take. This has to do mainly with the economic disaster of the 1980s, which culminated in the period of hyperinflation during the government of Alán García and the excellent economic management of the 1990s as well. Actually, the great success that President Alejandro Toledo's administration has had is in the field of macroeconomics where, basically, all pre-established guidelines have been followed, and neither the current government nor the previous transitional government has modified the essential changes already implemented. This is consistent with an implicit vision.

244. I will describe very quickly the effort that we businesspeople made in 1992, which is very similar to the experience of El Salvador and was born of a crisis, terrorism in this case. We formed a group of businesspeople that year, Perú 2021 (now being led by its fourth president), within the Business Confederation itself, through a nationwide procedure that took two years. The Confederation restricted itself to the sphere of business, not for the purpose of exclusivity, but to better focus its efforts and because we believed that this was where we had to start. A very important source of backing for National Accord stems precisely from the personal commitment to the success of this initiative by the president of the National Confederation of Private Business Institutions (CONFIEP).

*It will be very difficult for the next government to distance itself from the results of the National Accord. This is the implicit vision that already exists in Peru.*

**Manuel Sotomayor**

245. Comparing the national vision document that we presented in 1994 with the one drawn up by the National Accord, you can see that even though the latter is much broader in scope and goes as far as proposing state policy, which was not our objective, we clearly aimed at the same vision, the same country concept. We aimed for the business community to be in favor of the idea that it was essential to have a vision throughout the entire country. Now we have *Libertad 2021*, *Cuzco 2021*, and *Arequipa 2021*, where there is a business force that will play a fundamental role in preventing the National Accord from falling by the wayside. Since we are in the middle of a political maelstrom, any vision shared by a vast majority of individuals seems esoteric. The National Accord is attempting to secure this vision, and it is the job of the private sector to act

as something of a supervisor and promoter. It must take a very firm stand as to its responsibilities so that future governments can shoulder this initiative and take ownership of it. I agree with Rafael Roncagliolo that it will be very difficult for the next government to distance itself from the results of the National Accord. This is the implicit vision that already exists in Peru.

## Ludwig Meier

*Former Minister of Fisheries*

246. First, I will underscore the participation of Peru's private sector in the National Accord, which has been a constant since the OAS Dialogue Table, before the fall of the Fujimori administration, and also in the dialogue, particularly that of CONFIEP. This is a business institution whose fundamental objective or means for reaching agreements is dialogue, and it has participated in and lent support to these ideas of National Accord from the very beginning. Moreover, it has been easy for CONFIEP. Since it is an alliance of businesspeople, there are many disagreements at the sectoral level, and decisions, except for some very rare cases, are adopted by consensus. Hence, it is customary for it to seek consensus, even within the business people's alliances that make it up, since it is the main organization bringing together the other alliances of businesspeople engaged in commercial activity, services, banking, and other sectors. In turn, these alliances in Peru traditionally make their decisions by consensus; hence it is an approach that fits perfectly into the National Accord.

*The current political crisis could persuade the actors to change. Some of them are already talking about advancing the elections. This is also an opportunity for the National Accord, which contains a series of long-term policies dealing with important issues such as the promotion of domestic and foreign investments.*

**Ludwig Meier**

247. Aside from what has already been mentioned, there is a short-term agreement that was worked on at the beginning of the year, in which CONFIEP also proposed the short-term agenda, essentially defined by issues dealing with investment, employment, and state reforms. Based on this foundation, a document was prepared with all of the National Accord member institutions, in a very intense effort that was picked up later on by the president of the Cabinet. We cannot detach ourselves from the political situation of Peru; clearly, the current political crisis could persuade the actors to change. Some of them are already talking about advancing the elections. This is also an opportunity for the National Accord, which contains a series of long-term policies dealing with important issues such as the promotion of domestic and foreign investments. The mere fact of having this to rely on will make it possible during the campaign for us to refer back vigorously to the National Accord, or persuade the political parties to refer back to it. We need to further promote the items agreed upon because if we stick strictly to the National Accord alone, we could curtail those demagogic proposals which prompt the disbelief currently expressed by the population.

248. Moreover, Congress must be taken into consideration. Though an Accord does exist in which the representatives of Congress participate, the mechanics of Congress are exceedingly complicated in Peru, from the way the elections are run to the level of representation wielded by parliament, to the need, or lack thereof, for its representatives to answer to their electors, even to the authority to introduce a bill on the whim of a representative. No one can stop a perverse incentive for introducing bills, which is based on the idea that the greater the number of bills introduced, the better the respective representative's record is. This practice has now reached the highest extreme of absurdity. For example, when an article must be modified in a way that

requires it to be divided into three separate articles, it is not introduced as one single bill, but as three different bills instead, so that more bills will be credited to the representative's record. This supposedly enhances the representative's record, despite the mess that it causes, which in many cases affords the Congress an opportunity to approve norms that actually destabilize the Accord.

249. The way that Congress runs should be reviewed in this respect, so that what has been agreed upon can actually be put together, along with short-term passage of bills. The main problem experienced by the current government is that the National Congress has passed demagogic laws. The President had to observe 200 laws (many of which were populist) that threatened macroeconomic stability or caused juridical instability for investments or were unsuitable from an economic perspective.

250. President Toledo has managed economic issues very meticulously, and therefore growth has taken place despite the problems we have faced. Moreover, he has been able to maintain this control despite his low level of popularity. The Congress just took a step forward a short time ago when it modified its regulations, and it is establishing a filter to prevent the duplications in bills, at least. At this time, about 12,000 bills are being reviewed in Congress, which makes monitoring them practically impossible, and many of them can adversely affect provisions of the Accord.

251. Elements such as National Accord are essential, and it is the job of each of us to make them more and better known to the people, to ensure their implementation over the long term.



## COMMENTARIES

**K. Yogeesvaran**

*Director, Evaluation Director, Economic Planning Unit, Prime Minister's Department, Malaysia*

252. Malaysia's vision policy was established in 1981, and seeks ultimately to involve all of Malaysian society in efforts to achieve one main goal: to become a fully developed country by the year 2020. Not only do we aim to achieve development in terms of GDP per capita, but also to reach psychological, political, and spiritual maturity as a nation, focusing not only on economic indicators, but on all dimensions of life, something we refer to as the *total development concept*.

253. The policy was instigated by the Malaysian Prime Minister himself, and while no new institution has been established to put the vision policy into practice, development strategies are set out in national development plans. Among these are our long-term development plans, which cover a period of 10 years; medium-term plans, which cover five years; and a short-term plan, which is, in effect, our national budget. This set of plans translates the country vision into programs and policies over a thirty-year period.

254. As regards progress, in order to achieve developed country status by the year 2020 we require an annual growth of 7 percent, a figure that we are on our way to achieving. While economic growth tumbled somewhat following the East Asian financial crisis, it has experienced an important recovery, and there is confidence within the country that our target will be reached.

**Chin-Seung Chung**

*Dean, School of Public Policy and Management, Korean Development Institute*

255. While the Korean government itself has not established a national vision and strategy, the Korean Development Institute (KDI) carries out a process of exploration and development of such a vision, in which it invites a broad spectrum of scholars, NGOs, and professionals to participate, and the resulting proposals are subsequently presented to the Korean President. The President is at liberty to accept or reject the proposals, and when suggestions on a particular subject are accepted, as is the case of education system reform, for example, a council is established to analyze the issue and coordinate the implementation of reform strategies.

**Oh-Soek Hyun**

*President, Economic Research Institute, Korea International Trade Association*

256. Between 1962 and the late 1980s, Korean governments established a series of five-year national plans. After the early 1990s, however, private sector initiatives became more prevalent, and official national visions were no longer developed. These were replaced to some extent by sector-oriented visions, such as those for education or industrial development, but these lacked a holistic dimension.

257. I believe that the real difficulties do not lie in establishing institutional structures. What is perhaps more difficult, and certainly more important, is that this new system should be self-driven to achieve the established goals, and this again requires an understanding of the holistic future, or national vision. Change cannot be limited to one sector or another. Labor market

flexibility, for example, is a key element of financial system reform, which requires appropriate modifications to the education and welfare systems. While such interdependence means that across the board reform is the most appropriate strategy, in reality such comprehensive action is almost impossible. What we are faced with is the need to be selective, to establish an appropriate sequence of reforms, and there has been considerable discussion in Korea about such a selection process.

**Claude Ricaud**

*Chairperson, National Economic and Social Council, Mauritius*

258. I am particularly interested in the importance many speakers place on maintaining a nation's holistic vision independent of political agendas. In other words, it is clear that an independent institutional structure is required, if not to implement at least to monitor the holistic vision. In Mauritius, for example, while there has been no political agenda that openly opposes our vision, the process of monitoring the implementation of such a vision has been inadequate. A politically independent institution is clearly required for such a purpose, and an economic and social council could constitute such an institutional structure. On this subject, I was particularly interested to learn about the experience of El Salvador where four successive governments supported the implementation of this nation's holistic agenda.

259. If we look closely at our country's vision, it is focused primarily on our own strengths and weaknesses, something over which we have a fair degree of control. We must, however, also consider a series of external factors, over which we have very little control, but to which we are obliged to adapt.

260. The vision therefore requires frequent revisiting, and now is perhaps the perfect time to do so, considering the changes that could result from current negotiations within the World Trade Organization. I estimate that this could lead to a decrease in our agricultural land from 70 thousand hectares to only 30 thousand, with important effects on the labor market. The great environmental and social impact of such changes is evident—which highlights the need to revisit our national vision on a permanent basis to ensure we respond adequately.

**Mahomed Iqbal Ebrahim**

*Vice President, Botswana Confederation, Industry and Manpower (BOCCIM), and Chairman Small Business Council, Botswana*

261. Botswana's vision was established as the result of a proposal presented to government by the private sector. In 1996, at the National Business Conference, the President of Botswana accepted the private sector's suggestion that the country required a long-term vision, and a vision taskforce was appointed. A consultation process was carried out through public meetings and submissions, and visits were made to villages throughout the country to collect opinions and establish consensus regarding the aspirations of the people of Botswana for our nation in the year 2016, when we will have been independent for 50 years. The decision was made to focus on very broad parameters, and thus make the issue less political.

262. Our vision has seven main pillars: we seek to be an educated and informed nation; a prosperous, productive, and innovative nation; a compassionate, just, and caring nation; a safe and secure nation; an open, democratic, and accountable nation; a moral and tolerant nation, and

a united and proud nation. These ideas are mainstreamed into our national development plans, which include five-year development plans, a ten-year plan, a mid-term review, and an annual budget. In more specific terms, we established the goal of achieving a per capita GDP of US\$ 8,500 by the year 2016, which requires an annual growth rate of 6 percent, and we have been quite successful at securing such growth.

263. We have a 20-member vision council, which monitors government performance, and are currently working with the United Nations on the development of a tool with which to monitor government compliance. Our vision council has elaborated on the seven goals previously mentioned, and sub-structures have been established on a number of issues, in which stakeholders are invited to participate. Politicians have tried, both recently and in the past, to discredit the initiative, but they have been unable to do so, as we have kept the vision objectives broad and have used the framework of the National Development Plan for its implementation.

264. Consensus building is an important part of the process of developing a national vision, because while two political parties may well share a broad goal, say to become a fully educated nation, they will not necessarily agree on the strategies by which to achieve such a goal.

## 6. PRIVATE SECTOR SUPPORT FOR COMPREHENSIVE, BALANCED DEVELOPMENT STRATEGIES

**What importance is ascribed to the business sector in long-term development strategies and what role does it play in them?**

### CHILE

#### **Juan Claro**

*President of the Federation of Chilean Industry*

265. In general, the Chilean business sector has been gradually enhancing its awareness of how the world is changing. If we observe underdeveloped countries, the main thing we notice is that when the world transforms, modifications occur not only in economic arrangements but also in the ways that economic policies are innovated and devised. We Chilean businesspeople have tried to look ahead, as we say, with eyeglasses to the future and not at the past through the rearview mirror.

*It is increasingly necessary for the business sector to participate in setting up and implementing public policies that encourage growth and competitiveness, and to collaborate on improving social programs.*

**Juan Claro**

266. Countries such as ours were characterized in the past by a business community represented by its professional institutions. This was in a context in which the economies were more closed and more thoroughly planned, and where a type of cold war existed between capital and labor, as well as a political polarization in which two different ethics were competing against each other. One was the ethic of aspiration, usually rallied by leftwing political parties, which somewhat monopolized social awareness with

distributive policies. The other was the ethic of duty, whereby the right and business sectors gathered together and continually insisted on observance of the rules of the game. The business sector organized itself by participating more actively in partisan politics, by attempting to lend support to sectors that were less anti-business, whose discourse was that of respect for property, and also by working to attain their corporate aspirations, privileges, protections or prices, inasmuch as we had a closed, planned economy.

267. This gradually brought about a more divided society in which labor associations were generally entrenched in a rather defensive discourse. In Chile we used to say that when a young person was not leftist, it was because he or she had no heart or lacked social awareness, and that when an older person was not rightist, it was because he or she was not very bright. However, in today's world, which is open and competitive, where economic competitiveness is a precondition for social equality, opposing a vision for comprehensive development is like having no heart *and* no brain. It is increasingly necessary for the business sector to participate in setting up and implementing public policies that encourage growth and competitiveness, and to collaborate on improving social programs.

268. From the standpoint of political economy, this is a fresh, interesting challenge that dares the business sector to establish a new paradigm in countries such as Chile. In this joint project, we must have this doctrine of duty and clear rules, on one hand, allowing the productive sector to develop without bureaucratic obstacles in highly competitive pro-innovation environments, and on the other, we must recreate and establish a national vision of development that incorporates social aspirations so that the various different strata of society can feel included.

269. How can this challenge and paradigm be translated into specific actions in these countries?

270. The first consideration is that the answer obviously depends upon each country and the progress of its respective economy. Foundations must exist upon which to build a competitive economy linked to institutional and macroeconomic stability. Moreover, a certain level of social and political peace must be achieved. Upon this we must build a more competitive economy that will facilitate attainment of sustained higher growth.

271. Chile has a series of foundations upon which to build this competitive economy. We have macroeconomic stability due to excellent fiscal and monetary management, which permitted us, even in the midst of our most recent crisis, to maintain the lowest spread in our history. This means recognition by the international financial community of the country's low level of risk. We have moved forward strongly in integrating the economy internationally, after opening up in the late 1970s. Moreover, we have taken important steps in recent years, particularly in the signing of free trade treaties with Europe and the United States, among other countries, that have made Chile more attractive to investment and consolidated and expanded spaces for trade. Furthermore, we also have a sound foundation in that the country's institutions operate reasonably well, among them its justice system, its policies, and the government itself.

272. Aside from this, the impression that we businesspeople have is that, although foundations are very worthwhile and necessary, they are not enough to enable the country to achieve sustained cycles of growth and increasing employment and prosperity for all Chileans. In

order to create the competitive environment in which the productive sector can develop and incentives for innovation exist, continual improvement efforts are required.

273. The private sector and the government have been working over the last three years on public and private agendas. The initial architecture of the Pro-Growth Agenda, one of whose creators is Álvaro García, was begun about three years ago and we have worked on it on several different fronts. The first area that we worked on together with the government is the establishment of a system of innovation and a virtuous cycle for small and medium-sized businesses, with the aim of gradually creating a more complex economy. Analyzed from the macroeconomic standpoint, the economy's stages of evolution pass through productive systems that they gradually outgrow, moving from simple operations to more complex ones, adding more technology and value, and requiring more specific training and their own worldwide marketing networks. Chile is an export-intensive country; the driving force behind its development is the export sector, and in order to create productive clusters, a certain culture and series of instruments are required. The goal is definitely to achieve a certain level of equality in opportunities so that businesspeople will compete, connecting with a financial system as well as with research centers for access to technology and distribution networks for their products. This requires agglomeration to generate the economies of scale necessary to compete.

274. A second area in which we have worked alongside the government is associated with the adage, "countries seeking sustained growth must also modernize their institutions in a sustained fashion." With the passage of time, institutions tend to depreciate in the same way that technologies do, so they must be upgraded accordingly to bring them up to speed with the conditions and challenges of our day. We have worked on this task with the government in areas such as the regulation of certain sectors. In telecommunications, for example, thanks to technology, progress has been made in de-bureaucratization, through initiatives such as *Chile Digital* and *Chile Compra*. We have also undertaken an important reform linked to public service posts in that 5,000 former posts of trust in the public administration have been trimmed down to roughly 800. This means having in place a human resources policy for the state that chooses its staff based on qualifications rather than merely on the basis of political sympathies—an endemic evil over the last 30-40 years. Progress has also been made in institutions that work in the area of labor justice, economic tribunals, and so on.

275. The third area that we worked on with the government has to do with the effectiveness and efficiency of the state, on one hand pursuing spaces to provide private sector solutions to problems in the public sector and, on the other, opening a new and important chapter in education. Today, everything is mobile, including capital and technology, with the exception of human capital. A country's human capital can make the difference between attracting investment or driving it away, and determine its ability to develop activities that generate added value, knowledge, higher profit margins and, definitively, prosperity. Hence in education, we have also opened a new chapter to systematically move forward, observing and prioritizing the measures that will allow us to incorporate competencies that will enhance the employability of Chilean students in a globalized world.

276. The fourth point, on which we have been working for a year, has to do with modernization in the area of labor. For our economy to provide more and better jobs, it is important to raise the Chilean workers' level of competitiveness. This is no small task. On one hand, it depends on workers' training, competencies, and productivity, but it also depends on the

regulatory systems governing the labor market. The old Manichaeian vision in countries like Chile is that capital and labor interact in a dynamic wherein if one side is losing, the other must be winning. In Chile, there are important historical reasons to account for this. In the 1960s, during the Cold War, the memory of certain expropriations remained fresh in the minds of business leaders, while the minds of union leaders nurtured the memory of triumphs for workers that were lost with the opening up of the economy. It is very important to take a step forward on this issue. We need to incorporate mechanisms into our businesses that properly express the collective will of the workers so they can negotiate to open up spaces for innovation. The purpose of this is to seek out increasingly more productive arrangements conducive to the creation of more jobs, preventing the substitution of work by capital in some cases, besides making the country more eligible for labor-intensive investment.

277. In conclusion, I would like to explain how we have organized the Pro-Growth Agenda in Chile. The experience came about as a result of an analysis in which we noted the need to insert a new paradigm into a country that had opened itself up tremendously to the world economy. In the design of more political areas, two important components bear mention. First, we created a new manner of speaking that does not stigmatize or automatically revive the political tensions of the past. Second, we called public policy experts together, from the left as well as from the right, to devise a microeconomic scanner, including proposals using more technical language. Multifaceted task forces worked very quickly on the microeconomic scanner and arrived at a set of alarming conclusions.

278. Based on this work conducted by the private and public sectors, we have carried out 12 public and private sector projects. The one we call Agenda 1 is virtually finished and has led to the enactment of roughly 15 laws and the approval of six matters that were more administrative in nature or did not require laws, amounting to 21 measures altogether. Currently, we are working on Agenda 2, in the hope that this work will translate into a process of continual improvement, and not just a one-time effort to create two agendas.

279. These agendas have their own cycles and themselves produce certain instances of political resistance. Clearly, progress becomes more difficult as electoral campaigns approach, at least with regard to the most sensitive issues, such as those related to taxes and labor, for example. At these junctures, sometimes, the political system devotes its energy instead to looking for people to blame, with businesspeople frequently finding themselves at the top of the list, and the atmosphere becomes more polarized. Efforts are made to persistently move forward, however, to constantly incorporate more social actors.

280. Currently participating are two universities, the government, and the private sector, and in some chapters we are also incorporating the labor sector. We want to persevere to incorporate the various different strata. When a country opens up its economy to a competitive, globalized, world, not only are tariffs lowered for the productive sector, but for the rest of society as well. Since countries compete as a whole, businesspeople must innovate, but so must society, in order to transform the new spaces provided by the global scenario into opportunities for growth and prosperity. This task has culminated in a systematic effort that we hope will have a long-lasting, successful conclusion.

## **COSTA RICA**

### **Mayi Antillón**

*Executive Vice President of the Chamber of Industries, Costa Rica*

281. Even though the experience of each country presented has its own particular characteristics, history, and way of resolving problems, there are some common roots among them. What is interesting is how we can apply something in the light of the experience of other countries to avoid making mistakes similar to those already been made by others, whereby we may shorten some processes and consolidate our democracies. We have a rather mature democracy in Costa Rica. Democracy isn't something that is just built and then set aside. On the contrary, it must be strengthened every day; otherwise, it will most likely fall to pieces. We all may improve our own countries by this continual process. What can set us apart is how we go about it, since the actors may follow their own approaches.

282. In Costa Rica, we are undergoing a very important transition wherein we have achieved worthwhile results in the past from promoting exports and investments, which have helped strengthen our democracy overall, but have not been multiplied. This is a rather important lesson that we must learn, i.e., adding and multiplying are two very different processes, because gaps will widen if care is not taken daily to strengthen this economic and democratic model. We are moving forward rapidly in a trade liberalization process, but this is no panacea per se. We must know how to administer this process to capitalize on some of the opportunities available to us. This is where the visions of each country differ. The liberalization process does not in itself produce results spontaneously; instead, as borne out in Costa Rica, poor handling of these processes can lead to delays and deadlocks.

283. Over the last five years, we have been involved in a concerting process called for by the national government to visualize the major structural changes in the accelerated liberalization process that we are undergoing. We engaged in discussions for several months (some groups for longer periods) and we succeeded in reaching some agreements, but we failed to apply them at a practical level. The government slipped up and, regrettably, the legislation coming out of these agreements was misinterpreted, and does not necessarily reflect them. This has detracted from the credibility of the process and has sparked reactions from social actors. On top of all this, a liberalization process was applied (that was a little more radical than we Costa Ricans would have preferred) precisely to a sector as sensitive as telecommunications, in which the monopolistic institution in control for the last 50 years has brought development to the country. Moreover, there are indications of possible connections to private business deals involving some politicians. As a result, the concerting process failed.

284. If the agreements reached are not properly implemented and if private business deals come to light during delicate, sensitive liberalization processes, and credibility could be lost, possibly triggering many problems for the country because once trust is lost, it is hard to earn back. Critics of the liberalization and modernization process argue that the private sector defends these processes because it is a co-conspirator in this matter and not necessarily out of pure interest in a pro-development strategy for the country; hence as an actor, it has lost credibility.

285. Political parties entered into the electoral campaign in a considerable state of weakness due to this scenario, which has been going on now for the last five years because, regrettably, what it offered the electorate was poor and superficial. The people are never told the truth, or what they need, nor are they informed about the vast modernizations that lie ahead. Little by little, the people have begun to hear what they longed to hear: modernizations are off limits; no liberalization processes will take place; the Free Trade Agreement (FTA) with the United States must be revised; this will be done unhurriedly because of Costa Rica's favorable statistics, and so on. Since the government is somewhat debilitated, the two major political parties assumed office with rather weak electoral results, and the Legislative Assembly reflects this chastisement. It is fragmented; very dangerous populist speeches are being made at a time when the country just needs a course to move along, and instead of a vision commonly-held by legislative deputies, they voice mutual accusations. It has even been alleged that a conspiracy against modernization exists between the two major parties.

286. What was the reaction of the private sector to this scenario in which anyone capable of raising his or her voice to illustrate the need for modernization was accused of being on the take? We decided to express our diverse views individually, demonstrating that we are not involved in any sort of a deal, but are looking after the best interests of the country.

287. It is important to stress that the private sector is less homogeneous than commonly believed. It is actually made up of various sectors, such as the service industry, manufacturing, commerce, construction, and finances, all of which, having already undergone these modernization processes, are hoping many changes will be made. Convincing even the private sector to adopt a development-oriented agenda is no easy task. My roots are in the industrial sector, which contends that if no measure of vision exists and if the country cannot rely on leadership concerning these issues, it is in real danger.

288. Without being pessimistic, yet faced with a breakdown of the concerting process on this scenario, and with a rather fragmented government and Legislative Assembly, we must try to raise our heads and very proudly say that the business sector accounts for 85 percent of all employment nationwide and there is no way that we will let the country slip out of control. We will take on the task of making understandable the need for a holistic, comprehensive agenda, taking the discourse of businesspeople beyond technical, economic jargon, which fails to reach the general population and tends to raise suspicion. Our purpose in this is to start dealing with what the people are interested in, which is how to continue generating jobs, hopefully high-quality jobs. This is an enormous challenge for the private sector, and we have flown no better banner than this.

289. Thus, we began to put together an agenda to present to the legislative deputies, the executive branch, and to the workers at our businesses. The Agenda portrays integration as dealing with four central themes: economic, social, environmental, and institutional. We in the business sector have finished the most important job, which is to convince the workers that the model is worthwhile. As yet, we have been unable to articulate a discourse that will convince workers to feel content with the idea of belonging to a business and being involved in consolidating a country model that has yielded them many benefits. Education has taken place thanks to the development that the businesses themselves have afforded their workers. Since our businesses invest a great deal of resources in education, we join in on this very interesting work of convincing workers of the need to have a more comprehensive agenda based on the four



pillars spelled out above. We realized that we could persuade the legislative deputies if they saw that we represented a force convinced of the challenge facing the country and that the labor sector we represent is convinced by the model.

290. The agenda, which is broad and written in plain language, includes actions in the four aforementioned components. This is what our country needs at this time. With regard to economics, we have incorporated macro, micro, and mesoeconomic measures, establishing priorities. In fiscal matters, we propose an enhancement in the quality of expenditures, requiring a reform of the state, increased and better distribution of the tax burden, and strengthening tax administration. In the area of finances, we have pointed out the reforms required by small and medium-sized enterprise, i.e., easier access to credit and lower financing costs, as well as increased channeling of national savings to productive investment. We are committed to the concept of development banking and mechanisms for achieving credit access to promote the innovation and technology that our businesses require. Furthermore, public and complementary private investment in infrastructure is needed. On this level, we have experienced some problems with public works concession mechanisms.

291. Costa Rica has been very efficient in promoting exports and investments, and rather inefficient in getting assurance from productive clusters about the permanence of investments coming into the country. Of all foreign investment, only eight to ten percent represents Costa Rican goods that we have been able to sell, and this is a very important market.

292. We have a very broad agenda in the area of production, stressing small and medium-sized enterprises to achieve cleaner production and boost quality. Four years ago, we were able to produce legislation sponsored by the Chamber of Industries to create a national pro-quality system. Legislative deputies understood the need to put together far-reaching legislation to lend support to productive development. This law deals with foundations for innovation, technology, credit, the promotion of exports and state purchases, issues advocated by the industrial sector.

293. A bill was also passed to strengthen small and medium-sized enterprise, sponsored by the Chamber of Industries. We did not want to be viewed as a Chamber that sides with powerful special interests; instead, we were the standard bearer for 94 percent of all of our businesspeople, who represent small and medium-sized companies, for whom we were able to pass legislation.

294. Regarding foreign trade, the FTA between Costa Rica and the United States is currently under debate. An appreciable level of mistrust exists, not because of the treaty itself, but rather because of the lack of a holistic, comprehensive vision regarding the instruments that accompany it so that it can become a genuine opportunity for our businesses.

295. Six years ago, the Chamber of Industries promoted a piece of legislation that led to the innovative Commercial Negotiations Law, to which politicians now refer with pride, after initially challenging it. This law views foreign trade as an instrument of productive foreign policy conducive to development. Complementarily, it required a review of the mechanisms through which we were making free trade agreements, exploring what those benefits were heretofore.

296. Implied in all of the legislation that we have endorsed is the need to work systematically. This involves ministries and public institutions engaging in dialogue among themselves and their

revitalization, to enable them to function as genuine public and private coordination systems helping to energize liberalization processes.

297. Regarding the economy, we have also discussed the importance of promoting legislation to foster attitudes and aptitudes conducive to workers obtaining high quality employment and to businesses still being viewed as that school where they were reared. Our labor legislation is over 50 years old and is rather rigid, particularly with respect to the promotion of foreign investment, which calls for workdays that differ from those to which we are accustomed, especially when it comes to peaks and seasonal fluctuations in production.

298. Another central theme of work on the agenda involves social issues, in education, health, and social insurance. The business sector is not just concerned about improving its economic competitiveness, but also about promoting actions furthering more far-reaching policies that make Costa Rica unique, such as its sustained investment in education, health, and social insurance.

299. Concerning public safety and programs for the welfare of the poor, we question the decline of institutions in this area. This is where the respective institutions have become ends in themselves and resources fail to reach their intended beneficiaries, even though it has not been possible to bring the index of poor families down below 18 percent for the last four years.

300. The private sector and especially the industrial sector have become concerned about the need to define a policy for sustainable development and cleaner sustainable production and consumption mechanisms. Costa Rica has been very successful in its environmental conservation strategy, but this is not enough. Mechanisms are also needed to make production an ally of the sustainable project that we have in our country, and to educate our consumers so that the project will make a difference.

301. With respect to political and institutional issues, it is important for the private sector to play a role in preparing the regulatory frameworks (required by liberalization processes) that can inspire confidence among the productive sector. We need to create mechanisms through which productive, local, and foreign sectors can acquaint themselves with the rules of the game according to which they may compete in our country. This dynamic also affects the Costa Rican Electricity Institute (ICE), which, due to its tradition as a monopolistic institution, has not needed a regulatory framework. In the future, however, even the ICE will have to adapt to being simply another participant subject to the conditions of this framework and not both arbiter and participant.

302. We must work to achieve greater agility in the administration of justice, because delays in this area are creating some suspicions. We have moved forward a great deal in the way of alternate conflict resolution mechanisms, but this has to do with a space requiring a good deal more modernization and a transparent public establishment. The private sector must openly demand codes of ethics or mechanisms to guarantee such conditions in liberalization processes, so that development can be ensured.

303. With respect to the Legislative Assembly, all of us who participate must help support and consolidate its long-term vision into a common agenda wherein the best interests of the

country again prevail over the interests of private individuals. A long-term state vision policy should be drafted with the participation of all of the actors.

304. We are making an effort in this direction by drawing up the rough draft of a plan. We began this agenda with two pillars: one economic and the other social, to which the environmental and the institutional pillars have been added, as part of the dynamics of raising the awareness of the actors so that they feel a part of a dialogue that will build trust. In the process of state reform, it is also important for us to draw increasingly upon mechanisms of inter-institutional coordination and political decentralization. Costa Rica represents a successful experience, but the focuses for enhanced development have been very centralized in large urban areas, leaving rural areas almost untouched.

305. We hope that this outline will help boost higher productivity, with high value added, greater competitiveness, more investment, and trade, which should create more jobs and produce a better distribution of wealth. In line with this, we must succeed in making this economic agenda generate greater opportunities for development, investment, education, health, and security, and consequently lower poverty. Environmentally, we expect to use resources more wisely, boost more efficient productive processes, and make less of an impact on the environment. We are committed to production that does not entail risks for the generations to come. On the political and institutional front, we demand higher efficiency and effectiveness from state institutions, greater transparency and rendering of accounts, and less corruption. We want political stability and good governance to prevail.

*We are committed to a national agenda for development to boost efficiency, equity, solidarity, and participation. Our main objective is to lower poverty. There should be a systemic approach to economic, social, environmental, political, and institutional issues.*

**Mayi Antillon**

306. I will conclude by reaffirming a few concepts. We are committed to a national agenda for development to boost efficiency, equity, solidarity, and participation. Our main objective is to lower poverty. There should be a systemic approach to economic, social, environmental, political, and institutional issues. In the implementation phase, we have done everything within our means to help people understand that it is not macroeconomic factors alone that help the country move toward development, but sectoral and microeconomic factors as well, chiefly by fomenting support networks. In each of these facets, we have been involved by pursuing balances between the state and the market, acknowledging that the latter isn't everything and has substantial limitations. Emerging from all of this is the strategic, fundamental role of the state. We have also stressed the importance of the rationalization and decentralization of public administration, as well as legitimate and representative governance, averting the pitfall of social groups engaging in direct participation and not necessarily in representative democracy, as in our case. Moreover, in all cases we underscore the need for predictability, integrity, transparency, and responsibility.

## EL SALVADOR

### Juan José Daboub

*Former Minister of the Treasury, El Salvador*

307. As a former public servant now working again in the private sector, I would almost fully endorse what Juan Claro expressed about Chile. El Salvador is one of the Latin American countries that has most closely followed in the footsteps of Chile, and I would like to summarize this experience as follows. We chose to open up our economy and then take care of the other problems along the way. Likewise, we have made a commitment to Central American integration. Guatemala and El Salvador have worked together rather well and we believe that the other Central American countries will end up following our example. If we had started out first trying to solve all of our problems, we would not have achieved integration, but the rather pragmatic approach that we followed made favorable results possible.

*At election time every five years, the system is held in the balance, not the term of office. We need to strengthen politics and/or allow new parties to spring up to avoid winding up in the same situation every five years, in which we are measuring the risk against a referent that is very difficult to change...*

**Juan Jose Daboub**

308. A strengthened financial sector is being consolidated by a competitive system with an ever more highly developed stock market and new instruments. Concerning competition and opportunities in the liberalization of trade, all of the free trade agreements (with Chile, Mexico, Panama, and the Dominican Republic), except for the one with the United States, are moving forward. With regard to human capital, progress has been made on investments in technology, vocational and technical training, and distance education. The infrastructure sector was restructured first, and then deregulated, and then electricity and telecommunications were privatized; many other infrastructure-related services have been contracted out to private concerns. Various different actors from the society have participated in preventive health and local development. Public and legal safety has become very important to efforts by the private sector aimed at finding a reliable place where it can put down roots. We must make sure that the rules of the game are clear and that they yield some measure of security for the country.

309. El Salvador has worked very closely with the National Association for Private Enterprise (ANEP), which spearheads the business community. At the most recent annual meeting of the National Encounter of Private Enterprise (ENADE), 100 issues were presented along with 125 actions to undertake this year, which are to be considered part of the vision drawn up in 1989 that I described earlier. Each year, there is 60 to 70 percent agreement on these actions. All these are implemented during the year, except for those requiring legislative approval, the timing of which is hard to predict. Clearly, a good relationship exists with the private sector, which understands that regulatory systems seek to maximize competition and minimize regulation. This principle has made it possible, for example, for very competitive telecommunications and electricity sectors to exist.

310. At least two more tasks remain: making the labor force flexible and strengthening the judicial system. The latter was infiltrated and overrun many years ago, just as Antonio Gramsci had forewarned us, by individuals who do not believe in a freedom-based model. Substantial change is required to keep the rules of the game sustainable over time.

311. Essentially, the country has two very strong political parties, and despite the fact that I dislike speaking of the left and the right, preferring instead to refer to alignment as being either to the 20th or to the 21<sup>st</sup> century, there is a rightwing party and another party that is extremely leftwing. Therefore, at election time every five years, the system itself is held in the balance. We need to strengthen politics and/or allow new parties to spring up to avoid winding up in the same situation every five years, in which we are measuring the risk against a referent that is very difficult to change. In countries such as Costa Rica, Honduras, and developed countries, like the United States, we commonly observe that differences between political parties are relatively small. We must keep working on this issue in El Salvador.

312. It will be the duty of the recently elected government to take on the job of developing human capital and maintaining economic stability. This administration has competitive infrastructure, and the private sector can essentially provide and strengthen security to ensure that over the long run, the Salvadoran development model is implemented.

### **Francisco de Sola**

*Member of the National Development Commission, El Salvador*

313. I have to call attention to a heresy in the process of building our national plan and country vision, which is not necessarily the fault of the leadership of the business community or the state: the private sector is not very good at conducting citizen referendums. Going from the capital to observe what is happening in the rural municipalities is an enormous task and other factors constantly come into play. Moreover, the private sector is not monolithic in nature and it is very hard to organize and devise a realistic strategy for the actions entailed in a national plan. It is always easy to stay focused on the esoteric level and establish subdivisions between institutional, environmental, and economic issues. I say this not to diminish in any way this kind of reflection, but to emphasize that it is necessary to get down to a practical level when conducting specific actions that are particularly relevant to the people.

*...when activities or relevant actions are proposed that are specifically worthwhile to the small, medium-sized businesses and micro enterprises, the private sector mobilizes very well.*

**Francisco de Sola**

314. By contrast, when activities or relevant actions are proposed that are specifically worthwhile to the small, medium-sized businesses and micro enterprises, the private sector mobilizes very well. Among our most interesting results is that, in a regional referendum, these businesspeople attend enthusiastically and in great numbers. One of our frustrations is that the political leaders have not been able to understand and contend with this phenomenon, nor have they lent a hand in the liberalization process with the swiftness that this demands. It is an

enormous challenge to get the private sector moving, and I do not wish to make irresponsible generalizations. However, just as we react in times of crisis, it is necessary to do likewise in normal times to manage coordinated and well planned actions as a means of transforming a country from the bottom up instead of the other way around.

## KOREA

### Oh-Soek Hyun

*President, Trade Research Institute, Korea International Trade Association*

315. I shall begin my presentation with an overview of Korea's past development strategy, continue with some thoughts regarding current structural reforms, and conclude with some insights into Korea's vision for the future.

316. Between the early 1960s and late 1980s, Korea's economy registered remarkable growth, at an average rate of 9 percent. These positive figures were the result of a government-driven growth strategy, which anticipated export-oriented industrialization. While social welfare during this period was considerably reduced, social conflict was also at a minimum, primarily because fast economic growth led to the creation of new jobs.

317. In the 1980s, however, as the world economy experienced a process of globalization and technological development, the Korean economy was no longer able to maintain its government-driven centralized strategy for economic growth. The demand for democratic transition expressed by Korean people at that time presented the government with an additional challenge, as increased freedom in politics inevitably had repercussions within the economy.

318. In the late 1980s, the Korean economy's internal and external environment changed abruptly, and different sectors of society called for appropriate responses on the part of the government, in particular an urgent reform of the financial system. The country was, however, unable to implement voluntary structural reform that could engage different economic players. In late 1997, the country was hit by the so-called IMF financial crisis that shocked and demoralized the Korean people and, as a result, important reforms were implemented in all relevant sectors, in an effort to transform the entire economic system. Corporate governance, financial institutions, and supervisory systems were reformed to foster accountability and transparency and state owned enterprises were privatized. Far-reaching public sector reform was also carried out. As a means to increase flexibility within the labor market, labor reforms were implemented, and the country's social safety net was reinforced, to provide support for those who became unemployed during the restructuring process.

*One of the fundamental challenges faced by Korea in the post-crisis era is that of securing new, reliable, and sustainable sources of growth—a task that requires broadening the knowledge base and strengthening the innovation capabilities of Korean people and firms.*

**Oh-Soek Hyun**

319. What is lacking, however, has been a clear sense of accountability: the parties involved are not actively engaged in the reform process, but they demand government-driven reform.

Meanwhile, the government, faced with intense social pressures, struggles constantly to respond to the emerging problems, even those that it clearly cannot solve. Here, the country's age-old custom of government-led operation of the economy creates a scenario in which the government is accountable to all Korean people when addressing any particular problem. Such an approach discourages the innovative responses required to promote a modern economy based on knowledge and information.

320. Korea is creating an open, flexible economy that can respond to a changing global economic environment. The country strives to meet global standards as soon as possible, creating the growth engine required to face the 21<sup>st</sup> century's information and technology revolution.

321. Korea's economic vision for the year 2011 can be summarized as follows:

- a flexible market economy that adheres to global standards and that can proactively cope with the uncertainties that accompany the globalization, knowledge, and information era;
- a growing economy led by knowledge and technology. A demand-oriented economy based on the resource selection and concentration principle, accompanied by R&D and human resource development;
- a society with a sustainable productive welfare system established by national consensus and a quality of life that befits the country's level of economic development, and
- Korea as the hub of Northeast Asia, a pioneer country that can foster and coordinate cooperative exchanges among Northeast Asian nations.

322. One of the fundamental challenges faced by Korea in the post-crisis era is that of securing new, reliable, and sustainable sources of growth—a task that requires broadening the knowledge base and strengthening the innovation capabilities of Korean people and firms. Setting aside the uncertainty associated with volatile external conditions, a critical factor here is productivity-enhancing innovation. To increase growth momentum, harnessing market fundamentals and upgrading internal innovation capacity is crucial. Decentralization is arguably one of the most important tasks Korea must carry out as a means to achieve these goals.

323. This vision of the Korean economy for the year 2011 is not a prediction, but rather a goal that different economic players are striving to reach, through the implementation of systematic, watertight strategies. Its success will depend on the consensus that can be reached among the different parts of society, the strategies implemented, and the efficiency with which resources are allocated for such an important task.

## MALAYSIA

### **Datuk Mustafa Mansur**

*President, Federation of Malaysian Manufacturers*

324. I am here today in representation of the Federation of Malaysia Manufacturers (FMM), which, like the companies it represents, is a very young organization, in existence now for only 36 years. FMM places great emphasis on quality management, and has been an ISO (International Organization for Standardization) 9001 certified organization since 2000. Its membership has increased steadily as has its active participation in government committees and sector-strengthening initiatives. While in 1968 the organization sat on 14 government committees, this figure has increased to 164 committees in 2004.

325. FMM membership is divided into three categories: manufacturing industries (both local and foreign); manufacturing-related services such as finance and software production; and association members such as the Malaysian Textile Manufacturers' Association and the Malaysia Chemical Manufacturers' Association. Approximately 55 percent of members are small and medium-sized industries, with a maximum of 150 full-time employees, and annual sales not exceeding US\$ 6.6 million. The electrical and electronics industry has the largest representation, constituting a total of 15.8 percent of Federation members. The FMM's highest governing body is the Federation Council, which is assisted in its duties by a number of branch and working committees.

326. Over the past five decades, industrial development in Malaysia has accompanied the country's transformation from an economy based on import substitution to one that is highly export-oriented, and in which manufactured goods represent an increasing percentage of total exports. This substantial contribution of manufacturing to the economy was maintained during the most severe economic crises. For example, during the 1985 global recession, the manufacturing sector contributed close to 20 percent of the country's GDP as compared to agriculture with a contribution of 20.8 percent. Similarly, during the 1997 East Asian financial crisis, the manufacturing sector's contribution to GDP had increased to 35.7 percent and manufactured goods constituted a staggering 81 percent of total exports. Such growth has been sustained, and in 2003 alone, export manufactures generated approximately US\$82 billion dollars.

327. The Malaysian enterprise sector in general, and the FMM and manufacturing sector in particular, has participated actively in the country's long-term social and economic development process. Malaysia is fortunate to have a stable government that believes in the need to be customer-centered and business-friendly, while maintaining its commitment to joint ownership in social and economic development. The instrument chosen by the government to fulfill these objectives in close collaboration with private enterprise is the Malaysia Incorporated concept.

328. Malaysia Incorporated was introduced in 1983 and recognizes the government as a shareholder of the enterprise sector. As all shareholders, the government receives a dividend of 28 percent in the form of corporate tax, and the greater the sector's revenue, the greater the government's dividends. As a consequence, the government also recognizes that efficient delivery mechanisms are required if businesses are to operate smoothly and increase their revenues. The *Malaysia Incorporated Concept* seeks to build rapport and secure mutual respect and



dialogue among sectors, through continuous networking and consultation efforts, which lead to consistent, business-friendly policies and procedures. In addition to the *Malaysia Incorporated Concept*, the *Client Charter* was introduced in 1993, and establishes the timeframe within which the civil service is obliged to deliver the necessary approvals, permits, and licenses to the business sector.

329. One significant example of how government and private enterprise put their shoulders to the economic wheel in the interest of the country's social and economical development was the decision to peg the *Ringgit* to the US dollar, in the midst of the East Asian financial crisis. During this challenging period, the government was severely criticized for such an unorthodox policy, while the Malaysian enterprise sector, in particular the FMM, firmly supported its decision. The Federation was quick to reassure both its members and business partners in the country, the region, and throughout the world that the move to peg the *Ringgit* was in the nation's interest, and we consistently expressed our support for such a move to the IMF, the World Bank, visiting business delegations, and our Asian counterparts. Time has proven that the decision to peg the *Ringgit* truly helped the country regain stability and reduce uncertainties—in particular, foreign exchange risk exposure. The manufacturing sector benefited greatly from this new scenario, as it provided the stability needed for effective planning and dedication to the core issues of manufacturing development and market expansion. To this day, the industrial sector strongly supports the decision to maintain the relationship of 3.8 *Ringgit* to the US dollar: 83 percent of respondents to our 2003 fourth quarter survey expressed their continued approval of the move.

330. Malaysia Incorporated has provided the private sector with concrete opportunities to participate in policymaking that will have long-term effects on economic development and the industrialization process, and these include numerous government committees designed for such a purpose. The FMM, for example, participates actively in 164 government committees and 50 standard committees, as well as in an important number of ad hoc committees created to address specific sector-related issues. Government committees are the platforms through which the manufacturing sector can express its views on a wide range of subjects, including macroeconomic planning tools such as the country's National Development Plans, the National Economic Advisory Council, the annual national budget, and the Third Industrial Master Plan.

331. The Federation has traditionally provided feedback to the government on operational issues, participating actively in the annual dialogue of government ministries, at which our views are always welcomed. FMM representation on the government's grant approval and accreditation committees allows the industry to give its views on grant applications submitted and ensure that proper procedures and qualifying criteria are used.

332. FMM has also been asked to review and comment on existing and new legislation that may affect business operations. The Federation is a member of the Governing Board of Statutory Bodies, contributing to greater efficiency in management and helping tailor government programs and activities to the interests of industry. We are represented on a full range of committees set up to formulate the country's Third Industrial Master Plan, and sit in consultation with the Minister of International Trade and Industry to help establish policy directions and strategies presented to the Industrial Planning Committee. We are also a member of the Steering Committee, chaired by the Secretary General of the Ministry of International Trade and Industry, which oversees and guides the work of the relevant government Resource

Group, to ensure that it is in line with the orientations established by the Industrial Planning Committee. In sum, we participate in policymaking at all levels, and contribute to discussions on issues ranging from macroeconomic policy formulation down to specific issues within the 15-year Third Industrial Master Plan.

333. The proposals we have made to the government are diverse. They include strategies to improve the business and investment environment, and to promote the development of small and medium-sized industries, through financial assistance and development action plans.

334. One recommendation worth particular mention was to adopt international standards such as those promoted by RosettaNet<sup>6</sup>, which would help ensure that Malaysian industries remain relevant to the global supply chain, particularly in the electrical and electronic sectors. We recommended the adoption of the RosettaNet standards following the insistence of multinational companies that suppliers be linked online for inventory management. Following our recommendations, the *TIGeR Project*, short for Technology, Industry, and Government for an eEconomic revolution was subsequently initiated as a national project driven by one of the country's state governments.

335. Another key recommendation was to create industrial parks, with management committees at the state and local authority levels. These committees provide opportunities for industries located in a particular industrial estate to work with the relevant authorities and the infrastructure and service providers, to ensure that the industrial estate is well managed, adequately maintained, and secure.

336. The FMM is also actively involved in the formulation of national policy on issues such as training and retraining of workers within the manufacturing sector, and has established its own training center, the FMM International Institute of Manufacturing, which provides training programs designed to respond to the industrial sector's specific needs.

337. Our involvement in training is clearly in line with the government's objectives to increase training and retraining activities within the enterprise sector. The FMM has been approved as a Class A training provider by the national Human Resource Development Council, and is also accredited by the Malaysian Ministry of Education as a private institute of higher education. The Institute of Manufacturing offers diploma programs, which enable employees within the manufacturing sector to move on to degree courses at national and foreign universities, as part of a continuous learning process. We are also accredited by government agencies to conduct certification programs such as the Safety and Health Officer's Certificate, issued by the Department of Occupational Safety and Health, the Energy Manager Certificate, issued by the Energy Commission, and the Director's Training Certificate, issued by the Companies Commission of Malaysia.

338. The activities of the Institute of Manufacturing also have an international component, and productive working relationships have been established with bilateral training institutes such as the German Malaysian Institute, the Malaysian French Institute, the Malaysian Spanish

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<sup>6</sup> RosettaNet is a consortium of major information technology, electronic components, semiconductor manufacturing, telecommunications, and logistics companies working to create and implement industry-wide, open e-business process standards. (Editor's note).

Technical Institute, and other technical partners in the United States, United Kingdom, Japan, and India.

339. All of these activities have been facilitated by the efficient network of committees within FMM itself. As I mentioned earlier, the Federation is governed by a council that is assisted in its duties by a system of branch and working committees. While the branch committees address broad industry-related issues and the implementation of the Malaysia Incorporated process at the state and local authority level, the FMM working committees discuss a wide spectrum of subjects concerning manufacturing industry operation at the international, national, and state levels.

340. The working committees are effectively both think tanks and lobby platforms for presenting recommendations to the government in each committee's specific areas of interest. There are 13 issue-oriented working committees and their work is replicated through the six FMM branches at the state and local authority level. All committee members are representatives of the manufacturing industry, each working for a particular company and therefore each with their respective field of expertise. This ensures that the committees have the necessary authority with which to make recommendations and provide accurate feedback on committee-related issues.

341. At a regional level, the FMM also plays an active role in sector development, working very closely with the government in bilateral organizations such as the East Asian and Asia-Pacific Economic Cooperation (APEC) business councils. Its role on these councils is to ensure that there is adequate representation of and support for Malaysian government and private sector recommendations. The FMM has, in fact, been appointed by the government as Secretariat for the Malaysian Chapter of a number of these councils. As secretariat, we not only provide operational support but must also monitor, drive, and implement the relevant initiatives and programs of each particular council for Malaysia. At an international level we are proud to have been the only private sector representative in the Malaysian delegation to the last two World Trade Organization meetings in Doha and Cancun.

342. I would now like to point out some key factors that have contributed to successful interaction between the government and private enterprise, as identified by the FMM over its 36 years of experience working with the government at all levels:

- A willingness on the part of the industrial sector to work with the government on all issues of common concern. To give two simple examples, concerns regarding customs issues are presented to the Customs Working Committee, while matters of financial policy are discussed with

*We are truly convinced of the need to be actively involved in policymaking, constantly promoting initiatives that will help bridge the gap between the government and industrial constituents.*

**Datuk Mustafa Mansur**

government representatives within the Financial Committee.

- A progressive and balanced approach, which is necessary to foster corporate social responsibility, while representing the interests of the sector as a whole, with no bias towards any particular industry. Proposals must be supported by well-documented arguments, and independent research carried out to accompany recommendations and feedback presented to the government.
- FMM has had committed and responsible leaders who are prepared to dedicate valuable time to attend to the needs of both the industrial sector and the government and prioritize national service over personal interest.
- FMM has worked hard to form a strong and independent secretariat, an organism that is essential to provide the government with necessary support and feedback, and which has an adequate capacity for project implementation and the preparation of specialized reports and recommendations.
- A willingness to share experience and expertise.

343. We are truly convinced of the need to be actively involved in policymaking, constantly promoting initiatives that will help bridge the gap between the government and industrial constituents. In addition, we must encourage government participation in some of our own working committees and foster a permanent dialogue that will help government officials fully understand the needs and interests of national industry. The industrial sector must ensure that feedback provided to the government is well researched and documented, and that the views expressed are representative of the sector's needs.

344. There are also certain pitfalls that we must avoid in this relationship. Our proposals must not be overly business-centered, but rather anchored ultimately in the overall interest of the country. Confrontation should be replaced by consultation and negotiation, work should be problem-oriented, and the government's options kept open. The use of the media should be minimal; as we cannot afford to betray the trust we have been given. Information confidentiality is essential, and the content of papers given to us for review, are under no circumstances circulated or divulged. Our goal is to win the war and not the battle.

345. With a view to offering a balanced presentation, I would also like to offer advice to the government sector: learn what investors want. We strongly believe that investors all over the world have same basic needs, and that if these basic needs are taken care of, the task of securing private sector support for the government's macroeconomic and social development agenda

346. In conclusion, we would firmly say that, yes, we are actively concerned with and participate in the country's long-term holistic development strategies; yes, our industrial organization can and does voice its views to the government on sector-related issues, acting as bridge between the government and industry constituents; yes, the government would be prepared to take a pragmatic approach to secure business support for its macroeconomic and socioeconomic development agenda; and, yes, we can produce a 'win-win' situation for the country. Government and business, working together in a process of permanent consultation, can ensure balanced long-term development strategies and policies.

347. As I am the last speaker today, I would like to end my presentation with a poem that was written by our former Prime Minister Mahathir Mohamad, and recited at his 2004 budget speech:

*Because of you, Malaysia  
We uphold the nation, unite the people  
We set a thousand steps forward  
Together we strive in darkness, riding the waves  
Seeking the light, reaching for the dream  
Defying a million obstacles  
Though we may fall  
We shall persevere to achieve our vision  
Peaceful is my country  
Blessed with success, bestowed with prosperity  
United we stand, resolute in determination  
Glow the spirit of patriotism  
The world has acknowledged  
Our dignity has been upheld  
No more aggression  
No more humiliation  
Our independence enshrined  
Peaceful is my country... Malaysia*

## COMMENTARIES

**Eugenio Staub**

*Member, Industrial Development Institute, Brazil*

348. Brazil has had considerable experience on the subject of national vision and strategies. Fifty years ago, President Juscelino Kubitschek, one of the country's finest leaders, established a five-year plan in which he identified Brazil's main goals or *targets*. Due to the success of the plan, President João Goulart and his Minister of Planning, Celso Furtado, oriented economic planning around a three-year plan, which had limited success, however, as a result of political upheaval in the country at that time. During the country's military regimes, a number of plans were established, such as the country's national development plan, with an important degree of success. Finally, in the 1960s, a strategic development plan guided Brazil's processes of modernization.

349. After the 1980s, however, no new strategic plans were established in Brazil, and our national development strategy was guided by one single objective: curbing inflation. When this was achieved, no new objective, strategic vision, or national plan was established in its place, as the country was functioning under the influence of the Washington Consensus, according to which if we were good students and got our macroeconomic policies right, everything would supposedly work. And yet, it did not.

350. In 1999, the country was negotiating once again with the International Monetary Fund, and since then, despite the changes in government, our national goals have been to achieve and maintain a large surplus in the balance of payments and trade. While we have been able to achieve such a goal, that is unfortunately the extent of our national agenda today. It is an agenda strongly influenced by the media and by financial analyses. Overly strong emphasis is placed in Brazil on economic indicators, and on our capacity to produce a balance of payments surplus. While, as I said, we are showing such a capacity, this does not constitute a national vision.

351. When I was younger, 30 years ago, Brazilians of my generation had two main convictions. One, which was related to the country's performance on the soccer field, proved to be true. The other did not, and that was the conviction that nothing could stop Brazil's rapid growth. Such a conviction was based to a certain extent on real facts: between 1901 and 2000, Brazil had the third fastest growing GDP in the world, following Taiwan and Korea. Today this is no longer the case. In the latter part of the 1990s we were ranked 93rd on the same scale, which is indeed a considerable drop.

352. So, what is being done today? As Minister Wagner mentioned earlier, President Lula has established an initiative through which to discuss and develop national strategies, and which is implemented on two levels. One is a technical group, known as the *Núcleo de Assuntos Estratégicos*,<sup>7</sup> which provides technical support for debate on future economic policy. The other is the Council on Economic and Social Development, over which Minister Wagner presides and through which long-term policies will be implemented. We are seeking now to incorporate into the national strategy an institutional dimension, social and cultural dimension, knowledge dimension, environmental dimension, and finally a global dimension. The latter refers specifically to the ways in which a country like Brazil, with its own particular requirements, difficulties, and

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<sup>7</sup> Center for Strategic Affairs

comparative advantages, can fit into the global scenario. As Minister Wagner mentioned earlier, we will address these issues in three different time periods: by 2007, 2015, and 2022.

353. I am convinced that if such strategies had been established 20 years ago, at the end of the military regime, Brazil would be a better country to live in than it is today. Predictions however, are impossible. None of us would have imagined 20 years ago, for example, that a phenomenon such as the Internet would exist today. What we can and must do now is foster a permanent process of development, and as part of such a process, we are now discussing within the Council on Economic and Social Development, and on several technical government boards, the goals to which our country should aspire, and which go beyond the short-term agenda to meet the financial market's requirements.

354. It is here that we can identify elements common among different countries. For example, if the presentation made by our Costa Rican representative, Mayi Antillón, were in Portuguese, it could, indeed, apply to the Brazilian case, as they follow common principles. In fact, some of the issues highlighted in the Korean and Malaysian presentations could also be adapted to Brazil. While Brazilian industry has not achieved the impressive level of organization that the Malaysian manufacturing sector has, I believe that there are, nevertheless, some commonalities. In an evolving global scenario, it is indeed very difficult to determine exactly where Brazil should stand, and I believe that the countries represented at this forum have a role to play in helping us in that process. We have taken great strides to achieve greater regional integration through ALADI (Latin American Integration Association) and MERCOSUR (South American Common Market), and such other initiatives in the past. Such collaboration at a regional level can undoubtedly be replicated beyond the continental limits.

355. What are, therefore, our strategic objectives? I believe that such objectives must necessarily have an important social dimension, for which one example could be full employment. In Brazil, and certainly in other countries represented here, full employment is something that can be achieved over a period of 20 years. In my personal opinion, which is clearly independent of that of the government, a second goal we could possibly reach is that of broadband connectivity for all citizens, 20 years from now. This would provide innumerable opportunities for leisure, education, and communication, and would also create employment in an expanding electronic industry. It is this type of objectives that we are currently discussing with the Brazilian government, identifying areas in which we can achieve greater competence.

356. Fortunately, we have comparative advantages derived from the rich natural resources God has provided us with. Our performance in the agro-industrial field is one such example—we are highly ranked in international production of soy beans, coffee, meat and sugar—and 50 years of industrial history has given us a strategic advantage that not many countries share. We must now, however, clearly define what our next steps must be, and there is a clear potential for cooperation among the countries represented here, in such an important task.

## 7. SOCIAL PARTICIPATION AND STRENGTHENING THE GOVERNMENT-PARLIAMENT RELATIONSHIP

**What kind of participation does the civil society have in the dialogue between the government and parliament with regard to long-term objectives and priorities?**

### **BOTSWANA**

#### **Mahomed Iqbal Ebrahim**

*Vice President, Botswana Confederation of Commerce, Industry, and Manpower (BOCCIM), and Chairman of the Small Business Council, Botswana*

357. Botswana has been independent from Britain for a little less than 40 years, and like many countries from the old colonial era, we have both a strong government and a weak society. In terms of population and the size of its economy, our country is far from being an important global player, but we believe that we have made significant progress over the years. Education is free for all citizens, as is health care. The elderly receive decent pensions, and cost of essential services is partially government funded. We have, according to Moody's and Standard & Poors, the highest credit ratings in Africa, and Transparency International has characterized Botswana as the least corrupt country on the continent. While this may sound like the ideal state to which we all could aspire, there are storm clouds on the horizon. Approximately 30 percent of the country's population is HIV positive, despite a far-reaching government program for the provision of antiretroviral drugs and treatment. Unemployment has reached 21 percent, our economy is highly dependent on the single commodity of diamonds, which contributes 80 percent of our GDP, and we have an extremely unequal income distribution.

358. Recent events in world markets and consequent financial turmoil put considerable pressure on Botswana, and created a scenario in which dialogue between the government and the private sector became imperative. In 1986, we proposed, through the United Nations Development Program, a liaison between the government and the private sector, by organizing a National Business Conference at which we could discuss the country's problems and seek appropriate solutions. That was, indeed, the first step towards establishing government-private sector dialogue.

359. I once described the relationship between the government and private sector as a marriage of convenience and at the same time a marriage of inconvenience. It was clear at the first meeting that the private sector wanted a marriage of convenience with the government, one in which during the first year, the husband speaks and the wife listens. In this case, it was the private sector that spoke and the government that listened. The following year the wife became much wiser. She spoke and the husband listened. And in the third year they both spoke and the neighbors heard their argument. These were the dynamics of our early discussions, and one could say that while we had a very tempestuous marriage at that time, the relationship eventually became more harmonious. As in Malaysia, we learned that one should never put the public sector in a corner, but rather leave them a permanent escape route. This is because when government finds itself in a corner, it will either come out fighting, or build a wall around itself.



360. The National Business Conference spawned what I referred to previously as vision 2016, Botswana's long-term vision. A structure known as the High Level Consultative Council (HLCC) has been established for vision implementation. The council meets twice a year under the chairmanship of the President, and provides an opportunity for the entire cabinet and all senior government officials to meet with the private sector and discuss the resolutions made at the National Business Conferences that take place every two years.

361. Within the HLCC are what we call structural sectors. These are platforms for sectoral debate where specific ministers will meet with representatives of the private sector to discuss specific issues of common concern. These sectoral discussions within the Council help foster fluid dialogue between the government and the private sector. Discussions are based on respect for the government, and the private sector has learned that not all proposals will be transformed into government policies and regulations. This is because we understand that while we represent a large national constituency, the government represents a larger one, namely the Botswana population and national interest. Those issues on which agreement is not reached are taken back to the HLCC, and the President himself establishes direction on each respective subject.

362. We therefore have a very productive and sincere working relationship with the government. Mutual respect is a key element of the relationship, as is the private sector's acceptance that it must represent not individual but national concerns.

363. In addition to the HLCC, Botswana has a system of public consultation, through which the population can discuss their concerns with the government, and this is system that we refer to as chieftainship. Chieftainship is a remnant of the country's past, and is unique to Botswana. Within the system, the tribal chief would call all members of his tribe to a gathering which in the vernacular is called a *jota*. At the gatherings, they

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**Mahomed Iqbal Ebrahim**

would present and discuss their concerns in the presence of the chief, without fear or favor, and the tradition has been upheld until now. Today, the President of Botswana tours the country and addresses public meetings, sometimes under a tree or inside a tent, and all citizens are free to approach him and present their concerns. This open relationship between the people of Botswana and the president is one of our greatest resources.

364. Within the consultative system is also what we call village development committees, which are established in each village or ward, and they discuss issues of local development. Community concerns are presented to the village representative on the local council, and proposals are implemented by the local authority. When proposals involve large-scale actions such as the construction of a school or health clinic, they are discussed within the respective district development plan, for which representatives of ward development associations, local authorities, and district administration are responsible. Lastly, the National District Development Unit mainstreams all projects into the country's three-year national development plan.

365. Finally, we have one other important channel for dialogue, and that is the National Employment, Manpower, and Incomes Council (NEMIC), a tripartite structure in which government, trade unions, and the private sector participate. The Council discusses and makes policy recommendations on income, employment, training, and other related subjects.

366. In Botswana, we are proud to be the only country in Africa that has enjoyed democracy since its independence. We might be a beacon in Africa, but democracy is indeed very dear to us. The fact that we have had only one party in power over the last 40 years has both advantages and disadvantages. While we benefit from the continuity it provides, times inevitably do change and those in power tend to lose touch with reality.

367. To conclude, I would highlight a relationship based on mutual trust as our guiding principle in the construction process. It may well not be a one-size-fits-all solution, but in our experience, this system of coordination and consultation between government, the private sector, and the population of Botswana has indeed borne fruit.

## **CHILE**

### **Gastón L'Huillier**

*President, Proyecto País, Chilean College of Engineers A.G.*

368. I will introduce you to Chile's project of civil society participation in the dialogue to develop a long-term vision, including relations between government and parliament. I will address the evolution of this project and its contributions.

369. The project emerged in 2002, after the Asian crisis, at a time when intense pessimism was rampant among the population. Political and labor union sectors were arguing that the country needed a more explicit development vision, and that the short-term perspective of all the participants was immobilizing the harmonization discussions on development. As pointed out yesterday, the government, with a viewpoint most likely centered more on its own survival, submitted proposals focusing on achieving voter acceptance, just as the opposition was doing, while business and labor were defending their strictly short-term rights with very little long-term vision. In this context, the lack of legitimization inhibited the use of measures focused on specific economic issues with greater potential, for fear of doing what could be construed as picking winners, namely, engaging in industrial policy by favoring some sectors over others.

370. This immobilization inspired a group of professionals to generate a development vision within an environment free of special, union, and political interests and to assign priority to attracting the community with a positive, challenging long-term development vision. Work began in January 2003 by calling the commissions to meet, bringing together experts on 34 subjects, all of them excellent communicators, and outstanding majority leaders from the public and private sectors. These commissions gather 250 participants, who consult with another 2,500 specialists in the hopes of covering all of the valid opinions on these matters on the national level.

371. It was a very participatory project, which received a wide variety of opinions. Using business sector methodologies, such as balanced scorecards and strategic maps, to define development plans, the project was structured as a central commission, generating visions for

these 34 sectors and a national development vision that was widely accepted in all sectors. This acceptance yielded an enormous presence in the media, including 30 television hours and more than 30 published articles. The project attracted the attention of the Senate broadcasting system, which filmed almost ten Senate presentations. The project was approached by the government in specific sectors such as agriculture. Lately, presidential candidates from all the parties have expressed interest in endorsing proposals; having their party representatives participate in the commission has lent legitimacy to all the proposals in a very different atmosphere from when a government unidirectional plan emerges from one single party.

372. We achieved objectives far beyond our original expectations. Our chief objective can be summed up as the legitimization of the measures that must be taken to ensure superior public and private institutional leadership. We realized that we needed to legitimize what to do to ensure that the authorities could make decisions without being subjected to public criticism. We also proposed to strengthen the fragile bipolar institutional development that occurs when there are only two parties in a dialogue, as happens between regulators and unions, for example, wherein decisions swing from one extreme to another depending on the level of support that either stakeholder is receiving at a given moment. This is why it is so important that intermediate organizations, with no direct interest, be able to provide an independent opinion and lend balance to these two extremes. What we seek is to include participants not just from the upper echelon (in this case, individuals from the corporate sector) but also representatives of small business, and workers from sectors that are often not represented by the larger unions, as well as the interest of the remainder of the population—the chief actor who is usually absent from these dialogues. We never pretended to reach agreements with all the groups, but rather to get a critical mass of agreement. Therefore, in the reports that we published, we expressed the central opinion of the group in general, but we also complied dissenting opinions as well. We decided to generate social cohesion through a permanent dialogue process, since the development vision can always be gradually polished, as expressed in some of the presentations made yesterday.

373. Objectives include reinforcing the effectiveness of our group to achieve its purposes in keeping with a common project. To do this, we make an effort to appeal to all community interest groups with a positive and challenging development vision that will help form the conviction that this is what had to be done, and to help specific groups integrate their propositions into a plan with a long-term focus. Just as important as are institutional and technical aspects, or having a project, is the emotional factor that we see when people feel a sense of belonging to the same group and project, thus enhancing relations between them.

374. The initiative was very well received because it does not compete with any sector and instead feeds information to all of them. Soon after we went to work, we discovered how to deliver very conclusive figures on Chile's development potential, such as, for example, how to double exports between now and the end of the decade. This allowed us to practically double the GNP per capita projections based on very solid sectoral support. These were unpublished figures and we found it very interesting that the subject had never been analyzed this deeply before. Another great surprise was the extensive consensus reached in areas where we were expecting more disagreement, such as health, education, and tourism. In reality, we did not find marked differences in the reports, but opposing participants and the government asked us to not report them as technically in agreement on these matters because it could cause trouble for some of them.

375. This positive energy with an optimistic, realistic long-term perspective was very infectious and helped boost the project's critical mass. We currently have propositions that will allow us to almost double the number of issues addressed and the number of people who participate in the commissions. We could see that the people were eager for a space where they can participate and influence public opinion, that wasn't contaminated by special interests, discredited, or biased because it pertained to a single sector. In fact, we have contributed institutional development to more than 30 sectors that today hold a neutral opinion that is independent from special interests—which adds to the richness of the discussion. On the other hand, this project has taken the most resources to run: we have invested a total of two million dollars in man-hours to date.

*... people were eager for a space where they can participate and influence public opinion, that wasn't contaminated by special interests, discredited, or biased because it pertained to a single sector.*

**Gaston P'Huillier**

376. The technical contribution made by this project and its institutional robustness are remarkable, but this is also true of its emotional and agreement factors. Without doubt, we now have a national development project published in *Proyecto País*,<sup>8</sup> the first edition of which has sold out, with the second to be published. We are working on the public relations level to take this idea to interest groups such as parliament and the government, with the support of this same 250-person structure in each one of these sectors, and in a cross-cutting, large-scale fashion to attract the public through courses taught at universities and in other programs.

## **COSTA RICA**

### **Leonardo Garnier**

*Former Minister, National Planning and Economic Policy*

377. If I were to return to Costa Rica and tell a journalist that I just participated in a seminar on the experiences of successful countries, he or she would probably reply that I must have been invited just as an observer. This is because, in Costa Rica, if you claim that the country has been successful, people answer you back saying that it's not true, that everything is a disaster or a failure, and that nothing is working. This is why I find it a bit strange to find myself at a meeting delivering a presentation on the successful case of Costa Rica. I will begin by touching on factors that might be used to say that Costa Rica has been a successful country. Then I will go on to address some of the reasons why our experience has been less than successful recently, putting the issue of relations between parliament and the executive branch and their participation into this context.

378. It is self-evident that Costa Rica has been a successful country, in terms of its social indicators prior to the crisis of the 1980s, but especially in more recent years, since they continue to be very positive. Life expectancy in our nation, at more than 78 years, is quite an achievement

<sup>8</sup> See the Chilean Engineers' Association A.G. (Colegio de Ingenieros de Chile A. G.) (2004) *Country Strategic Plan 2004-2010. Proyecto País, Engineers' Association.*

and reflects a series of successful processes. In Costa Rica, institutions function relatively well; there are social insurance and health systems, and justice does work. Before, people would say that the judicial system dealt only with the poor and that wealthy people never went to jail. However, opinions are very different today, following several corruption scandals over the last ten years, culminating with public and wealthy figures serving time in jail. Costa Rica has also been very successful at increasing its exports from US\$1 - 5 billion dollars a year during the economic liberalization process, which led to a rise in export industry-associated employment.

379. In addition to these favorable indicators there are more unsettling ones. Costa Rica's economy is unstable; the country continues to suffer a systematic gap in the trade deficit each year and a fiscal deficit as well, neither of which it is able to lower, thereby increasing the risk of another crisis. Productivity is low and has not kept pace with consumption and investment. Perhaps one of our greatest concerns is that, despite our success over the last 20 years, we have not lowered inequality, which has actually gone up, just in terms of what we can measure, not to mention aspects that cannot be gauged. At the same time, the ways in which inequality is manifested, its visible symbols at both extremes of society (the wealthiest and the poorest) are much more evident than in the past. They are reflected in growing violence, dissatisfaction, and the breakdown of peaceful human coexistence, which has traditionally been one of Costa Rica's most important values.

380. What concerns me about these positive and negative outcomes is the deterioration of our country's ability to make collective decisions. Over the last two decades, the Costa Rican decision-making and political systems have been falling apart at an increasing pace. In the political system, instead of a national project, we see several different group and sectoral visions more than individual ones. This is evident in the media, in debates, and within the political parties. In Costa Rica, the political parties currently act less like parties and more like a federation of sectoral interests, even their organizational structures. Even the way in which the parties are organized by law into sectors is wrong. Those who attend national political assemblies are people representing business, labor, cooperatives, women's movements, and so on. All of a sudden, no one there is a citizen and everyone represents some type of sector. Though they have not been adopted, there have even been proposals to organize the state along these lines. For example, at times a need has been expressed for the boards of directors of companies or public institutions to be structured like corporate bodies, not so that the government would appoint the members, but rather so that representatives from government, labor, and universities would be placed in them. This is the danger of fashioning democracy as if it were a corporation, with good intentions of encouraging the participation of all the sectors behind it. This weakens the concept of citizenship and democracy, however, and strengthens the notion that here we are no longer members of a society, but different sectors in conflict instead. By this, I do not mean to suggest that sectoral interests are not legitimate, but rather to simply draw attention to the differences between them and the political discussion concerning the framing of civil accords.

381. In this context and with these problems, several attempts have been made over the years (Mayi Antillón mentioned one of them) to generate some type of national or very wide-ranging accord, such as the harmonization process, which addressed many issues, some very specific. The discussion during the harmonization process was very rich and interesting, with broad participation of many people and sectors. This failed because the government subsequently tried to influence its outcome by introducing a bill allegedly based on it, but did not resemble it much, consequently undermining its credibility.

382. I will discuss an additional example of Costa Rican reforms with both positive and negative aspects. The need for tax reform was posed in a country in which public spending is relatively high, although in some sectors, such as education and infrastructure, it is still deficient. The tax burden (13 percent of the GDP) is not enough to pay for the kind of investments that the country needs to make. These investments were the reason behind the need for the tax reform. But some political parties and civil sectors brought pressure to bear and, instead of conducting the debate in Congress with the inclusion of civil society, they were able to get a mixed commission appointed, which included members of parliament and representatives from different sectors. This was promoted as a step forward in participatory democracy. I am a fervent believer in participation, but I am very skeptical when it comes to this notion implying a transition from representative democracy to participatory democracy. I understand representative democracy, its pros and cons, quite well, but I have never accepted participatory democracy as a substitute for representative democracy. Sectors participated as such in the mixed commission and, as pointed out before by some of us, were highly criticized for doing so. For example, those closer to specific business groups concerned themselves with lowering the maximum corporate income tax rate in the bill from 30 percent to 18 percent. They stated the case of Ireland as an example, where the maximum tax rates are even lower, and said that in order to allow the country to hold on to those investments, we had to lower the corporate income rate even more. Labor sectors focused on keeping the value added tax rate steady at 13 percent, even though it is close to 21 percent in Ireland and 18 percent in Chile. The bill was eventually drafted with a value added tax of 13 percent and an income tax of 18 percent. Others, who participated on behalf of political parties, convinced as they were of winning the upcoming election, introduced a clause into the bill, stipulating that these tax reductions would remain in effect as long as the tax burden doesn't fall for several years until 2010, when proposed tax reductions would automatically be applied. This is why Oscar Arias, who was seeking a presidential candidate nomination at the time, was not overly concerned with the package because if this situation were to occur, it would not have affected his term of office, since he had excellent chances of winning the next presidential race. If the bill had been approved under these terms, fiscal income would likely have abruptly fallen in the following electoral year, 2010. It is obvious that whoever is in power in 2010 will not propose a tax reform bill for the following administration and that anybody outside of the government running on an election platform insisting on the need for increasing taxes by five percent of the GDP will certainly lose.

383. This is an example of an apparent process of social participation in the legislation of a bill that, instead of enhancing the bill, turns it into a travesty because the participants engage in it solely from the standpoint of their own sector's interests. Fortunately, this caused enough uproar in public opinion to put a halt to the process and resume the discussion in the legislature.

384. I would like to conclude by mentioning something that Joan Prats said yesterday; we are much too concerned about specific topics and in the process, we have forgotten that the key aspect of reform is political reform. What I mean by this is how the political system operates, that is to say, how the parties, media, and interest groups work so that democracy can afford us the means to make collective decisions representing national interests, and *blend* the interests of the different sectors, not just add them up.

## FINLAND

### Jyrki Kasvi

*Member of Parliament and member of the Parliamentary Committee for the Future*

385. I would like to tell you a little about the Finnish Parliament's Committee for the Future and how it allows us to improve communication between parliament and government and also, I hope, with the Finnish people. I chose the title *Glimpsing the Elusive*, as it is quite difficult to predict and prepare for the future. It is indeed a similar principle to that in quantum mechanics, that when you manage to observe it, you change it.

386. In order to illustrate the rapid changes that Finnish society, and in fact the world in general is dealing with today, I will use the example of the timber industry. My father, who has recently retired, was in the timber business all of his life. When he left primary school, he went to work in the forest with nothing but a saw and a horse. As a lumberjack today he would now be sitting in the cockpit of a harvester that resembles a spaceship in a science fiction movie, with innumerable screens and switches, and even a direct satellite link to the paper factory. These are the types of changes for which we have to prepare.

387. The Committee for the Future is a relatively young institution, but it was the first of its kind in the world, which is indeed quite surprising. It was established as a temporary committee in 1993 in the context of severe crisis, because in the early 1990s and late 1980s, Finland was experiencing very deep social and economic turmoil. What is interesting is that it was members of the Finnish Parliament who suggested creating the committee. Out of a total of 200 lawmakers, 167 signed the proposal requesting a committee of this nature, which could examine issues in more depth than existing organizations.

388. The original task was to prepare parliament's reply, in the form of a memorandum, to the government's Futures Report on national long-term development trends and related issues, but since then we have taken on other additional tasks. When the new constitution was introduced in 2000, our Committee became permanent and was given the same rights and responsibilities as other committees. However, we have made a conscious choice not to participate in day-to-day legislation, and this gives us greater freedom to address longer-term issues, keeping our Committee free of political debate. As a result, discussions are considerably more open-minded.

389. We also have funds at our disposal with which to hire external experts. This is because in Finland no legislation exists that requires members of parliament to have expertise in research methodologies or technology assessment. When we need such expertise; we commission studies from universities and research institutes and request experts to attend hearings.

390. The Committee is made up of 17 members of parliament from both the government and opposition parties. What is interesting is that the Committee for the Future's chairman is also the chairman of the largest

*A committee such as ours requires parliamentarians who are much more inquisitive and open than most politicians—parliamentarians who can propose innovative ideas and are open to criticism.*

**Jyrki Kasvi**

opposition coalition party, who is usually offered to preside over the Grant Commission, rather than this very young and not very prestigious Committee for the Future. However, when the Committee chairman, Jyrki Katainen, was elected to lead the party, he decided to maintain his position within the Committee, as it allowed him to focus on issues of Finland's future development and also help define opposition party policies.

391. The Committee discusses a wide range of issues, one of which is how to integrate work and life in Finland in the future. Finnish youths begin their higher education at the late age of 24 or 25 because it takes several years to secure a place at university, and in consequence, they also start having children at a later stage. What is more, women generally get permanent jobs only after they have stopped having children, which is why families choose to have fewer children than in most other countries. Consequently in the near future we will be facing a crisis in which there will not be enough young people to take the place of those retiring, a problem which is exacerbated by the fact that many people are taking premature retirement on account of illness.

392. The last government Futures Report we replied to, in 2003, was *Finland 2015: Balanced Development*. The new government has now replaced these reports with detailed and shorter-term political programs and I do not know if we will ever have such large, holistic reports again. In addition to replying to government reports, the Committee issues statements and handles a variety of longer-term discussions. We do not only have to react to what the government does but can also be proactive and raise new issues, which is a particularly interesting task. An example is technology assessment, for which we have identified and assessed new issues and presented them for discussion.

393. As Juan Claro said, you cannot drive a nation forward by looking in the rearview mirror. My opinion is that most other committees only react to problems they observe in society. They actually lead the nation by looking in the rear view mirror, while what is needed is a body within parliament that looks forward, and decides to take corrective action now rather than later.

394. I often use the industrial revolution as an illustration of the changes we need to anticipate in the future. Industrial development took place in two phases. The first phase lasted 50 years and was characterized by the development of technology. The second lasted another 50 years and witnessed the profound changes in society produced by such technology. As a result, when we moved from an agricultural to an industrial society in Finland, the labor market changed, the school system changed, health care changed, and even the family group changed. Now, 50 years have passed since the first commercial computers were produced, and such new technology is starting to change society. What will be the impact of this new technology on our society, our school system, and our family? They may be replaced by something we could call network families, and there is already evidence of such a tendency in Nordic countries.

395. As the world changes, parliament must also revise its own practices. Until now, we have only solved existing problems reactively, but now it is time to look forward and proactively face and address future possibilities and threats. I stress this order, first possibilities and then threats, because many parliaments and corresponding committees have been focusing on threats and not on possibilities. One of the Committee for the Future's tasks is technology assessment. This is quite peculiar because while in almost all other European parliaments external experts deal with technology assessment, in Finland, it is the responsibility of parliament, with the help of external experts. One may ask whether it is possible for parliamentarians to assess technology from a



neutral point of view, and I would say that it is certainly very difficult for us to do so. We are, after all, politicians, and an inherent element of our work is to express political opinions. This however, helps us identify social and politically important questions that need legislation and must be addressed in parliament. We can see such issues in advance, and this is the strength of the Finnish system. Our weakness is that we have not been able to involve our citizens in technology assessment, especially in comparison to the Danish, who have made the most progress in this area in Europe.

396. There are five main areas in which the Committee is focusing its work during this four-year period: the future of the Finnish information society model; the future of the Finnish health care system; human safety as a long-term comprehensive phenomenon; regional innovation systems; and social capital and future risks for children and young people. Fortunately, we have considerable time and effort to dedicate to each issue, as we meet twice a week and make frequent field visits. Work on the future of the Finnish information society model has been completed and as regards the future of the Finnish health care system, we are currently discussing, among other issues, what the consequences will be if we do not find a cure for dementia in the near future. Such a situation would indeed cause serious problems as will be very labor-intensive for us to care for the elderly with dementia and long life expectancy. Other issues in discussion by the Committee include human safety, regional innovation systems and how children and young people are affected by this new information and communication technology.

397. Finally, a committee such as ours requires parliamentarians who are much more inquisitive and open than most politicians—parliamentarians who can propose innovative ideas and are open to criticism. There are still those in Finland who underestimate the role of the Committee for the Future, to whom I answer with a quotation: “What is important is not to be good today, but to be better tomorrow than you were yesterday.”

## MAURITIUS

### Claude Ricaud

*Chairperson, National Economic and Social Council*

398. The National Economic and Social Council (NESC) was created by an act of parliament in 2001 and established in 2002, and we will complete our first term of office next year. The idea of such a council was not completely new, because when the parties that make up the current government came to power for the first time in 1983, they created an Economic and Social Council (ESC), based partly on what they knew of the French experience. There was then a break in the government and the new Prime Minister resolved to create the National Economic and Development Council (NEDC), a non-statutory body attached to the Prime Minister’s office. The Council resembled a think tank—its membership consisted of a small

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**Claude Ricaud**

elite group, with representatives from various sectors of the economy—and it was very successful in its endeavors. We believed, however, that it was necessary to follow certain global trends in institutional development, which meant the establishment of a National Economic and Social Council (NESC).

399. We are still in the early stages of development and it will therefore take considerable time to meet our objectives. These objectives are: to promote dialogue as a means of achieving consensus for social cohesion to keep pace with economic development—which is essential considering the multi-ethnic composition of the country’s population—and to express opinions and make project recommendations to government for the promotion of social integration and national development. Our efforts to achieve these goals are made along two lines. The first is the fostering of social dialogue to strike an adequate balance of stakeholders’ interests on key issues such as labor laws and employment conditions.

400. The second is the promotion of participatory democracy, and I am of the opinion that the NESC could indeed become a second chamber of parliament. Some of my colleagues from overseas share the view that an economic and social council is preferable to a senate as a second chamber. The NESC is an apolitical and completely independent organization, which can set its own political goals and is not tied to the government’s agenda. It works, however, not only on its own initiative, but also at the request of government.

401. The Council elects its own chairman and comprises five representatives from government, labor, and business organizations. Of these, four are nominated by the parties concerned and the fifth is selected by the government to strike the appropriate balance. Participation of civil society is also very important within the Council, and the fact that we give a voice to stakeholders outside the traditional tripartite model is a substantial innovation. This aspect has worked very successfully in Mauritius for several years.

402. The participation of civil society—non-governmental organizations, professionals, and academics—is key to the success of social dialogue. It has helped dilute the otherwise traditional, sectoral and often conflicting attitudes of the past and to reach consensus on the country’s macroeconomic long-term perspective, a fundamental goal in this era of trade globalization.

403. The Council commissions research from relevant organizations and professionals and tries to reach consensus on the results of the studies carried out, after which a concerted opinion on each issue is expressed. While we form opinions and make recommendations to government on economic and social policy, we are, however, only a consultative organization. Government has no obligation to follow our recommendations, and makes all final decisions (being accountable, of course, to the electors for the decisions made).

404. Another important activity of the NESC is to monitor the economic and social situation in the country. In this task, we work closely with the Central Statistics Office and the Center for Applied Social Research at the University of Mauritius. We are now in the process of developing a Social Observatory that will not only monitor economic indicators, but will also conduct surveys on relevant issues as and when necessary.

405. The Council has productive working relations with international organizations, in particular the International Association of Economic and Social Councils. We also hold an

annual summit, chaired by the Prime Minister, at which we analyze the previous year's report and the next year's program. The council interacts with the President, the Prime Minister, government ministers, and the leader of the opposition. Members of civil society also take part in our commissions and working groups.

406. The council has set up three separate commissions, dealing with economic affairs, infrastructure—including natural resources and sustainable development—and social issues. In addition, we have carried out studies on the fiscal responsibility bill, the protection of the elderly, and wage determination, among other issues. We are also responsible for the African peer review mechanism, which is an evaluation of the index of political and corporate governance.

### **Raj Makoond**

*Director, Joint Economic Council*

407. The Joint Economic Council (JEC) was set up in 1970, two years after Independence, and has been very active since then. JEC essentially offers private sector perspectives and expertise. We interact with government and comment on legislation and therefore have an influence on parliament. The Council provides a platform for all business organizations in Mauritius to interact. It is made up of the chairmen of the nine most important business organizations in Mauritius, and generates consensus internally on each issue before discussing them with the government.

408. We have moved steadily from a reactive to a proactive position, and now have an interactive relationship with government. JEC meets regularly with the government, and the meetings—which were originally held twice a year and are now held every two months—are attended by the Prime Minister, government ministers, and all Committee members. It is an unwritten law in Mauritius that government should meet with JEC, a practice that has been in place since 1970. I believe that it is most probably the legitimacy of JEC that has made it possible to build this kind of rapport and fluid dialogue. Mauritius has indeed an important culture of private sector structures: the Chamber of Commerce dates back to 1850 and the Chamber of Agriculture dates back to 1854. After Independence, it was therefore very opportune for the private sector to establish a platform to collectively engage with the government. This platform for dialogue is informal but nevertheless well structured, and fully financed by the private sector.

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**Raj Makoond**

409. My last point concerns the issues that JEC is currently discussing. Political stability is a high priority for us and the Council therefore does not have a political agenda, but rather an essentially business-related agenda, and this is possible, given that Mauritius has been operating in a democratic set-up for some years. The country is currently undergoing a difficult period and JEC is concentrating on six or seven major issues. These include governance, for which we are working closely with government on transparency; a sugar sector strategy plan; a textile emergency support team; corporate debt restructuring; permits; the telecom environment; and World Trade Organization negotiations.

410. Such positive chemistry between the private sector and government has been possible because both parties recognize the importance of interaction in a democratic society. This positive interaction has been enhanced by the fact that the JEC has no political agenda and, more importantly, the fact that the business community has worked hard to obtain peer respectability vis-à-vis the government.

411. A number of new issues are now emerging, among them the question of how to participate more effectively in the new economic transition that Mauritius is going through. In this task, our road map is a report prepared by a JEC taskforce on Economic Transition in Mauritius, which guides our discussions and helps us effectively lobby government.

## COMMENTARIES

**Yeidckol Polevnsky Gurwitz**

*Vice President, National Association of Manufacturers (CANACINTRA), Mexico*

412. Yesterday we mentioned, and today we have repeated, the issue of economic and social councils. In Mexico, we have worked for the last four years on establishing an economic and social council. Civil society is very advanced and far ahead of government positions, despite which we have run up against considerable resistance to forming this council. When we were proposing it, I expected that the main objections would come from the legislators. However, Senate approved the initiative, which is currently on the floor of the Assembly, by unanimous vote. A very small, non-representative yet economically powerful business organization opposed its creation, instead of appreciating all that could be achieved with this institution, arguing that it would undermine its leadership.

413. In Mexico, the positions of the parties are highly politicized. The only way to reach an agreement is through committees that are not connected with the political parties, in which the civil society can participate. However, since our discussion is sector-oriented, this has also run into difficulty. That is why I truly appreciate the comments made here on economic and social councils.

414. When Mexico signed the Free Trade Agreement with the European Union, it committed to create an economic and social council. We have until 2006 to create this council. However, within the Mexican government itself, in the Department of Labor and Social Services, there already is a Council for Dialogue with Productive Sectors that the Administration considers the equivalent of the economic and social council, despite its being in diametrical opposition. The Council for Dialogue is a high-level entity within the sphere of the President of the Republic, from the Secretaries and Ministers of state on down. We need a core council in which business, labor and civil society organizations can participate. Considering what Álvaro García said yesterday, I believe that representative organizations as well as individuals with the expertise to reach agreements should participate in this council. There are 60 economic and social councils that are yielding excellent results and I find it odd that we should not be able to do the same thing in Mexico.

415. One last comment. A small special interest group told President Vicente Fox that the creation of an economic and social council would do away with all their powers, but they are mistaken.

**Lewis Holden**

*Deputy Secretary, Ministry of Economic Development, New Zealand*

416. Reflecting on the meeting's discussions, it seems to me that there have been two key themes. One is the effect of crisis on reform processes, and the other is the role of social and private sector participation in growth strategies. I would like now to provide some insights into New Zealand's experience on these two subjects.

417. In recent years, New Zealand has embarked on two quite distinct phases of economic development reform and strategy. Our current phase is guided by a growth and innovation framework, similar in many respects to the growth strategies presented by colleagues at this forum, which is cause for reflection in itself. This current phase was not born out of crisis, but rather is predicated on a broad partnership approach, and codified in a specific statement of intent and strategy. By contrast, however, our previous phase of economic reform, which broadly dates from the mid 1980s to the early 1990s, was very much spawned by crisis. As was common in those pre-comprehensive development framework years, the reform process was also far less consensual and less explicit in terms of its strategy. I would even say that in this phase of more classical and neoclassical micro- and macroeconomic reform, focused on the removal of privilege, and heavily influenced by some of the conceptual thinking of the time around public choice theory, agency theory, we probably even made a virtue of non-inclusiveness.

418. Our first phase of economic reform was largely successful, certainly in terms of arresting New Zealand's economic decline. We have a modern, open economy that is much more resilient than it was before, stable monetary and fiscal policy, a flexible capital and labor market and reasonable growth. And while there was little consensus around the reforms at that time, there is now very broad support for the reform process, and the results they have delivered.

419. I would stress, however, that strong institutions are not equivalent to formal processes of consultation and dialogue. I would also say that despite the relative absence in New Zealand of mechanisms of formal social participation, such as the councils mentioned by my colleagues, we do enjoy strong institutional frameworks, and the reform process has indeed enhanced this in many ways. We have a healthy democracy, strong and transparent public institutions, and a highly developed system of formal accountability for the use of public money.

420. I must concede, however, that despite the positive results of the reforms at the time, they have not succeeded in adequately positioning the country for a new phase of economic development reform and strategy. This is a phase in which, as Raj Makoond recently put it, we are moving from a reactive to an interactive mode. In New Zealand, we have little positive experience of networking among the private, government, and non-governmental sectors, and have much to learn on the subject. This new interactive phase is indeed a challenging one, in which the role of government is less as dictator or regulator of economic policy settings, and more as broker and facilitator amongst the key stakeholders. I believe that the challenge of enhancing productivity, an element at the center of growth strategies, requires increasingly sophisticated means of social interaction.

**Rafael Roncagliolo***Technical Secretary, National Accord, Peru*

421. At this meeting we have had the opportunity to hear about such interesting, diverse, and similar experiences as the initiatives arising from the business sector in Botswana; from professional organizations, such as the one in Chile; from Congress, as in Finland; or from forums such as those in Mauritius or Costa Rica.

422. My impression is that all these initiatives share two major purposes. The first is to increase the levels of consensus in society and the second is to raise the possibility of long-term development policy. These both fuel one another: consensus makes long-term policy possible, and when conflict becomes too predominant, it becomes very difficult to see beyond the short term. I believe that there is a third dimension to these efforts, however, illustrated by what Leonardo Garnier said, which was extraordinarily useful, about the tension between representative democracy and participatory democracy. The problem is that, if one of the two strengthens harmonization efforts (which must be done, and all of us here are committed to an effort of this type) with representation of the different sectors and special interest groups in the society, we run the risk of undermining representative democracy. I am not saying this as a matter of principle, but rather one of practice. The modern democratic system operates on the basis of representative democracy, which must be as participatory as possible, but this entails certain risks. By this, I would like to underscore what Garnier said: if we want to carry out a tax reform and we include the interests of each sector in it, all we would achieve is to lower all taxes, because for each tax there is an interest that wants to lower it. This jeopardizes any possibilities for long-term planning and turns consensus into simply a matter of reconciliation of interests, which calls for sacrificing the collective ones.

423. We must restore the role of representative democracy and, hence, that of politics and political systems, which is one of the foremost issues stressed by Joan Prats. We are very interested (and it is crucial for us to be) in seeing the role of people in business shift from reactive to proactive participation, but while doing so, we must concern ourselves with the quality of politics, which is central to consensus, the long term, and to ensuring that participation itself does not impair representation.

**Gastón L'Huillier***President, Proyecto País, Chilean College of Engineers A.G.*

424. Álvaro García asserted that it is possible to achieve an acceptable level of consensus on an implicit strategy, which would make it possible to address a sector in a very positive way with a view toward long-term development. In this regard, we have discovered that when technicians from the labor sector and the government get down to reflecting on a horizon more than five years down the road, the sectors engaged most in debate tend to agree on the course that should be taken.

425. Difficulties arise when closer deadlines are stipulated. However, since the efforts of Proyecto País are focused on the long-term, and this consensus deals with the long term before turning its attention back to the short term, dialogue is a lot less difficult. This does not compete with participatory democracy, as the representative from Peru mentioned. We aim, rather, to nurture the participants in this participatory democracy with better experiences, so that they can

sustain a more substantial, steadier, more solid and responsible dialogue. I would therefore say that the differences have been reconciled. Perhaps we would have had more difficulty had we considered a very short-term perspective in an environment with more negotiation, but the setting here is different. Nobody sits down at the negotiating table representing personal interests or those of his/her own group, so dialogue takes on substantially different features.

### **Raj Makoond**

*Director, Joint Economic Council, Mauritius*

426. On how to maintain independence from political agendas, I have four main points to make. The first is that Mauritius enjoys a healthy democracy, and the principles of the democratic system are fully supported by the business community.

427. Second, the Joint Economic Council (JEC) deals directly with the government in power, through meetings chaired by the Prime Minister himself. While the opposition has been known to request meetings with the JEC, such meetings are not among the Council's activities.

428. Third, the JEC discusses and takes a position on exclusively business issues. In 1996, for example, we strongly opposed the budget, and made our stance public. On that occasion, however, our opposition was not to the government, but specifically to its economic policies. It was essential to make such a differentiation clear, and by doing so, within six or seven days we were participating in a process of dialogue with the government, which produced significant changes to the original budget proposal. The government recognized, therefore that the JEC was issue-driven, and that issues must necessarily be constantly revisited.

429. Finally, we have learned never to take a political position, avoiding all statements of support for, or opposition to any of the governments with which we have had dialogue. I myself, as Director of the JEC, would never reveal my voting options to the public, nor would I accept any political post. This is, indeed, the price that must be paid when working closely on business policy-related issues, and in our experience, it has produced positive results.

### **Oh-Soek Hyun**

*President, Trade Research Institute, Korea International Trade Association*

430. We have talked in depth during this meeting about the role of the private sector, and there has been clear recognition that it is an important engine for growth, employment, and investment. In Korea, while the private sector has a very high degree of organization, there are two main issues to solve. The first is that while the private sector is aware of the need for stable long-term strategies, it nevertheless shows an overriding tendency to place greater emphasis on short-term problems.

431. The second issue is a general sense of distrust on the part of the private sector towards the government, bureaucrats, and politicians in general. While the private sector has participated in processes of national dialogue, such participation has been limited, in part due to this lack of confidence. Improving the climate of trust between the public and private sector is becoming increasingly important, and the Korean government is seeking new channels through which to engage the private sector in designing and implementing the country's long-term development agenda. As part of such efforts, the current president has appointed a member of the business



sector as one of his ministers, which is a very rare occurrence indeed. Korean ministers have traditionally been chosen from among the country's civil servants, and therefore the new appointment can be interpreted as a positive move towards fostering private sector participation in the development process.

432. I would like also to comment on the role of the NGO sector in Korean society today, a sector which, in recent years, has experienced rapid growth. More than 15 thousand NGOs have been established during the last decade, and these organizations are helping voice civil society's needs, not only to the government, but also to the private sector, which makes their participation in the development process fundamental. The government, however, must take care not to undermine the legitimacy of democracy by paying insufficient attention to the demands expressed by the NGO sector, a sector which is becoming increasingly influential in forging public opinion. While a post has been created within the new government for liaison with the NGO sector, and NGOs have been responsible for the implementation of a number of projects, government is still reluctant to consider them a valid actor in policy formulation.

**Francisco de Sola**

*Member, National Development Commission, El Salvador*

433. Rafael Roncagliolo and Leonardo Garnier have addressed a very central issue: the choice, for all these dialogue processes, of people who are representative but at the same time do not represent. The private sector, officially organized in the form of associations, tends to represent interests, and frequently in these processes, people have to be chosen to represent an ulterior nationwide interest.

434. To illustrate this drama, I will describe an experience that we had in the National Development Commission. Precisely to avoid involvement in this scheme of interests, we chose six supposedly representative people who, over the course of seven years, prepared a very viable vision. This vision gave rise to hopes and met with popular acceptance (though current leaders; political parties especially, are reluctant to take ownership of it), because it is strongly representative of a consensual national vision, not of a certain political vision as to what the needs to be done. In short, the process is very fragile and does not always work well. Perhaps it works better for New Zealand, where the process was carried out *de jure*, without much consultation or representation.

**Mary Doyle**

*Assistant Secretary General, Prime Minister's Department, Ireland*

435. The discussions here have shown that there is a considerable degree of commonality among the arrangements currently in place around the world. It is also clear, however, that there are significant differences among them, and it might be useful to reflect on these in terms of the role and prerogatives of government.

436. In Ireland, one important role played by government is that of broker and facilitator between sectors, a responsibility to which the government has attributed considerable importance. In relation to this, the budget and the expenditure role of the government is extremely important, as this is where the ultimate political choices are made.

437. Second, the Irish government has an important role to play as employer, and this is clearly established within our institutional arrangements, where the wage and workplace bargaining process is independent from, but nevertheless linked to, the broader partnership process.

438. The third role of government is that of executive in the governance of the country, which brings the relationship with parliament into focus, and this is indeed something which I believe requires attention as we move forward. Opposition parties, particularly in Ireland, believe that the social partnership process has undermined their role within democracy, and that decisions are being taken by people who are not elected political representatives. One of the challenges, therefore, is to engage parliament—both government and opposition—in the social partnership process.

439. Finally, I believe that the Irish people are ultimately pragmatic, which means that as long as the social partnership process delivers results on the scale that it has until now, support for such a process will be maintained. This also means, however, that the process will be put under considerable stress when such results are no longer produced.

### **Jaques Wagner**

*Minister of the Secretariat of the Council on Economic and Social Development (CDES/PR)*

440. I would like to briefly address the observations made concerning the eventual clash or contradiction between representative democracy and participatory democracy. Conceptually, I believe that representative democracy supplants direct democracy, though perhaps through progress in technology we can eventually get back to direct democracy, for example, by holding an extensive direct worldwide meeting because, while intermediaries are necessary, some are good and others bad. In Brazil, representative democracy opens up a space for direct democracy. For example, to decide whether Brazil would become a republic or a monarchy, a presidential or a parliamentary system, a plebiscite was taken. This is direct democracy.

441. For me, participatory democracy, the participation of the people, is a right of the citizens that is not supplanted by representative democracy. When attempts were made in the 1970s to institutionalize direct citizen participation in democracy, the agendas had to be separated one from the other. In the case of Brazil, for example, when we started out with the Economic and Development Council, these agendas were mixed. In the Council, we took up the issue of tax reform, which in my opinion was the domain of parliament and the government, because even in parliament labor and business representatives would turn up. A debate was mistakenly initiated on this subject in the Council, even though I believe that it should have devoted itself exclusively to medium and long-term national undertakings and negotiations. If the Council starts debating daily issues, it will overlap the work of parliament, which in the end is where the law will be put to a vote.

442. In certain cases, these spaces can be combined. For example, in Brazil we are in the process of modifying union and labor legislation. The modification is being discussed in parliament and by a committee. Before the law went to parliament, we sat workers and employers down to debate over whether there was any consensus between the primary stakeholders that parliament could change (even though I do not consider that to have been a smart move).

443. There are specific issues, however, with which the Council does not become involved. Instead there are negotiating committees that can lend a hand to representative democracy. Some of us are in the habit of believing that, whenever a problem crops up, there are organizations that can apparently resolve anything, but no such thing exists. To move forward, a combination of democratic tools is needed. Even though I preside over the Council, I do not believe that it is the only bright spot in Brazil, but rather a space, among others, for the further development of democracy.

444. I agree with Rafael Roncagliolo that there is an enormous need throughout the world to enhance participatory democracy, together with the quality of political parties and members of parliament. In Brazil, for example, the people make these modifications, which last for four years, and each election 60 percent of parliament is voted back in.

445. There is also a space for participatory democracy in regulating implementation of public policy. In a country as large as Brazil, for example, health councils know whether the resources allocated for them in the budget made it to their municipalities. This methodology, which even World Bank uses in its funding, efficiently obviates corruption.

### **Jyrki Kasvi**

*Member of Parliament and Member of the Parliamentary Committee for the Future, Finland*

446. One of the key topics of discussion during this meeting has been the way in which institutions can foster interaction between government and civil society. I would like to raise the question, however, of whether formal institutions are always the right answer. My concern here is that if these institutions are not established with care, they may well become irreplaceable, and actually constitute obstacles to change.

447. In Finland, for example, dialogue between the government, labor unions, and employers' unions is channeled through what we call three-based negotiations. The system has worked quite well until now, and has contributed much needed stability for the Finnish economy. The difficulty is that officially there is no such mechanism as the three-base negotiation, nor is there any formal bureau, organization, or secretariat that coordinates the dialogues. In practice, however, consensus within these negotiations is required for any changes in work-related legislation in Finland to take place. The Finnish Parliament signs proposals that emanate from the negotiation process, but as the negotiations do not formally exist, there is no mechanism for guaranteeing transparency.

### **Ludwig Meier**

*Former Minister of Fisheries, Peru*

448. Regarding Gastón l'Huillier's presentation, the subject of communication is very important for reaching agreements. A proposal may be good, but if badly communicated it can be rendered useless. Proyecto País has achieved widely acclaimed progress because of its proposals and its mechanisms for communicating through leaders.

449. I would like to tell you about something we did in Peru. As I said yesterday, we comprise over 20 unions belonging to the chief business organization, CONFIEP (National

Confederation of Private Business Institutions). I belong to the Private Association of Public Service Companies, whose members are companies in telecommunications, electric power, infrastructure, and sanitation, all of which are supervised by an independent, autonomous regulatory agency. During the second half of 2001, shortly after the new government and congress were inaugurated, we noticed that members of parliament held very hostile positions toward private enterprise, and especially against public services, despite the enormous lack of investment in infrastructure for public services. If the companies already in this area were not receiving satisfactory treatment, we would be unable to develop a proposal or an attractive environment to draw in new investments.

450. A study was made through a renowned Peruvian economic institution to determine requirements for investment in infrastructure for public utilities. The study primarily compared the provision of public service to the citizens and businesses in Peru with those of Chile on items such as expansion of telephone service coverage, electric power coverage, or miles of highway per inhabitant. All of this, together with ongoing investment projects, called for an investment of US\$18 billion. The total country budget is US\$11 billion and, of course, the investment in infrastructure is minimal. Roads alone accounted for US\$5.4 billion and the highest budget ever allocated by this government was US\$300 million per year, which barely covers maintenance costs. An advertising campaign was even run in the media, and today in Peru, everyone is familiar with those figures. This created a suitable environment so that, when the opportunity arose, CONFIEP was able to facilitate approval of 13 privatizations in the National Accord. So, we see that communications are a very important element to be reckoned with in all of these processes.

## 8. TRANSPARENCY AND THE CREDIBILITY OF GOVERNMENT POLICY AND PROGRAM RESULTS

**What is the extent of government reporting on the results of its administration and how are the citizens informed?**

### CHILE

#### **Eduardo Dockendorff**

*Minister Secretary-General of the Presidency, Chile*

451. I will briefly describe the efforts being made in Chile to enhance the transparency of public functions, a task that is directly linked to improving the quality of institutions and modernizing the state.

452. In recent years, the transparency of public undertakings has begun to play a central role in Chile's public agenda. Several reasons explain this emphasis. First, greater transparency is a fundamental component of state reform processes, which are a part of the so-called second generation reforms that Chile is undertaking. These reforms follow in the wake of the first generation reforms that were carried out under authoritarian rule in the latter half of the 1970s and in the 1980s. Dictated by a government devoid of democratic legitimacy, most of the first generation reforms could not be successfully completed and had to be modified when democracy was restored in 1990. Second, transparency is an increasingly important requirement in the relationship between the state, society, and the democratic marketplace, assuring the optimal performance and efficacy of actions engaged in by institutions and social actors in these areas. Third, transparency is desirable conduct for any public official and, as such, boosts efficiency. Lastly, satisfying the growing demand for social transparency directly influences governance and the country's image abroad.

453. Adopting the goal of transparency in public life responds to the need for building and improving on democracy to ensure equal opportunities and treatment for all citizens. Transparent public service translates into higher quality democracy, and it assumes that citizens are more capable of overseeing public acts—a concept known as accountability, which generates a climate of trust and credibility. All of this, as you know, leads to state efficiency and, in the end, makes a country more competitive from the institutional standpoint. In short, a genuinely democratic state must guarantee the preponderance of probity and transparency as an essential requisite for the prestige of the country and its institutions, as well as the generation of a climate of trust among its citizens.

454. Transparency is an unavoidable requirement for the modernization of a state such as Chile. The country has features that are conspicuously out of step with the challenges of an increasingly globalized world, basically because many of the institutions that comprise the Chilean state were established in a very different economic, political, and cultural context from that of today. Further, our organizational culture adheres to very rigid standards and procedures, wherein elements of the market are scarce. Highly centralized management of public entities still predominates. Many public sector undertakings are characterized by a culture of secrecy, which

has no place in the modern democratic order and hinders necessary citizen access to information. Among the spheres where opacity reigns, the foremost is the incestuous relationship that exists between money and politics, which tends to be a source of corruption.

455. A symbiosis exists between transparency and probity, according to which they both presuppose and depend on each other. The concept of probity extends far beyond merely battling corruption: it deals with the significance of accountability for service, professionalism, and impartiality in the performance of service and obligations to render accounts concerning the use of public resources, as well as putting public interests before private interests. In turn, transparency involves putting information about state undertakings at the disposal of all citizens.

456. Based on international experience, several areas have been identified where a lack of transparency is more likely. Almost all of these manifest themselves where private and public interests come together and interact. In listing them I do not mean that problems exist in each of them, but just that they are more likely to develop such problems.

457. The first of these areas is that of political parties and political party funding. Examples include government team formation processes or the appointment of authorities, and the funding of electoral campaigns and political parties, where we have made some progress, though not enough. Opacity can also turn up in the closely related area of sectoral policy definition, since advance information on government's proposed actions in a specific sector is valuable to economic agents.

458. Another area of potential opacity is the establishment of sectoral regulations (concerning the environment, health, territorial issues, and others), governing the definition of rules of engagement for the market and for administrative decisions by regulatory agencies, such as authorizations, audits, and sanctions. Another area of concern is public sector contracting, including public bids and the purchase of goods and services by the state, as well as the existence of networks of family and friends, and ties between businesspeople and public officials.

459. With the spread of globalization and greater commercial and financial liberalization, another area of growing concern regarding opacity is the regulation of foreign investment, which is very prevalent nowadays and tends to have a greater impact on the most profitable sectors in economies throughout the region. There is an imbalance of power between multinationals, whose annual sales exceed the GDP of many Latin American countries, and obsolete state structures in countries that urgently need fresh capital, for which they compete with other countries. As we all know, regulation requires both the will to practice it and the technical capacity to implement it. Since liberalization involves allowing goods and capital to flow out of a country, as well as in, this represents another an area in which opacity can establish itself in countries' efforts to penetrate new markets.

460. Regulation of public utilities is complex, and another area where opacity can reign. Most of Latin America's public utilities have been privatized, but this was done without taking certain issues duly into consideration beforehand. Among these were market structure, conditions for the entry and exit of enterprises, and rules governing the setting of rates. Better regulations are needed to reconcile the private, legitimate interest of enterprises in maximizing their profits (an interest that needs to be respected, to maintain the necessary pace of investment and provide

good service to the public), with the people's interest in ensuring that the community pays the lowest price possible for handing over public utilities to private companies.

461. Last on this list of areas requiring greater transparency, we could mention coordination between the public and private sectors, for example with regard to the development of new technologies or of products that are perfected during the manufacturing process, greatly hindering the use of the traditional methodology of public bids.

462. Chile's experience with transparency in public administration dates back to a period in the 19th century, just after independence, when the republic and its institutions were being formed in response to the period of disarray that followed the end of the old order, while the new order was not yet fully developed. Emerging in Chile out of this scenario, common then to many Latin American countries, was the so-called *Portaliano* regime. This is specifically when the Chilean constitutional order was instituted, expressing demands for honest, austere conduct on the part of the government and public officials, putting community service before their personal interests, with roots stretching far back into the Colonial period itself.

463. This philosophy, which was woven into the 1833 Constitution and lent a degree of stability to the country for almost a century, was preserved in later charters. It can be found nowadays in certain constitutional rules that set limits on the exercise of public powers. For example, parliament is restricted on how it can create public jobs or make fiscal expenditures, and it requires a presidential initiative to do either.

464. Chile is one of the Latin American countries that early on had a state institution to control probity and public assets, that is, the National Comptroller's Office, or *Contraloría General de la República*. The *Contraloría* was created in 1927, partly in response to the recommendations of a North American financial mission to the ruling government of Edwin Kemmerer, and partly because of the tradition of auditing and oversight on the local level in the form of the General Accounting Bureau (*Dirección General de Contabilidad*) and the Accounting Court (*Tribunal de Cuentas*). Sixteen years later, a reform granted constitutional authority to the *Contraloría*, thus strengthening its powers. This organization, whose authority is independent of the other state powers, exercises *ex ante* control over the legality of constitutional matters and the actions of the executive branch, as well as *ex post* control over actual public spending. Even though it has the power to bring current and past public officials to trial, and to conduct audits and oversight of public organizations, the positive effect of its activities comes basically from its preventive efforts dealing with cases involving conflicts of interest and possible mismanagement of public assets.

465. It has also been a Chilean tradition for the President of the Republic, as an institution, to be a highly respected public figure, who has almost never been challenged in suits involving corruption. For many years, it was a custom for Chilean presidents to return to their former residences upon leaving office. This is another of the traditions that was re-established with the rebirth of democracy and it tangibly communicates to the public that wealth is not acquired by holding the highest office of the country.

466. The institutional structure of the executive branch is structured such that it is separate from the policymaking organizations. These are the ministries, agencies, or departments that implement policies and services, and the superintendencies that oversee them. This facilitates

control and furthers probity, but it also tends to impair transparency in cases where responsibilities and authority overlap.

467. There are also different rules in the judicial branch favorable to transparency. I will mention two: the disqualification of magistrates and the deterrence of conflicts of interest, which can even include crimes of breach of official duty, and the publicity surrounding trials. A reform of the penal procedural code, which will go into effect next year for the whole country, establishes trials with the participation of witnesses and the legal concept of public prosecutors, differing from that of judges. In turn, the legislature has norms banning members of parliament from signing contracts with the state and from occupying positions as directors of companies or banks, aimed at preventing conflicts of interest. Furthermore, public officials in positions of presidential trust, who hold high offices in the administration, must submit an affidavit detailing their interests. Different disqualifications have also been made regarding the hiring of people for public administration positions for reasons based on kinship, pending litigation, and prior contracts with the state.

468. Sanctions have been established for probity and transparency violations involving, for example, insider trading, influence peddling, engaging in matters involving personal interests, and failing to issue notification for public proposal. There are other bans to prevent conflicts of interest, such as the one on rendering professional services to the institution by which an official is employed, and another on working for entities within a six-month period of working on oversight of the respective entities.

469. There are regulations that define requisites for making contracts with or establishing contractual relationships with third parties, thus eliminating the exercise of discretion. All public entities are obligated to transact their purchases through a purchasing portal known as *Chilecompras*, in which roughly 40,000 suppliers participate, thus maintaining the transparency of state purchases.

470. Moreover, the financial management of the state rests on three pillars: the law governing state financial management, public investment regulations, and the annual budget law. Parliament regulates budgetary execution. And, as a government, we are determined to modernize public management through an assortment of modern instruments: the introduction of performance indicators, program assessment, comprehensive spending assessment, management improvement programs, and the implementation of the state's online financial management system accessible over the Internet. All of these instruments and the enhanced efficiency of the public sector mean lower costs for the consumer, the main focus of democracy modernization.

471. We also have a tool to defend the equality of private citizens vis-à-vis the state, known as the general law of basic administrative procedures. This law regulates relationships between the state and the public to guarantee equal treatment to all citizens. It also establishes procedures and periods for procedures, requests, and processes, and negotiations, as well as instituting the code of administrative secrecy. Further, a bill to create the Office of Ombudsman is currently pending approval by the National Congress.

472. Several business management controls are in place. First, there are internal controls, which are applied through the General Internal Government Auditing Council (CAIGG), and



the preventive and oversight efforts of the National Comptroller's Office. As I mentioned earlier, as one of its duties the Chamber of Legislative Deputies oversees the activities of the executive branch on behalf of the citizens.

473. The courts handle complaints, while the press and civil society organizations play an increasingly important role in oversight of public undertakings, just as in all democratic societies. In certain matters, citizen participation is an inevitable complement in the assurance of transparent public powers. In this area we could underscore, for example, the compulsory plebiscite that is an integral part of environmental regulations and in the Environmental Impact Assessment System, stipulating that, in order for its resolutions to approve or reject a bill, regardless of conditions, they must include the observations of the officially recognized civil organizations affected by the initiative. The aim is to ensure that civilian observations concerning the bills are taken into account in the environmental assessment.

474. Currently under discussion in parliament is a public participation bill that focuses on the boosting the presence of civil society in public policy management, as well as on strengthening social organizations and encouraging voluntarism. Proposed in this context is the creation of a registry and a fund for public interest organizations, and a funding system for these entities. Reforms have been incorporated into the Law of State Financial Management to establish the civil right to participate in public management, and the duty of the state to provide information to the public on government plans and programs.

475. All of these formulas and mechanisms designed to make public acts more transparent have had to keep pace with the technological development that has made them possible, especially in the area of information technology. Approval of the regulations governing documentation and electronic signatures was an important step in that direction, together with affording tools to the development of business.

476. Upon taking office, President Ricardo Lagos took the very important step of implementing the bill on State Reform and Modernization, which established the foundations and guidelines for progress toward greater public transparency. Later, in January of 2003, a second milestone was achieved when all of the political forces with representation in the National Congress approved the Agenda on Modernization, Transparency, and the Promotion of Growth by reaching an understanding that overcame the climate of distrust that prevailed at that time. The Agenda established a new staff management and senior public administration system (Law No. 19883), which made access to public office administration transparent. A payment system for public agents was introduced (Law No. 19863) and the Permanent Mixed Budgetary Commission was established in the National Congress (Law No. 19886), as were regulations dealing with the funding of political parties and campaigns (Law No. 19884).

477. In 2004 we implemented the Digital Agenda, to contribute to the country's development through information technology. This strategy is driven by an alliance between the public and private sectors, including government institutions, representative organizations of the business sector, the academic sector, and other state authorities. Its objective is to see Chile digitalized by 2010, the bicentennial year commemorating our country's independence. This involves the digitalization of procedures or interactions between the state and it will gradually incorporate mechanisms of public political expression and participation.

478. By the year 2010, we want Chile to have a nationwide broadband data infrastructure, accessible to all citizens, a workforce that is trained overall in user-level management of these technologies and Internet, an online state at the disposal of the people, heavy electronic trade, a critical mass of companies capable of competing worldwide in this arena, and a legal and legislative framework to facilitate development of the information society. The 2004-2006 Plan of Action in the framework of the Digital Agenda envisages this first phase of focalizing the state's efforts in three fields: mass access to the Internet, distance education and training in the use of information technologies, and putting the state apparatus online.

479. The initiative is in full swing. We can safely say that electronic government is now a reality. At the portal [www.tramitefacil.cl](http://www.tramitefacil.cl), you can access information on more than 1,500 procedures and can carry out 184 of them online. Another revealing indicator is that, in Chile, 70 percent of all income tax returns are submitted over the Internet. Another portal, [www.chilecompra.cl](http://www.chilecompra.cl) is facilitating a new business opportunity every 15 seconds and ensuring transparency in spending accounting for a total of US\$2.5 billion dollars. Other examples of government Web pages contributing to transparency are: [www.participemos.cl](http://www.participemos.cl); [www.gobiernodechile.cl](http://www.gobiernodechile.cl); and [www.sii.cl](http://www.sii.cl); [www.presidencia.cl](http://www.presidencia.cl)

480. According to International Transparency's Perceived Corruption Index of 2003, in 2003 Chile placed 20th among a field of 133 countries, the highest level achieved by any Latin American country, just behind the United States and ahead of Japan, France, and Spain.

481. We aspire to improve this record and to achieve a more transparent, democratic society. This will require us to address pending challenges, of which I will touch on just the most important.

482. We must make administrative and legislative adaptations in keeping with the transparency standards stipulated in the free trade treaties that Chile has signed with the United States and the European Union. To do this we must also adopt mechanisms for assessing matters dealing with fiscal transparency and transparency policies, and corruption prevention policies to coincide with the recommendations handed down by the Organization for Economic Cooperation and Development (OECD) and the Organization of American States (OAS).

483. Among the most urgent tasks we must address is the regulation of lobbying, which is an important and necessary activity in a modern economy, to make it public and thus trustworthy. Lobbying can be made more transparent by authorities, executive branch officials, and parliament opening their meetings to people who wield pressure or influence on behalf of specific interests. A public registry for professional lobbyists must be created.

484. We also need to do the following: rework public information to make it more transparent; for public officials in management positions, expand the terms of the statement of interests into a statement of personal assets; further develop the oversight and transparency on municipal and local levels, which is where citizens come into direct contact with the state; and strengthen ethics in the field of business and corporate social accountability; and broaden the scope of civilian participation.

485. This is a broad agenda of challenges that adapts and grows to meet the requirements of a country like Chile, which aspires to become more closely integrated into the world economy but

which is also bound by the ethical requirements of a modern, democratic state to improve the quality of public services it offers to its citizens. This is the challenge of greater transparency that the current administration is undertaking.

## **MALAYSIA**

### **K. Yogeesvaran**

*Evaluation Director, Economic Planning Unit, Prime Minister's Department*

486. Malaysia has placed great emphasis on good governance. We have recognized that such a concept, which includes transparency, accountability, efficiency, and equity in the management of the nation's resources, is fundamental to ensuring sustainable economic development and improving the quality of life of the population. My presentation will focus on three main issues directly related to government transparency and accountability.

487. The first is Malaysia's economic development process, which is guided by national economic plans. The second is our country's consultative planning mechanism, and the third is financial crisis management.

488. Before elaborating on these three issues, I would like to provide you with a brief description of the role of government in Malaysia today. Like many other developing countries, Malaysia has a mixed economic system, with both selective and active government participation. The state is central to economic and social development, playing the role of both catalyst and facilitator to the private sector. The government is responsible for institutional and basic infrastructure, and for providing a stable and conducive macroeconomic environment that can encourage and support private sector participation in the economy. The government is also directly responsible for the achievement of socioeconomic objectives, including the provision of basic education, health, and access to basic utilities, as well as addressing poverty and equity issues. During the tenure of the most recent government, several public utilities including electricity and telecommunications have been privatized, and the private sector has been allowed to participate in both higher education and health services, in an effort to foster greater efficiency and competitiveness within these sectors.

489. By virtue of being a parliamentary democracy, Malaysia has institutions and mechanisms that seek to ensure transparency and accountability. The democratic process requires elections at least every five years, and all legislation must be debated and passed by parliament. An independent judiciary and the media also impose greater accountability upon the government.

490. Economic development in Malaysia is guided by long, medium, and short-term plans. Our long-term plans, called outline perspective plans (OPPs), cover a period of ten years, and establish the basis of the nation's development agenda, identifying a wide range of macroeconomic prospects for the ten-year period. Each of the three OPPs thus far implemented has focused on a different theme. The first prioritized growth and equity, the second, human resource development, and the third, which covers the period 2000-2010, emphasizes strengthening competitiveness and resilience.

491. Medium-term plans cover a period of five years, and are formulated within the framework established in the OPP. They are in a sense the working documents that orient the

implementation of government development programs. These five-year plans establish both macroeconomic targets and public sector development expenditure, and identify specific development programs to be undertaken by the government during the respective period. Medium-term plans also define the sectors and economic activities that will be prioritized over the five-year period, based both on their competitive potential and global trends.

492. The five-year plans undergo a mid-point review, which evaluates progress made in relation to established targets, identifies constraints, and makes program adjustments. It also re-evaluates policy recommendations, introduces new policies when necessary and reviews budget allocations. The review serves essentially as a self-assessment exercise for the government, while also being an effective mechanism to ensure state accountability. All of these plans seek to make the government's development objectives more transparent, providing both implementing agencies and national and foreign investors with greater certainty for planning, and thereby helping improve the overall efficiency of the economy.

493. My second point concerns the country's consultative planning process. Development plans are established on a consultative basis, engaging all sectors and levels of society. This is essentially a top-down/bottom-up approach, in which proposals are generated at the village, district, state, and federal levels. Representatives of private sector associations, trade unions, political parties, NGOs, scholars and other members of civil society are invited to participate.

*...consultation and dialogue with all affected parties contribute to accurate policy prescriptions and facilitates policy implementation.*

**K.Yogeesvaran**

494. The National Economic Consultative Council was established during the formulation of the third Outline Perspective Plan. A total of 154 representatives of the private sector and civil society participated in seven Council committees, discussing issues such as national unity, societal restructuring, eradicating poverty, economy and competitiveness, human resource development, the financial system, the banking system, and science and technology. These committees prepared 137 memorandums in their respective subjects, which were submitted for consideration by the government. While contributing to greater transparency, this process also helped the government foster stakeholder commitment, and has generated a unanimous acceptance of the resulting plans, which in turn facilitates their implementation.

495. My third point concerns the government's management of the 1997 East Asian financial crisis. Many reports cite poor governance as one of the key reasons behind the crisis, during which the countries affected were characterized by significant overvaluation of their currency, high short-term external debt, a decline in asset prices, and consequent speculative attacks on their currencies. Even Malaysia, which had been given a clean bill of health by the IMF and World Bank shortly before the crisis, was not spared. The country at that time was enjoying low inflation, full employment, high savings (40 percent of GNP), low external debt (40 percent GNP), a surplus in fiscal position (6.6 percent of GNP), very healthy reserves (14.3 months of retained imports), and a very sound banking system, with non-performing loans of only 2.2 percent. Investors, however, failed to differentiate between economies in the region.

496. In order to respond effectively to the crisis, the government created a special task force referred to as the National Economic Action Council (NEAC), which was headed by the Prime

Minister himself. The Council consulted with a select group of professionals, industry leaders, and scholars, and established a number of specific working groups. The NEAC held discussions with and considered proposals from all sections of society, and formulated a Recovery Plan within only three months.

497. The policies and strategies established by the Council were implemented instantaneously. While some of the measures undertaken—such as the control on short-term capital and pegging of the *Ringgit* to the US dollar—were somewhat unorthodox, receiving criticism from multilateral institutions and other international actors, Malaysia was vindicated when the measures proved effective.

498. A number of lessons can be drawn from this experience. First, in a period of crisis, an institutional mechanism such as the NEAC can be effective in identifying feasible solutions to instability. Second, consultation and dialogue with all affected parties contributes to accurate policy prescriptions and facilitates policy implementation. Third, the government must be able and prepared to make bold decisions, despite the initial unpopularity of such measures. Finally, an effective monitoring and surveillance mechanism is required to identify emerging shocks. Development planners also realized that strong economic fundamentals do not make a nation immune to shocks. What the country requires are permanent efforts to improve its resilience and competitiveness, and effective national surveillance mechanisms.

## MEXICO

### Mohammad Azarang Esfandiari

*Former Head, Strategic Planning Unit, Presidency of the Republic, Mexico*

499. I will tell you about the experience of introducing strategic planning in the Mexican government. The administration of President Vicente Fox contended with four change-related transitions: democratic, economic, political, and social, all four of which were occurring simultaneously in Mexico. Thus, it was necessary to create jobs, change the economic model, be more transparent, fight corruption, address issues affecting women, the family, and equity in generation of wealth, and fight poverty. In a word, there was much to accomplish.

500. Because of this situation, when his administration took office, President Fox proposed a series of goals, referring to his administration as the Strategic Government, or the Government of Change. According to these goals, it was our job to be a government with clear direction, objectives, strategies, and goals, capable of analyzing, measuring, and continually improving its performance, making decisions based on the facts.

501. What did we do? At the outset, we put together the National Development Plan, which sets the course for the country over the next six years, the duration of the administration's term of office. This is nothing new for some

*The six-year planning document endeavors to be a source of dynamic guidance that can be used by and for everyone... This is the first time that a Mexican government has generated 40 programs during an administration's first year in office.*

**Mohammad Azarang**

countries, but for Mexico, it was. Democratic citizen participation played a role, involving more than 140,000 individuals, and more than 340 proposals were generated, setting the course for the country. As mentioned earlier at this Forum, a country cannot be remade every six years, so we had to take into consideration the longer-term view. A multilevel team was put together with a steering committee, technical committees, and various different regional committees, to consider proposals from a longer-term, 25-year perspective. This team is performing and even though the long-term vision has not been generated, we had to prevent the bill from being defeated. Through his cabinet and proposals, the President drew up a provisional 25-year vision, in addition to the one we had for the six-year period, which has set the course for the country.

502. The six-year planning document endeavors to be a source of dynamic guidance that can be used by and for everyone. As you know, these national development plans commonly brim with good intentions, cover a wide range of issues and are hard to understand because they speak in very broad terms. We had to translate the document into practical terms through the creation of 40 programs, divided into four sections: sectoral, institutional, regional, and special. It includes some programs dealing with housing, education, poverty, women, indigenous peoples, among others. This is the first time that a Mexican government has generated 40 programs during an administration's first year in office. In previous administrations, programs were designed to cover their six-year terms of office and terminate automatically, leaving no time for them to continue. In this case, however, a precedent was being set. The idea was to create these programs right at the outset to allow time enough to bring them down to a practical level and to establish them.

503. A program based on a National Development Plan, however, continues to be something vague and general because it entails many secretariats, ministries, areas, and institutions. To make it more concrete, we generated a model for strategic planning, based on the current governmental structure, and divided into various levels. The first level was that of the President, where the long-term vision resides; and the vision together with the issuing of the National Development Plan generate their required objective and strategies. The President is responsible for what happens at this level, for what he promised during his electoral campaign, and for what he is willing to carry out over the next six years. This was divided into three governmental levels: secretaries or ministers, undersecretaries or vice ministers, and general bureaus. Objectives were defined for each level that were completely in line with the levels above it, and each objective had its own clear, easily measurable indicators and goals. Based on these objectives, strategies to achieve them were defined, and this was repeated at the level of the undersecretaries or vice ministers. The third, general bureau level is divided into projects and processes instead of strategies, each on with its own indicators and goals. Thus, we generated a model in which all things are measured by goals; instead of just stating good intentions, the model specifies how these goals will be measured and what numerical value is to be reached each year over the next six years.

504. Theoretically, the model is very suitable, but we must bring it down to a practical level and implement it at the level of a government with 40 departments or ministries, as well as other institutions and organizations, which involve millions of people. To accomplish this, we devised a computerized strategic planning system. When a model is merely in theoretical form, everyone deems it is suitable; when it comes to implementing it, however, considering the fact that the Secretary of State must draw up his or her strategic plan based on the President's plan, problems begin to emerge. These problems become increasingly more pronounced as people become

more involved and the complexity of the answers grows, as resistance to change emerges. What is complex here is keeping the government as a whole focused on the same objectives.

505. The computerized system resides in a Web environment so that any individual may access it and can define strategies and objectives, measure, analyze, and respond as to their impact at all times. For example, the Secretary of State meets with his undersecretaries to analyze what is happening with the goals based on the strategic planning. The Director General does likewise with his staff, while the President does the same in his meetings with the cabinet. Thus, decisions are always made based on real information and what is actually happening, not just on what was planned. This system has become fully established in the government, not so much in defining strategies as in making responses and utilization of personnel, registering peaks of 10,800 online strategic planning users accessing the system simultaneously.

506. This computerized system paved the way for other initiatives. After strategic planning was defined, we needed resources to move ahead with the processes. The government's budgetary system, which had been based solely on comparisons with previous budgets from years ago, had to be changed, and we devised a strategic budgetary system with an additional module devoted to allocating resources to the projects planned. Since the budget based on revenues was insufficient to cover all of the projects, some were assigned higher priority. When we analyzed the projects (the system virtually forced us to do so) we realized that more than 5,000 were redundant or inefficient or of unacceptable quality, and we eliminated them by conducting joint analysis. The resources freed up were distributed among the projects to which the government had assigned higher priority, according to this development planning.

507. How did we reach so many people? It is not enough for us just to have proposed a system; people must also be trained. To reach many people over a short period, we used a technological resource that we call Virtual Learning Spaces (EVA, Spanish acronym). Through virtual training in all of the departments, we were able to contact thousands of individuals simultaneously. A six-year government administration goes by rather quickly: we cannot afford to waste time, and strategies must be implemented starting right from the first year in office.

508. The system's indicator goals paved the way for a system of evaluation for government performance at every level. This allowed us to create a system of incentives based on percentages accomplished toward established goals.

### **Yeidckol Polevnsky Gurwitz**

*Vice President, National Association of Manufacturers (CANACINTRA), Mexico*

509. I would like to comment on the competitiveness issue discussed yesterday. We businesspeople are often accused of not being competitive and wanting protection. Businesses can be efficient or inefficient, productive or unproductive, profitable or unprofitable, but when dealing with the issue of competitiveness, the duties of the government become a factor.

*It is believed that businesses in Mexico compete with one another, though we know that current competition is in terms of enterprise-government-country versus enterprise-government-country.*

**Yeidckol Polevnsky**

510. What am I driving at? As regards financing in the case of Mexico, we face high costs, an enormous differential between active and passive rates, and high energy prices. The Mexican government's investment in research and development—at 0.34 percent of GDP, one of the lowest levels in Latin America—does not depend upon businesspeople. Also insufficient is investment in the formation of human capital. The cost of security is very high. The democratic state and fiscal, technological, entrepreneurial, and monetary policies are very important components of competitiveness, as is the existence of infrastructure, its quality, and the costs of its use. We shoulder a very high cost for tolls on roads, second only to that in Japan. With respect to railroads, we believed that the problems would be resolved with privatization, but three private enterprises were created: one in the north, another in the center of the country, and a third in the south. Moreover, since the railroad routes were also privatized, using the tracks owned by another company involves high costs too; hence, infrastructure use for transporting cargo continues to be noncompetitive.

511. All of the government's undertakings have an impact on the competitiveness of a country. Our businesses have been affected by setbacks in country costs in recent years and lack of competitiveness. Further, though it is believed that businesses in Mexico compete with one another, we know that current competition is in terms of enterprise-government-country versus enterprise-government-country. That is, if a product comes into Mexico from Korea, not only does this involve competition between the respective companies, but between government policies governing technology, financing, and infrastructure. Nevertheless, in Mexico we have not been successful at getting this phenomenon to be viewed in this fashion.

## NEW ZEALAND

### Lewis Holden

*Deputy Secretary, Ministry of Economic Development*

512. I shall first comment on transparency and accountability and then reflect on the subject of results. In the context of this discussion, accountability and transparency are thought of in terms of public funds being used for the purposes for which they were intended by parliament. In New Zealand, we now have a very strong and well-developed system of fiscal management, based on full transparency and openness. We have introduced many of the strategies that Minister Dockendorff mentioned in his presentation, and among the initiatives implemented are explicit contracts both between parliament and ministers, and between ministers and the public agencies for which they are responsible. This system is so well embedded within thinking in New Zealand that it is unthinkable that any government would deviate from the principle of complete openness.

*A fundamental idea is that of evaluation as an effective means of building consensus where none yet exists. We can easily reach agreement at the highest level on what we are trying to achieve—namely, increased welfare for our citizens. But when we get down to the program level, there is considerably more debate. Evaluation is a very good means of reaching agreement on policy prescriptions.*

**Lewis Holden**



513. On the subject of results, I will begin with a truism. Ensuring that public agents have the authority to use public money tells us nothing about whether these monies have been used efficiently, or whether programs are effective in their delivery. It tells us even less about what is actually being achieved in a macro sense.

514. In New Zealand, in addition to a plethora of formal accountability and transparency mechanisms that have been established, we are subjecting our growth and productivity policies in particular, to a very detailed and rigorous evaluation. I shall now mention three reasons behind such a focus, and three ways in which these evaluations are being implemented.

515. The question to address is why we are focusing on something that, in fiscal terms, is a very modest expenditure on industry productivity innovation policies. Indeed, in our discussions with our overseas counterparts, including Ireland and Singapore and other countries whose growth performance we seek to emulate, they have told us that we should by no means be spending so much time on evaluation, but rather move on to the stage of implementation. As I said earlier, there are three main reasons for placing emphasis on evaluation and results.

516. First, we believe we have significant knowledge about the fundamentals of a modern economy and the policies that are required, but face high uncertainty regarding the means by which we might increase productivity and enhance growth through innovation. While we believe that such a process is critical, and is indeed the basis for significant change in economic performance, we are also quite humble, and recognize how little we actually know about what works and what does not—which is something we are striving to understand.

517. The second point is the standard concerns that ex-Treasury officials like myself have about value for money. New Zealand fought long and hard to reach a position of fiscal stability. We are not prepared to lose this now by taking a less rigorous approach to spending decisions, simply because policies are designed to promote economic growth.

518. The third issue relates directly to a point made by Álvaro García in his introductory comments, and that is the idea of evaluation as an effective means of building consensus where none yet exists. This is, in my opinion, a fundamental point. We can easily reach agreement at the highest level on what we are trying to achieve—namely, increased welfare for our citizens. But when we get down to the program level, there is considerably more debate. Evaluation is, indeed, a very good means of reaching agreement on policy prescriptions.

519. I would now like to talk about the three ways in which we approach the evaluation process. The first issue is efficiency: are we doing things right? The second issue is effectiveness: are we doing the right things? The third and most important issue is impact: does what we are doing make any difference at the macro level?

520. As regards efficiency, my focus here is particularly on growth and productivity policies. In New Zealand, we undertake an annual review of the more active economic development assistance programs and policies, looking at program rationale and intervention logic and then, essentially on an input-output basis, at what has been done and at what cost. In the case of our cluster development policy, for example, the review reveals how many clusters have actually been established or maintained, and at what cost.

521. On the subject of effectiveness, we also have a program of more intensive evaluation, which recognizes that programs take considerable time to mature, and in some cases even longer to produce the desired—or indeed any—results. We are currently completing detailed evaluation plans for each individual or set of policies and programs. These plans establish the initiative's goals, identify the data required to determine whether these goals are being achieved, establish indicators of success or failure of the program from an ex ante predictive perspective, and also identify gaps in our knowledge—in other words, the research we will need to undertake to assist us in the process. In sum, we are trying to establish on an ex ante basis, the means by which programs will be maintained, expanded, or terminated, and this constitutes a three to five year program of evaluation.

522. As concerns the third and most difficult issue, macroeconomic impact, we clearly recognize that specific industry assistance programs, regional development programs, and innovation policies, among others, will always constitute only a small part of an overall growth strategy. This is why we have developed what we call growth and innovation benchmark indicators. In addition to the modest impact that specific programs will have on overall growth, we also recognize that there is a serious problem of attribution. The question is how to establish a relationship between individual intervention strategies and our higher level objectives, one of which is to regain a position within the top half of OECD per capita incomes.

523. Growth and innovation indicators are therefore not primarily used as a tool to ensure accountability, but rather as a way of measuring outcomes against the goals of the community as a whole. The indicators have been developed as a basis for regular reporting of progress against these objectives, and in particular that of per capita income. Our first report was published last year, and a second report will be published next year. We have identified 17 key indicators in a number of thematic areas: productivity measures, the innovation system, private/public sector research and development, talents and skills, what we call global connective ness—the important relationships between New Zealand and the rest of the world—investment patterns, and finally, on a sectoral level, progress in areas of current or potential future comparative advantage for the country. Our results have been varied, and we hope to see improvement in the future.

## COMMENTARIES

**Ludwig Meier**

*Former Minister of Fisheries, Peru*

524. I will touch on the topic of transparency. At the end of the Fujimori administration in Peru, corruption was clearly manifest. To further transparency, a series of measures was applied for an eight-month period to prevent corruption. First, rules were established governing access to information, which have been working rather effectively. Later on, various means of access to information were created via the Internet, as well as a portal for the government.

525. At the end of this period, however, as so often happens in Latin America, the incoming administration decided to restructure and old issues began to resurface. For a long time, the current administration discontinued the practice of providing information through these portals, though they are presently up-to-date. What is important here is the continuity and the updating of information, an issue to which we should pay attention. Subsequently, a budgetary monitoring system was established, also via the Internet, which allows people to find out how much has been spent and how public funds have been used.

526. Supposedly, state contracts, purchases, other contracting in general, and certain favors are breeding grounds for corruption. During the transition government, a system was set up of sworn statements made by public servants in positions of trust, which they were required to publish. These statements list the income, expenditures, and assets of public servants, and are submitted to public scrutiny. All of these measures are still in effect. Each day, the sworn statements of public servants appear in the official newspaper *Diario Oficial El Peruano* and sometimes even discussions take place over them. During this government, a lobby law was passed that is rather satisfactory, albeit somewhat flawed in my opinion. As is often the case, however, the regulations prepared for it have made it impossible to comply with both the law itself and its regulations. Hence these regulations are being revised.

527. Despite all these measures, corruption still exists. Since the measures that have been taken are inadequate, it is important for them to be improved on, and the pursuit of formulas to prevent corruption in our governments must continue.

**Pablo Guerrero**

*Adviser to the Vice President, Operations Policy and Country Services, World Bank*

528. I will make two comments. The process that began in Mexico as a very ambitious program in its vision and strategy, with the details that Mohammad Azarang described, has continued to evolve in a different way than originally planned. It seems that within the Presidency itself, the strategic approach has been decentralized and I am not sure who the keeper of the long-term vision and strategy is now. Maybe this part of the story remains to be told, but it is essential to understanding that planned solutions do not always come to fruition

529. Regarding transparency, it is interesting to observe the opacity of some of the most important agreements between the government, civil society, and labor in Finland. Finland is

one of the most successful countries and yet its record with regard to transparency is rather mixed.

**Datuk Mustafa Mansur**

*President, Federation of Malaysian Manufacturers*

530. Looking back over the discussions both today and yesterday, it is clear that a close relationship between the government and the private sector has a positive impact on their productivity and efficiency. In Malaysia, our productivity rating has increased significantly over the last two years. When talking about this relationship, many speakers and commentators today have used the word *trust*. In Malaysia, there has always been a relationship of trust between the government and the private sector, and trust is indeed essential for business. Some 40 years ago in our country, issues were rarely taken to court, and people almost always opted for an out-of-court settlement. No agreements were officially drawn up or signed. Everything was, in fact, based on trust.

531. Now, while the government very much trusts the private sector, it nevertheless maintains a certain element of control, as regards accountability and corporate governance, and this is even the case with the public listed companies. All members of a company's board of directors are required by the Kuala Lumpur Stock Exchange and Security Commission to take courses and training programs worth 26 credits each year, and directors who do not comply must resign their posts. This measure seeks to ensure that every director of a company—in particular the public listed companies—fully understands his or her role and responsibilities. It is not surprising, therefore, that convincing businesspeople to join the board of a Malaysian company is not an easy task, considering the stringent requirements imposed on them. In addition, all companies both public and private must comply with the very strict Malaysian Accounting Standard. This standard is in fact so strict that fraudulent practices are very rare.

532. I would like now to comment on the subject of competitiveness, in which I believe government has a fundamental role to play. The cost of running businesses has indeed risen over the last couple of years. This may be a result of inefficiency on the part of the government or private organizations, the rising cost of energy and also security issues—for example the problem in Malaysia of trucks being hijacked—as well as corruption. While security problems are partially resolved by improving our relationship with the police, efforts to curb corruption in Malaysia include the recent creation of a National Integrity Organization, of which the private sector is a member.

533. Finally, it is essential to carry out studies on the impact of measures taken to combat corruption and foster transparency.

**Oh-Soek Hyun**

*President, Trade Research Institute, Korea International Trade Association*

534. I have one main comment to make on the subject of transparency in Korea. I believe that this issue may be at the center of the so-called crisis of representation, as there is considerable mistrust within civil society in institutions such as parliament, government, and political parties, as a result of low levels of transparency. There are basically two ways to improve

transparency: one is to produce and disseminate more information, and the other is to improve the quality of the information available.

535. While Korea is one of the most advanced countries in information infrastructure—60 percent of the population are Internet users and 70 percent mobile phone subscribers—information production and dissemination is insufficient and transparency is still an important target for criticism. On this subject, the media plays an important role. In Korea, as in other countries, the interest of the media is essentially in short-term issues, rather than long-term development strategies. Transparency, however, is a subject that has been given certain priority, and considering the power of the media, its participation in efforts to increase transparency should be fostered. The government has actually organized a number of forums in cooperation with the media on issues such as competitiveness and the future of the Korean economy, and the challenge now is to incorporate the subject of transparency into the debate. I would therefore be interested to hear whether other countries have had experience of media involvement in efforts to improve transparency.

**Mayi Antillón**

*Executive Vice President, Chamber of Industries, Costa Rica*

536. I would like those who have worked in the area of transparency and rendering of accounts (particularly in light of the experiences of New Zealand and, to a lesser degree, those of Ireland and Finland) to show us simple courses to begin taking. When reflecting on strategic plans, which, due to their scope, are not necessarily carried out (with all due respect to Mexico), I am very concerned about the difficulties encountered when taking plain, pragmatic routes that gradually become more complex. Rendering of accounts in Costa Rica takes place every first of May during the annual speech delivered by the President, to which public opinion pays precious little attention, or in weekly television simulcasts, which are mostly propaganda-oriented. A genuine quantitative and qualitative rendering of accounts within a national plan would be useful, because one of the most important roles that the private sector must play is to contribute suggestions on a critical route. We do not want to be identified solely for our ability to point out errors that lower competitiveness, but for our capacity to bring about solutions. Joan Prats has reminded us that the state is not a business, and in applying this idea we must be careful not to demand the same kinds of mechanisms for account rendering from the government that have been established for businesses. But certainly, these differences do not mean that we must not require renderings of accounts to be submitted.

537. With regard to transparency, I am also very concerned that in Costa Rica scandals involving white-collar crime are currently more widely published, as Leonardo Garnier so aptly pointed out. But, for what reason, I ask? What is most important is to prevent these crimes. The means for this could be the approval of new codes of ethics. I would like our countries to take simpler paths, where the private sector could be the perfect ally to attainment of accounts rendering to arrive at a transparency that is much more effective. Otherwise the problem will turn back on us. The lower the levels of transparency and rendering of accounts, the higher the level of informality—which is one of the most disturbing problems in Latin America. Citizens may argue that if accounts are not rendered, “why pay our taxes if nobody knows what they are doing with them and, at worst, if they are just pocketing them?”

538. Minister Eduardo Dockendorff explained last night that Chile has a legislative initiative to create the post of Ombudsman. This office already exists in Costa Rica and it has not been effective in promoting transparency and the rendering of accounts, which should lie at the heart of this office's duties. It currently serves the purpose of a suggestion box of sorts and a repository for everyone's complaints. As such, it becomes somewhat of a fireman that daily looks after sectors living on the fringe of the general population (such as indigenous peoples, sexual minorities, battered women) that are given little attention, concerning itself with prices, but not with prevention or the implementation of pro-transparency mechanisms. If we could help redefine the agenda of the Ombudsman, we would all do our countries an enormous favor.

**Daniel Zovatto**

*Regional Director for Latin America, International Institute for Democracy and Electoral Assistance (IDEA)*

539. First, I wish to stress the importance of avoiding the tendency of approaches to be excessively technocratic. With all due respect, I would like to speak about Mexico. Four years ago, President Vicente Fox introduced a very ambitious plan describing how to project a country vision, first over a six-year period and then over a 25-year period, but this approach, which was so well designed in the practical terms of strategic planning, suffers from an essential gap. Because the executive branch does not have a majority in the Congress, it has failed to pass three substantial reforms: fiscal reform, labor reform, and energy reform. I am not saying that this is the fault of President Fox, but rather that Mexico has stood still politically for the last four years in an institutional deadlock. It cannot move forward without first resolving fundamental matters from the political perspective.

Similarly, in El Salvador, the excellent work carried out by the National Development Commission with regard to the country vision has not been accepted and adopted by the political parties, as indicated to us by Francisco de Sola, and in some opposition parties it has met with stiff resistance. This a very well designed project, but recently it has been proven unrealistic and politically unfeasible, six years after it was put together.

540. There are many such examples in Latin America. In Brazil we can examine the efforts made by Fernando Henrique Cardoso together with a group of managers, which, nonetheless was unsuccessful and lacked continuity. In Costa Rica, a harmonization effort was made, which the Legislative Assembly thwarted by drafting a proposal that failed to reflect the agreement originally made, leaving the President without an agenda. Moreover, we may observe the work carried out in the Dominican Republic by President Leonel Fernández.

541. With these examples, I am drawing attention to the fundamental importance for country vision plans to be firmly anchored in parliament and political viability. Otherwise, their implementation will be very limited in the end. This is much more the case in presidential systems than in parliamentary systems.

542. Second, in most Latin American countries, political parties represent the institution with the lowest level of credibility, followed by parliament, which has been largely discredited. If these concerting procedures are conducted somewhere outside of parliament, it will be further weakened, as will our already inherently weak democracies as well. Herein lies the root of these attempts to seek out direct democracy mechanisms with which to replace representative democracy mechanisms, a tremendously dangerous tactic. We must discover ways to strengthen

political parties and go back to assigning parliament a very important role not only in these programs, but also in oversight, which is essential to representative democracy. Among the mechanisms for transparency, account rendering, and the other technical indicators that we could design, we must include instruments that will allow our parliaments to carry out oversight. I want to draw attention to the fact that in New Zealand, Finland, and Ireland, parliament plays an essential role. In Latin America, however, we engage in much of our political activity outside of parliament and eventually, when bills are drawn up, in some cases we may take them to our congressmen just to get them passed.

543. Third, transparency may not be disassociated from the funding of political parties and electoral campaigns. A great deal of the corruption in Latin America, and in other regions worldwide, is rooted in problems involving the funding of political parties and electoral campaigns. We will make very little progress if we fail to deal wholeheartedly with the issue of clean politics and make transparent the issue of political party and electoral campaign funding. Serious problems in the region are the result of another strategic topic of concern on the agenda, namely, what is referred to as public policies for private interests.

544. Fourth, I would like stress the role of the media, and particularly the impact exerted by television, as both part of the problem and part of the solution. The predominant emphasis on the short term in many of our agendas can be ascribed to the fact that governments in many countries in the region manage their affairs in a reactive fashion, based on polls, analyzing their popularity at the moment and responding to the agenda set by the media. This is a very serious problem from the standpoint of real politics.

**Mary Doyle**

*Assistant Secretary-General, Prime Minister's Department, Ireland*

545. This is clearly a wide-ranging and complex issue, for which I shall limit my comments to a few main points that I consider relevant. Regarding the results of government policies and programs, there is clearly a virtuous circle of policymaking and implementation, which has to include assessment and information on progress, or indeed lack of progress on key issues. From our experience, which I am sure is common among many of the countries represented here, what gets measured gets done. It is therefore essential to make the right decisions about what gets measured and how. Similarly, it is best to keep the process as simple as possible, because when assessment becomes excessively complex or all encompassing, it loses value in terms of informing policy making.

546. In Ireland, we have quite a broad array of institutions and mechanisms for measuring progress, such as a statistical bulletin on national progress indicators and an annual competitiveness review, and a large amount of quality material produced by the Economic and Social Council. All of these documents are high-level macro-trackers of progress, but parliament does not adequately take advantage of the information available to critique policymaking and implementation. Making good use of this information is one of the challenges we face in the immediate future.

547. As regards the input of the various stakeholders and social partners to the dialogue and the policy making process, within our partnership agreement there is considerable dialogue and agreement among actors as to the direction of policy, and policy implementation is regularly reported on. There is therefore a conduit through which social partners, business, or trade unions can indeed inform policymaking and track implementation.

548. We have come to realize that while it is difficult enough to evaluate progress on issues that involve a single ministry, it is considerably more difficult to measure progress on cross-cutting issues that involve numerous ministries. In response to this, within our last social partnership agreement we implemented an important innovation. This involved identifying ten special initiatives on issues of major societal concern, and establishing expected outputs and outcomes for each one, as well as a framework by which to reach agreement on the actions to be carried out and the assessment required. While the initiative is still at a very early stage, I believe that it constitutes an interesting piece of experimentation and innovation. The issues prioritized include building an infrastructure of care, ending child poverty, and including the population as a whole in the information society, as well as a wide range of insurance programs. One of the key elements of this initiative is that all actors involved participate in a shared analysis of needs and subsequently a shared evaluation of progress.

549. Many people have talked this morning about corruption and ethics, and in Ireland, corruption is also a major concern. The subject is indeed taken very seriously, and there has been an important move towards a strong framework of ethics legislation. This has been complemented by legislation on freedom of information and reports of the Comptroller and Auditor General.



550. The final point I would like to make is about the cultural change that is necessary if progress is to be made in this interesting agenda, starting with important changes within government, to ensure a more open and transparent accountability of actions. Within the Irish public service there is indeed an important tradition of secrecy to be considered, as one of the first acts carried out by government officials when they take their posts is to sign the Official Secrets Act, which no doubt influences their behavior. We need to have the courage to lead a process of cultural change, and also have to ask ourselves how the public can best define what information it actually requires. The public needs to be educated to effectively determine what it wants to know, and consequently what questions must be asked. We live in a very sophisticated world, and it is therefore not enough to simply pump out information. One of the questions that we must ask as policymakers in Ireland is how we manage and present the information, to make it as accessible and understandable to the public as possible.

**Raj Makoond**

*Director, Joint Economic Council, Mauritius*

551. The first issue I would like to comment on is how to foster accountability and transparency, giving some insights into our experience in Mauritius, in particular that concerning private sector funding of political parties. We have been very concerned about our performance on the Transparency International Corruption Perceptions Index, and after two years of discussion on the subject in the Joint Economic Council with support from international experts, we have produced a set of recommendations, including the establishment of a code of corporate ethics. One of the main subjects discussed within the Council was the position we would take regarding political party funding. Here we agreed that complete transparency was required and that companies should have to abide by the established code of ethics. This was not an easy decision to make and it is certainly not an easy process to implement, as the move from lip service to reality is a difficult one. It was, however, an interesting process of discussion and after much effort, we reached an adequate arrangement. We are currently carrying out a number of workshops for further discussion and decision making on the issue.

552. My second point concerns the need to have a legal framework to help fight corruption and foster greater transparency. Oxford University is carrying out research on the concept of the burden of reputation, which is a very interesting issue. For example, while the legislative framework in Denmark is considerably less comprehensive than that of Nigeria, Denmark's burden of reputation, passed on from one generation to another, is significantly greater. The question, therefore, is how we can generate and adequately measure a country's burden of reputation. Our colleague from El Salvador mentioned some strategies being implemented for such a purpose, and I would be interested to hear about the experience of other countries such as Finland, on the subject of burden of reputation. In our experience, the burden of reputation is decreasing. For example, there are issues over which ten years ago a Minister would have resigned, and which today would not be cause for such a measure.

**Jaques Wagner**

*Minister of the Secretariat of the Council on Economic and Social Development, Brazil*

553. I would like to touch on the issue of transparency, in connection not with programs but with the public budget. Since we live in a market economy, the first question we should ask

ourselves is, “What is the market’s code of ethics?” Everything else is based on the response to this question. Corruption, for example, is found in the public sector, in the private initiative, to the north of us, to the south, everywhere. Whereas cocaine comes from the jungle, nobody can lay a finger on the worldwide production of arms, or on tax havens, some of which are even located in the north, and even handle resources generated from corruption. If the United Nations can advocate the state intervention due to an absence of democracy, I see no reason why intervention cannot be justified in cases where large quantities of a country’s resources end up being taken abroad in a world whose global financial market has become a big casino open 24 hours a day, 365 days a year.

554. The principle here is that democracy cannot depend on the integrity of those in charge, but a preventive approach must be taken in its organization. If public trust is betrayed by acts of corruption, corrupt individuals may be detained, but the people’s funds will have slipped away. This has a bearing on the concern expressed by Daniel Zovatto regarding democracy, because either democracy resolves employment, labor, health, and education-related problems or the value these areas afford will not remain with the people. According to a recent study by the United Nations Development Program, if people are reminded about going hungry under democracy and are offered authoritarian rule providing them with employment, people remark: “it makes no difference to me; democracy is a matter for politicians to deal with; what I care about is being able to eat every day.” Consequently, the values of people whose concerns revolve around daily nutrition differ from those we are dealing with here.

555. If we accept the premise that the market must be completely free and that it need not adhere to any code of ethics, the discussion we are engaging in here will be futile, because all is fair in matters of business when large corporate groups contend with each other over market share. These conflicts are not resolved calmly over a negotiation table, but instead are even dealt with in the sphere of law enforcement.

556. I would like to introduce a new concept: if we want to build a globalized society, we need to decide on the human and ethical values around which to build it. If these values are based exclusively on market, money, and business-related matters, if life is assigned less value than money, we will never arrive at a humane, ethical society.

### **Mahomed Iqbal Ebrahim**

*Vice President, Botswana Confederation of Commerce, Industry and Manpower (BOCCIM), and Chairman, Small Business Council, Botswana*

557. In our discussions on development strategies, there is a fundamental underlying principle that has been touched on time and time again, and that is some form of democracy. I say some form of democracy simply because democracy is not a franchise. It cannot be exported from one place to another, and there are, indeed, no standard procedures. Each country establishes its own definition, and that definition must be based on that particular society’s value system. Democracy must, however, allow for disagreement, recognize differing opinions and accept criticism, and most importantly be held accountable.

558. I believe that in the business sector, we need to strengthen democratic principles, processes, and institutions. I also believe that as businesses we have a role to play as a watchdog of the national conscience. That means, however, that we have to clean our own houses first.

The relationship between business and politics is not easy but it is necessary. My parting advice to those of us who represent the business sector is that we must take the moral high ground on the road towards a better quality of life and freedom for our societies.

**K. Yogeessvaran**

*Evaluation Director, Economic Planning Unit, Prime Minister's Department, Malaysia*

559. I believe that the concepts of transparency and accountability are seen in a different light from one region to another. In Malaysia, and perhaps in other parts of Asia, transparency and accountability are looked at in less technical terms than in some of the other countries represented here today. Rather than creating new initiatives, we have observed how existing mechanisms and institutions have evolved and been transformed to deal with the important issues of transparency and accountability.

560. In Malaysia, 10 or 15 years ago, the transparency and accountability of government actions were rarely questioned. However, in the last ten years, society has become more affluent and more educated, and the population has been exposed to different realities, working and studying overseas. As a consequence, citizens are demanding greater transparency in the decisions made, and greater accountability in the use of public funds. I believe that the government has responded to a certain degree to all of these requirements, and that there is a considerable level of satisfaction with the responses given. This has been shown, in part, by the overwhelming victory of the ruling party in the most recent elections.

561. Among the initiatives that the government has implemented with the aim of improving transparency is the Auditor General's Report, presented each year to Parliament's Public Accounts Committee. This report provides in-depth information on the purposes for which funds were allocated by the government, and those on which they were effectively spent. The report is presented in parliament for debate and reviewed by the Public Accounts Committee. The members of the Committee are not only parliamentarians from the ruling party, but also from the opposition, and the Deputy Chairman is, in fact, an opposition leader. Debate on the results of the report is intense, and while the government's errors are identified, more importantly, solutions are proposed.

562. Another measure in the process of development and implementation is e-government, first initiated some ten years ago. Progress has been slow but steady, and at this moment all 25 ministries and government agencies are linked by a Web portal, through which the public has access to all kinds of government-related information, including speeches, policies, and agreements. I believe that the private sector will definitely agree that there is considerably greater access to information today than in the past, and as my colleague Datuk Mustafa Mansur mentioned yesterday, the private sector also has privileged access to confidential documents on which their opinion is often requested.

563. My final example of transparency-related initiatives is what is known as Key Performance Indicators, which the new Prime Minister has requested be applied to all government-linked companies. Different indicators are developed for each type of company and these constitute an interesting tool to measure private sector performance.

**Mohammad Azarang Esfandiari**

*Former Head, Strategic Planning Unit, Presidency of the Republic, Mexico*

564. When Mexico's National Development Plan was devised, the plan and the vision were shared by parliament, arriving at it through consensus. The idea was that it had to do with the entire country's six-year plan, hence the clear importance of implementing it nationwide. Daniel Zovatto mentioned something very interesting, that parliament no longer allows the passage of reforms. I believe that this is because each party concerns itself with its own priorities instead of those of the country. President Fox acknowledges that his hands are tied and cannot make good on his promises. No excuse is being offered here; this is just the situation as it stands right now.

565. Therefore, we cannot say that this situation is a question of planning or not planning; otherwise, we would have to align all of the government's efforts toward the same objectives and make sure that all of us were following the same course. Failure to pass tax reform does not mean that the government or the country is paralyzed. What is happening is that resources are being allocated to the projects that have been assigned the highest priority, where the money will fully meet the respective projects' needs. If more money were available, more things could inevitably be accomplished, which does not mean, however, that we have no Plan B. Different scenarios have been envisioned according to differing budgetary assumptions, and there is always a more and a less advantageous option. We are prepared for changes in the inflation rate, in the price of crude oil, or for factors that can help the government generate a higher or lower level of revenues. I do not blame the original vision for not working out or being implemented on a lack of agreement on planning but, rather, on political disagreement.

566. What happened next? When we began to introduce the plan in the government, with little experience, a liaison officer was established with each department and the team reported back to me. The idea was for them to be sufficiently prepared to accept the transfer of responsibilities to them from a central system. They were to manage their system in a self-sufficient manner and the liaison officers were directly accountable, reporting back to the minister on each department or ministry, and occupying a very high position on the organizational chart. Upon culmination of the project, all of the departments had enough authority and responsibility for their work to follow up on proposals, projects, and processes. Above the model, at the highest level, the President is being fed results, following up on the projects and processes on each level, and determining how to continue with national development plan projects. Perhaps it would be beneficial for there to be a presidency staff member who is further removed from the process but, as it is, the system is functioning, maybe not as quickly as we would prefer, but the change in culture has already taken place.

567. A transparency law was passed, which represents a valid tool and a step in the right direction. Contracts, projects, bids, employment, figures on wages, and salaries, and what each public servant earns are now being disclosed over the Internet in a completely transparent fashion. Anyone can access the system and freely request further information if they need it: the government must respond within 24 hours. Other measures that have been taken include professionalizing the hiring done by the government. You can no longer get a job in the government through recommendations or family ties, but must pass a series of tests. Moreover, rules have been applied to new hires. This does not put an end to corruption altogether, but it helps discourage it. Disclosure has also been provided on pre-existing measures, such as

oversight on budgets, the statements of assets of those entering into and leaving the government.

568. Many things have been done and many more measures are pending. However, as we have already mentioned at this Forum, we have not put an end to corruption. This cultural phenomenon has been around too long for it to be quickly done away with.

**Yeidckol Polevnsky Gurwitz**

*Vice President, National Association of Manufacturers (CANACINTRA), Mexico*

569. With the best of intentions, President Fox embarked on these strategic planning studies, working on two levels. One was that of the experts, who were familiar with the topic, and another was that of the operators, who did not understand them and did not adhere to them. Another of the big errors made was that never before in Mexico had a cabinet been selected using “headhunters,” and since these individuals also lacked experience in recruiting people with political experience, they selected people with managerial experience, who surely were very competent administrators, but poorly versed in politics. This led to a breakdown in communication between different levels, and results failed to meet expectations.

570. Yesterday, a statement was made to the effect that countries are not businesses. I believe that this is very apparent, but all the same, attempts have been made to run institutions as if they were businesses. For example, the National Development Bank, which exists in all of our countries, which must be kept strong and promote development, is currently devoted to pursuing profitability, while the Pro-Foreign Trade Bank lacks resources for promotion and is less important than its equivalent in many other countries. It is a tremendous error to forget that development banks are not commercial banks.

571. The planning to determine what the state was supposed to resolve lacked vision. The market is very important, but it cannot solve all problems, and the state should step in where the market cannot resolve something. Since it has been weakened substantially, we have determined to have a strong, yet not oversized state. Moreover, blame has been disproportionately assigned to the Congress, even by business organizations, as when it was pressured to vote on tax reform before the initiative has reached the legislative branch. A similar situation arose with the debate on labor and energy reform. This diminished the prestige of legislators to the point that everyone puts the blame on them, which also brought disgrace to the government. In a recent report, President Fox acknowledged that 87 percent of the initiatives sent to Congress have been approved, which indicates that work is being done and that the initiatives that had not passed were those that required more time for discussion or were more complex. Moreover, we constantly hear the so-called politicians who run government departments complain, “Issues are being politicized.” Well, these are political issues; how can you avoid politicizing them? They are already politicized even before they can be discussed. Politicization is understood as something negative, which causes confusion among politicians, the press, and civil society.

572. In Mexico, I believe we have been subject to the pendulum principle, according to which we go from one extreme to another. All Latin American countries deal with the same paradigm. During the era of the closed-economy model, under which our countries grew and created jobs, none of these countries was visualizing innovation or technological development or preparing for liberalization. I remember that when trade liberalization began in Mexico, businesspeople

thought of it as something unnatural, because it was beyond their comprehension. Nobody had ever told them that the closed economy was only going to be a provisional measure to remain in place until industries were strengthened. We Latin Americans continue along in that era of the international division of labor, just like many countries in Africa. The governments and business people believe that we must continue playing the role of countries supplying cheap labor and natural resources, even though the most competitive of countries do not have cheap labor, and we want to be competitive without generating higher value added. We are in the era of the knowledge economy, and many still do not discuss issues germane to the age we are in.

573. In Mexico, we want all of our indicators to match international figures, except for salaries. If income from work does not improve, however, how will we ever reactivate our domestic economy? We have polarized the economy more, with higher numbers of poor and poorer individuals, together with the people who are richer. I agree with what Minister Wagner from Brazil said earlier: people in business can behave rather reprehensibly too, and private-sector monopolies are the worst kind. Is it advisable to cater to transnational and international corporations who arrive on the scene to buy up local markets and wipe out local enterprises? The economic model needs to be reviewed, which does not mean shifting it 180 degrees but means, rather, making rectifications, learning from mistakes, and looking for ways to secure an economy with greater social commitment that will bridge enormous gaps in society.

**Lewis Holden**

*Deputy Secretary, Ministry of Economic Development, New Zealand*

574. As a bureaucrat, I cannot resist a few comments on the subject of politics and the media, for it is not often that I get such an opportunity. As regards the issue raised by Daniel Zovatto of the role and accountability of parliament, we have in New Zealand a number of effective structures and systems in place for such a purpose, as well the unimpeachable philosophy that it is ultimately the parliament that is sovereign. This is probably one of the reasons why we do economize, as Daniel suggested, on the creation of extra-parliamentary consultation and engagement processes. Ours is not the perfect scenario, however. One can have a complex system of checks and balances and accountability, but it is one thing to take a horse to water and another to make it drink. And it is fair to say that there is a level of frustration within the bureaucracy that perhaps the system still relies too heavily on a culture of independence and non-corruption within the public service, and that parliamentarians do not take as much advantage of the system as they could. The same can be said when it comes to raising interest in the long-term agenda. We are forever offering briefings to select committees on the longer-term growth agenda, and while they politely accept the invitations, attendance is nevertheless sporadic. I believe that the Finnish Committee for the Future is a very interesting initiative in this sense and indeed something worth analyzing for the New Zealand context.

575. The second issue I would like to comment on is political party funding. Before becoming involved in the subject of economic reform, I worked on the issue of political and electoral reform. In New Zealand, political parties are not permitted to purchase advertising on television, but rather are allocated free screen time based on their polling results in the past. There is also modest funding of political party research teams, which strengthens the parties' capacity to analyze and understand policy. In addition, there are spending limits that are in fact quite modest, both at the constituency and at the aggregate level, and I believe that this system works quite well.

576. Finally, I would like to make one comment on the advantages and disadvantages of a very active media and a strong focus on accountability. My current areas of responsibility include tourism policies—tourism being New Zealand’s largest industry for the small and medium enterprise sector—industrial policy, regional policy, and the government’s growth policy. During my time on the job, the only thing that created media attention was a small espresso coffee machine I purchased for my staff. While this dominated the media for about a week, we have not been able to engage them on subjects such as growth strategies, despite considerable efforts on our part to do so.

PART 3  
CONCLUSIONS



## 9. SUMMARY OF MAIN THEMES

### **Álvaro García**

*Former Minister of the Economy and former Minister Secretary-General of the Presidency, Chile*

577. As you would imagine, it is impossible to draw effective conclusions from the rich dialogue that we have been engaging in. So, I will endeavor to present the ideas expounded with some semblance of order without attempting to summarize the experiences that each one of you conveyed—experiences that account for a good measure of this event’s richness. This is a task that should now be entrusted to those who convened this meeting, ECLAC, World Bank, and International IDEA, in order to gather specific formulas to resolve the different issues that we have discussed and organize and distribute them so that they may facilitate our learning process. While mentioning the institutions that called us together for this meeting, I would like to take this opportunity to thank them for their invitation. I believe that I represent the opinion of every one of the participants when I say that we have been privileged to participating in an extraordinarily productive work session. It was also, in my opinion, rather uncommon, because these issues discussed were uncharacteristic of meetings of this kind, and the interest we expressed in them confirms their importance.

578. We have an extremely widespread consensus on the advisability of countries having a strategic vision and, overall, the countries represented at this Forum do have such a vision. Though the forms that they assume and the ways in which they are brought into existence vary widely, they nevertheless all share a common characteristic, i.e. their proactive way of examining the future. I believe there is a general consensus that, if we want to achieve development objectives, we must look ahead and not behind us. Attention was also drawn to the fact that this vision had to be holistic and balanced, contain objectives, and establish priorities and methods to achieve them.

579. What I consider the first conclusion in this area is that the vision does not take on the form of a book, a result, or a signed agreement. It is primarily a process of building trust to adapt the vision to changing circumstances. Therefore, the challenge consists not of sitting down once and for all with a plan, a book, or a perspective of the future, but generating a capacity for constant dialogue, which will make it possible to combine efforts and commitments around a vision that inevitably materializes in a dynamic fashion.

580. We also acknowledged that this is a political, social, cultural change process in which all of the actors are learning from experience so that they can make a more wholehearted commitment to the our efforts that lie ahead. This process is carried out optimally where there is a greater degree of formality in the form of well-established institutions, documents, and evaluations that are made public. These strengthen the commitment of the actors and therefore, though we indicated that we should not settle for just one meeting, regardless of how worthwhile this one has been, there really should be an institution to constantly render a public account of what is done.

581. Having said this, I believe that emphasis was placed second on asserting it is highly advisable to have a vision in place, but it must be worked on day by day. Consequently, what really counts are our daily duties, which are prioritized, and reforms that are commenced. Several

examples were presented at the discussion tables where we voiced open agreement with an idea that we had, only for it to fall short of being implemented because disagreements cropped up when it came time to decide on putting the changes required into practice. Consensuses must yield actions or be reached on high priority actions to be carried out, otherwise the strategy will be weakened and its prospects for realization will be seriously damaged. Consequently, we must balance the creation of a vision with the definition of the short-term objectives, policies, and programs with which this vision is built. Yesterday, François Bourguignon pointed out very clearly that these actions usually generate conflict and that distributive problems lie at the root of them, because not everyone benefits equally and some can even lose out with the reforms in place.

582. To deal with and resolve these distributive problems, we must reinforce the creation of formal spaces for building agreements. Otherwise, the opposite will occur, thus reinforcing informal spaces because these conflicts must be resolved one way or another. These informal spaces are what promote opacity, the lack of transparency, and all of the problems that we discussed in the final session. We must not disregard the existence of conflicts or think that a vision will yield unanimity and guarantee a downhill ride, but rather quite the contrary. It is necessary to acknowledge the existence of conflicts, because the process will be riddled with conflicts requiring institutions that can resolve them.

583. Joan Prats was quite clear yesterday in sustaining that the creation of institutions to absorb these conflicts is a key objective in any development strategy. Just as the Washington consensus and other proposals have made clear suggestions to us about how to conduct the economy or the need for human capital and technological innovation, I have also come to the distinct conclusion that development requires institutions and that their creation is an essential effort for our countries to make. These institutions already exist in many Latin American countries and in all democracies; what's more, they have a space in parliament. Importantly, we should recognize our need to strengthen and emphasize negotiation and political agreement, which is not inconsistent with greater social participation. As I see it, the dilemma between representative democracy and participatory democracy is fictitious because they both reinforce one another. The challenge lies in how to bring them into harmony with one another, but it is quite apparent that representative democracy is strengthened by social participation, which is only possible in a scenario that includes representative democracy. Throughout the meeting, practical suggestions emerged about how to bring these two dimensions into harmony. The presentation about the experience in Finland of the parliamentary committee, which provides a space for dialogue between these two different worlds, was appealing. So were the accounts made by the representatives of almost all the countries on how to put together plans and budgets, and how they enhance the dialogue again among these actors when this is done in a participatory, evaluated manner. Moreover, Minister Wagner underscored the importance of acknowledging the spaces of each, given that since there is agreement over the mutual reinforcement of both participatory and representative processes, it is also important for there to exist certain areas that are the province of parliament and others that of society, without attempting to mix the two.

584. A core objective of development must be to build these institutions to handle conflicts, create consensuses with a long-term vision, and avoid the strategic shortsightedness with which we are affected, as pointed out by José Luis Machinea. Even though we have seen fruitful experiences in the creation of these institutions, no registered trademark exists nor has any

formula been discovered that can be passed on easily from one country to another. This is because these institutions must be wholly consistent with specific local situations, and because we cannot assume that what works in a given place will automatically do so in another.

585. Nevertheless, there were some general suggestions that would be worthwhile to consider.

586. First is the capacity to learn by doing. That is to say, since there are records documenting what is considered to have been a success, all institutions must look at their own learning methods, which enable them to bring about self-improvement based on their respective experience.

587. Second, we learn better from experience to the extent that it is objectified. Therefore, all of the accounts that we have listened to about the existence of indicators enabling us to evaluate the effectiveness of institutions constitute a practical way of gradually learning by experience. This is a task in which international organizations could engage to the immense satisfaction of governments, systematizing, disclosing, and disseminating these indicators, explaining how they are to be implemented, facilitating the investment that countries need and must make in order to build them, and contributing an international experience that is not generally unavailable. Based on this objective circumstance alone, institutions can gradually work on self-improvement.

588. The third general conclusion has something to do with what Joan Prats referred to as *adaptive efficiency*. Institutions that are generated must adapt continually, first because circumstances are constantly changing and the same actors do not always remain on the scene, and second because when we accept that the work of these institutions revolves primarily around conflict and not unanimous agreement, we see that they must adapt gradually to spaces that give rise to differences. This capacity to adapt safeguards the most essential element, which is the space for dialogue. We are not seeking institutions that will achieve specific objectives, but those that encourage dialogue and stand the test of time. This takes institutions that inspire and build trust and whose constant objective is to do just that, as opposed to accomplishing some other specific goal. On this subject, an important conclusion is that for reasons of efficiency, these institutions must account for the different areas in which agreements are developed and implemented. This means that there is a national area associated with the country vision, but there are also sectoral areas, which were stressed in the presentations made by representatives of the private sector, particularly in connection with their collaboration on industrial matters. There must be a specific space for discussion to bring debate to the different areas of the region, allowing citizens the opportunity to feel that they are being better represented by their actual situation and not proposals that could seem too abstract to them, such as a major national objective, for example.

589. The fourth general issue that I believe has emerged in this Forum is the centrality of governments in that the executive branch is called upon to play a central role in this country vision-building process. Recognizing that this task is beyond the scope of the government and that it is only valid when it does go beyond it, we greatly emphasized the crucial role that the executive branch must play: first, by being the only branch capable of investing in these institutions; second, by being an agent that facilitates the process; and third, by respecting the autonomy of the process without taking ownership of it for short-term political gain. Then, basically in the last two sessions, the government's importance was reinforced, as well as the

need for transparency in public affairs, rendering of accounts, providing information to make these process viable and to enhance them. We agreed that building agreements seems easier to the extent that actors have access to more objective information. Also mentioned yesterday was the government's need to compensate the losers in these processes, to make them viable, because just acknowledging that some gain and some lose it is not good enough. Moreover, actors must be empowered by transferring information to them, training the weakest actors, assisting in social organization, and disseminating the results of the process to bring about an appreciation of the role being played by the leaders of the institutions to which the actors are affiliated.

590. I would like to point out something that I consider somewhat of a paradox. It seems that building workable agreements is more complex and difficult in the most polarized societies, but at the same time, they are also more necessary in these societies, precisely because conflicts and the inability to resolve them are more acute in these societies. In societies that are the most polarized, the state has a lower capacity for building consensuses. Political parties usually tend to lose their programmatic nature and play out their struggle over the short term; the actors are weaker and, therefore exhibit a more apparent tendency to be excluded from the process and to struggle with it from outside the system. All of this weakens the possibility of building national consensuses.

*It seems that building workable agreements is more complex and difficult in the most polarized societies, but at the same time, they are more necessary in these societies, precisely because conflicts and the inability to resolve them are more acute in these societies.*

**Álvaro García**

591. I jotted down some ideas that I think would help deal with this situation. First, more should be invested where greater needs exist. This is obvious at least to economists because, since the gap between social benefit and private activities is vast, it is the state that settles it by spending more on these processes, particularly on support for the weakest actors, who exhibit a greater tendency toward exclusion and, consequently, toward weakening the national process. Second, we must move forward on problem solving. Yesterday, several people indicated that success breeds success, and it is not always possible to achieve success in the resolution of the country's major problems; hence, a great deal of time can slip away before the actors are convinced that this works. In this sense, a balance must be achieved between the need to have a national vision that moves the country forward and affording security to actors, resolving problems that perhaps are smaller, more practical, where these mechanisms are useful, helping lend validity to the process. Finally, we stressed the need to disseminate work accomplished and results achieved, and we opened a new chapter which I consider very interesting, though not part of the meeting, namely the role of the media in this process, how they strengthen these consensus-building procedures, or perhaps how they weaken them if their attention is focused unduly on the short term.

## 10. CLOSING REMARKS

### **José Luis Machinea**

*Executive Secretary, ECLAC*

592. I believe that this Forum has been very worthwhile. It gave us the chance to relate experiences, to learn from them, and to share them with the World Bank and International IDEA. This is what ECLAC seeks to accomplish and has traditionally achieved in the Latin America region, that is, serving as a forum for the exchange of experiences.

593. As was underscored more than once, copying is not tantamount to learning. While he was President of Brazil, Fernando Henrique Cardoso once said, in reference to another topic, that we must respect the originality of the copy. This is what it is all about, in addition to knowing what worked and how it worked in other latitudes, in different institutional, historical, and political contexts, which can yield us very valuable lessons.

594. I would like to take this opportunity to thank the participants, and point out that we have all been able to learn from your experiences and presentations, and to thank the World Bank and International IDEA, because you have afforded us the opportunity of working jointly on this project and I hope that we can continue working together in the future.

## APPENDICES

APPENDIX 1: AGENDA

**INTERNATIONAL FORUM ON  
NATIONAL VISIONS AND DEVELOPMENT STRATEGIES**  
Santiago, Chile, 25-27 July 2004

**AGENDA**

Sunday 25 July

*REGISTRATION AND RECEPTION*

*Seminar Methodology*

Monday 26 July

*OPENING SESSIONS*

**Competitiveness and welfare: a long and short-term balance**

*How do governments face short and medium-term needs without sacrificing the objectives of long-term development?*

José Luis Machinea, Executive Secretary, ECLAC

**Country vision and government program**

*How does a country vision translate into an agenda of policies and programs to be implemented during the government's term of office?*

Álvaro García, former Minister of the Economy and former Minister Secretary-General of the Presidency, Chile

Comments

**Key factors for a balanced development strategy**

*How can we achieve balance between macroeconomic and growth objectives with institutional, social and distributive objectives?*

François Bourguignon, Vice President and Chief Economist, World Bank

**Foundations for a stable, long-term political consensus**

*How can elected officials and other institutional, political, and social actors agree on long-term sustainable policies?*

Joan Prats i Catala, Executive Director, International Governance Institute of Catalonia

Comments

*NATIONAL EXPERIENCES*

## **TOPIC I**

### **Institutional arrangements to implement the country vision**

*What kinds of institutions have been established to promote convergence of a country vision and resultant government programs?*

Moderator: Pablo Guerrero, Adviser to the Vice President, Operations Policy and Country Services, The World Bank

Leading the discussion: Brazil, El Salvador, Ireland, and Peru

Comments

## **TOPIC II**

### **Support from the private sector for comprehensive, balanced development strategies**

*What importance is ascribed to the business sector in long-term development strategies and what role does it play in them?*

Moderator: Luiz de Mello, Economics Department, OECD

Leading the discussion: Chile, Korea, Costa Rica, El Salvador, and Malaysia

Comments

Guest Speaker

Eduardo Dockendorff, Minister Secretary-General of the Presidency, Chile

Tuesday 27 July

## *NATIONAL EXPERIENCES*

## **TOPIC III**

### **Social participation and strengthening the government/parliament relationship**

*What kind of participation does the civil society have in the dialogue between the government and parliament with regard to long-term objectives and priorities?*

Moderator: Daniel Zovatto, Regional Director for Latin America, International IDEA

Leading the discussion: Botswana, Chile, Costa Rica, Finland, and Mauritius

Comments

## **TOPIC IV**

### **Transparency and the credibility of government policy and program results**

*What is the extent of government reporting on the results of its administration and how are the people informed?*

Moderator: Juan Martín, Special Adviser to the Executive Secretary of ECLAC and Director of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES).

Discussion Leaders: Malaysia, Mexico, and New Zealand

Comments

## **SUMMARY AND CONCLUSIONS**

Álvaro García, former Minister of the Economy and former Minister Secretary-General of the Presidency, Chile

José Luis Machinea, Executive Secretary, ECLAC



## APPENDIX 2: LIST OF PARTICIPANTS

**BOTSWANA****Mahomed Iqbal Ebrahim**

Vice President, Botswana Confederation of Commerce, Industry, and Manpower (BOCCIM), and Chairman, Small Business Council

**BRAZIL****Jaques Wagner**

Minister of the Secretariat of the Council for Economic and Social Development (CDES/PR)

**Eugenio Staub**

Member of the Industrial Development Institute

**CHILE****Juan Claro**

President, Federation of Chilean Industry (SOFOFA)

**Eduardo Dockendorff**

Minister, Secretary-General of the Presidency

**Álvaro García**

Former Minister of the Economy and former Minister Secretary-General of the Presidency

**Gastón L'Huillier**

President, Proyecto País, Chilean College of Engineers A.G.

**COSTA RICA****Mayi Antillón**

Executive Vice President, Chamber of Industries (CIRC)

**Leonardo Garnier**

Former Minister of National Planning and Economic Policy

**EL SALVADOR****Juan José Daboub**

Former Minister of the Treasury

**Francisco de Sola**

Member, National Development Commission

**FINLAND**

**Jyrki Kasvi**

Member of Parliament and Member of the Parliamentary Committee for the Future

**IRELAND**

**Mary Doyle**

Assistant Secretary-General, Prime Minister's Department

**KOREA**

**Chin-Seung Chung**

Dean, School of Public Policy and Management, Korean Development Institute

**Oh-Soek Hyun**

President, Trade Research Institute, Korea International Trade Association

**MALAYSIA**

**Datuk Mustafa Mansur**

President, Federation of Malaysian Manufacturers

**K. Yogeesvaran**

Evaluation Director, Economic Planning Unit, Prime Minister's Department

**MAURITIUS**

**Raj Makoond**

Director, Joint Economic Council

**Claude Ricaud**

Chairperson, National Economic and Social Council

**MEXICO**

**Mohammad Azarang Esfandiari**

Former Head, Strategic Planning Unit, Presidency of the Republic

**Yeidckol Polevnsky Gurwitz**

Vice President, National Association of Manufacturers (CANACINTRA)

**NEW ZEALAND**

**Lewis Holden**

Deputy Secretary, Ministry of Economic Development

**PERU**

**Ludwig Meier**

Former Minister of Fisheries

**Rafael Roncagliolo**

Technical Secretary, National Accord

**Manuel Sotomayor**

Former President of the National Confederation of Private Enterprises

**SPAIN**

**Joan Prats i Catala**

Executive Director, International Governance Institute, Catalonia

**OECD**

**Luiz de Mello**

Senior Economist, Country Studies Branch, Economics Department

**ECLAC**

**José Luis Machinea**

Executive Secretary

**Juan Martín**

Special Adviser to the Executive Secretary and Director of the Latin American and Caribbean Institute for Economic and Social Planning (ILPES)

**Andrés Solimano**

Regional Adviser, Economic Development Division

**IDEA**

**Daniel Zovatto**

Regional Director for Latin America

**WORLD BANK**

**Francois Bourguignon**

Vice President and Chief Economist

**Pablo Guerrero**

Adviser to the Vice President, Operations Policy and Country Services

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