

# Mesas Ejecutivas in Peru: Lessons for Productive Development Policies

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## Abstract

Middle-income countries are likely to face an uncertain path to development. Their strategy may need to mutate from a focus on manufacturing to a multipronged one. Unleashing the potential of those sectors requires cooperation between different private and public actors that need to coordinate. Productive development policies (PDPs) are all about solving these coordination failures. When I became Minister of Production of Peru, I had the opportunity to lead a team that designed and implemented a tool, *Mesas Ejecutivas* (MEs), that could be part of the toolkit of PDPs. A ME is a working group that includes private and public actors around a sector or a factor of production. They aim at identifying and removing the constraints affecting the productivity of the sector or factor, understanding that much will be learned during execution. The target audience for this article is policymakers facing similar challenges. The main message should be that there are three main prerequisites for a successful ME: (1) a private sector capable and interested in problem solving; (2) a public sector willing to participate and able to deliver; and (3) some convener very high-up in government capable of inducing cooperation among the different stakeholders, resolving disputes, enacting regulation and allocating budget.

## Policy Implications

- More important than having long periods of consultation or fully developed plans that just need to be executed is to have an initial plan and start executing
- Planning and doing are intertwined. Much will be learned executing
- Instead of a big bang approach start slowly
- Solving Public-private and public-public coordination is extremely important for unleashing the potential of sectors with latent comparative advantages
- To solve problems of the productive sector it is necessary to move away from just purely horizontal policies and focus on sector specific ones.
- The solutions of many coordination failures are not particularly costly (in terms of financial resources)

Middle-income countries are likely to face a more complex, uncertain and difficult path to development than the one experienced from those that did it before. Their development strategy may need to mutate from an almost single-minded focus on manufacturing to a multipronged one, relying on all sectors with comparative advantages.

But the process of unleashing the potential of those sectors requires cooperation between different private and public actors that need to coordinate. That coordination does not happen naturally. Because of the risk of capture or simply of mistrust, private and public coordination is complicated. Similarly, the public sector is used to work in silos, while the solutions to most problems in government require the coordination of several public entities.

The need to coordinate is not new, but the increased uncertainty in the process of production, the complexity in the relationship between private actors and the heightened environmental, labor, phytosanitary, etc. requirements have increased it by one order of magnitude. That demand for coordination has been further augmented by the need to reconcile the interests of large and small producers (which

excluding a handful of innovative start-ups are typically at the verge of informality)

Productive development policies (or modern industrial policies) are all about solving these coordination failures. This requires institutionalizing a process that secures continuous interaction between private and public actors. This will allow sharing the information required to solve the problems of coordination, and also obtaining new information while attempting to solve them.

There are not many successful and readily available PDP tools that achieve those objectives. When I became Minister of Production of Peru in February 2014, I had the opportunity to lead a team that designed and implemented a tool, *Mesas Ejecutivas* (MEs), with the potential of becoming part of that restricted list.

A ME is a working group that includes the relevant private and public actors around a sector or a factor of production. The MEs try to avoid the common mistake of generating lengthy reports that are not implementable or endless meetings with much discussion but without execution. Also, the temptation of trying design a perfect plan

that 'simply needs to be executed'. Instead the MEs aim at generating an initial list of bottlenecks that affect the productivity of a sector (or a factor), and focus on removing them, with the understanding that much will be learned during execution.

This article is an attempt at putting in writing the lessons gathered during our experience doing MEs. The target audience is policymakers facing similar challenges everywhere. For them the main message should be that there are three main prerequisites for a successful ME: (1) a private sector capable and interested in problem solving; (2) a public sector willing to participate and able to deliver; and (c) some convener very high-up in government capable of inducing cooperation among the different stakeholders, resolving disputes, enacting regulation and allocating budget. Actors with local understanding know whether these three conditions can be fulfilled.

The next session elaborates on the challenges facing countries aiming at developing; in section 2, we motivate MEs as a tool for PDPs; section 3 describes MEs and section 4 provides the steps required to implement a ME. In section 5, we describe our experience in Peru. In section 6, we provide 12 lessons of our experience with MEs. By the way of conclusion, in the last section we have further thoughts about MEs, and discuss the recent inclusion of small holders, highlighting the complementarity of interests among different type of producers uncovered in the process of problem solving.

## The development challenges

Economic development has been historically synonymous with industrialization. Most countries that developed traveled along the road to industrialization. The conventional development process consisted in mobilizing workers from (low productivity) traditional agriculture into (high productivity) modern manufacturing. This process of 'manufacturing-based structural transformation' naturally resulted in substantial increases in economy-wide productivity.

In addition to being a high productivity sector, manufacturing has had historically four other advantages: (1) its productivity grew very quickly and reflected unconditional convergence; Rodrik (2013) has shown that the manufacturing industry tends to close the gap with respect to the world's technology frontier at a rate of 3 per cent annually, regardless of policies, institutions or geography; (2) it was intensive on unskilled labor, which is abundant in developing countries; (3) It was intrinsically rich in the generation of 'capabilities'. Those 'capabilities' allowed the production of increasingly more sophisticated products, and in a broad range of activities. In contrast, natural resource activities like traditional agriculture involved repetitive tasks that did not generate capabilities (and required very sector-specific technical expertise not applicable anywhere else); (4) it was a tradable activity and, hence, it could grow without being limited by the size of the domestic market.

But things have changed. Manufacturing has lost some of the advantages that made it unique as a development

engine: (1) many developing countries are facing what Rodrik (2016) has called premature deindustrialization, a process in which the share of manufacturing (in both employment and output) has been declining at (compared to the past) relatively low levels of income. That can be explained by the combination of technological change in advanced countries and globalization – which results in the reduction in the international prices of manufactures for these developing countries that are price takers. If that reduction is not compensated by domestic gains in manufacturing productivity, a contraction in manufacturing employment and output will ensue. This reduces its employment generation potential; (2) countries that industrialized earlier had relatively low wages compared to the industrialized countries' at that time. This is not the case in countries not yet industrialized. China's disruption of the manufacturing world has left less room for other countries, in particular those in an incipient industrialization stage.<sup>1</sup>

In addition, two other developments, highlighted by Sabel (2016), make manufacturing less unique as a vehicle for industrialization; (3) vertical disintegration and global value chains. Vertical disintegration means that different phases of the production process are given to different companies, such that mass producers reduce the risk of owning suppliers of components that may become obsolete due to rapid technological change. Those suppliers of components are, in turn, integrated into multiple global value chains. Incipient industrializers, particularly, are likely to specialize in the segment of the manufacturing chain that require repetitive tasks (assembling components manufactured elsewhere) and more intensive in unskilled labor, in contrast to R&D, design, or supply chain management. This provides limited opportunities to acquire 'capabilities', one of the historical advantages of manufacturing; (4) just-in-time production and its short-learning cycles. Unlike the past, many manufacturing companies now hold limited amount of inventories. This makes problems in the production process costly (and evident), and induces companies to make quick adjustments, incorporating rapidly the information revealed by the breakdowns. This is very taxing on managerial capabilities.

At the same time, some natural resources or modern services activities are now also experiencing short-learning cycles and allowing the buildup of capabilities. Take modern agriculture; modern farms are more like factories. Through precision agriculture or smart farming one can tightly control the optimal amount of water, fertilizers, pesticides that go to each parcel to maximize productivity, and in doing so limiting, as much as possible, the impact of nature's uncertainty. Increases in one order of magnitude in the density of planting, compared to traditional methods, implies that trees must be irrigated much more often and with all the right nutrients, and must be pruned more frequently and precisely. Dense planting and pushing genetic limits also results in more risk of diseases and pests, which again requires continuous vigilance and the adoption of countermeasures.<sup>15</sup>

Modern agriculture is also making use of biotechnological developments to adapt seeds to local condition. And more recently, 'genome editing' is allowing the reproduction, in a

very controlled way, of the natural process of mutation. In adapting locally, domestic producers of seeds have the natural advantage, and can also use geographical proximity to the buyers to make quick fixes to improve productivity. Likewise, modern agriculture is also allowing the development of agricultural equipment tailor-made to local needs (and the development of the metal mechanical sector in general). All these developments imply that modern agriculture allows an important buildup of capabilities.

Modern agriculture is not unique. Similar developments are taking place in aquaculture (fish farming), modern forestry and livestock farming. All these are experiencing: (1) increased use of technology that limits the impact of nature and maximizes productivity; (2) short-learning cycles that allows continuous improvements; (3) the generation of a network of local providers that generate local capabilities; (4) important employment generation for unskilled labor (even more than modern manufacturing); and (5) tradability which implies their growth is not limited by the size of the local market (and hence growth is not self-defeating by turning terms-of-trade against themselves).<sup>2</sup>

Mining is experiencing similar developments, with the possible exception of (4) as it is not unskilled-labor intensive. In particular, as they increasingly focus on their core business, mining companies are allowing the generation of stand-alone service providers and local producers of manufacturing equipment.

Those modern service providers are not limited to mining of course. There is a very significant increase of knowledge-intensive business services (KIBS). They do not absorb unskilled labor massively but have two advantages: are tradable and, very importantly, they have across the board impact on productivity.

Developments in services are allowing the reversion of the Baumol effect (the stagnant productivity in services). The typical example mentioned by Baumol was that the same number of musicians is needed to play a Beethoven string quartet today as in the 19th century. However, while it still takes four musicians to perform the quartet, there is a rapidly shrinking gap between sound quality of a live performance and a recording. As a result, the target audience has increased exponentially and the productivity of those four musicians has increased accordingly. Technology is also allowing the productivity of other services like education to expand very significantly.

All this suggests that the path to economic development will be different (and perhaps more complicated) from that transited by previous countries that achieved it. It is not that manufacturing will not be an important engine of growth. But to the extent that it has lost some of its traditional uniqueness, it should not (and it probably cannot) be relied as the single (or even the most important) one. The development process will require multiple engines/sectors, including manufacturing but also natural resources and modern services.

It also implies that economy-wide increases in productivity are likely to rely less on structural transformation and more on within-sector increases in productivity.<sup>3</sup> Perhaps more remarkably, the sectors facing the increases in

productivity are likely to be those that historically have seen only sporadic (or negligible) increases in it.

### The role and challenges of productive development policies

Productive Development Policies (PDPs) are about identifying and removing constraints to the growth of the sectors with (latent or actual) comparative advantages. Accomplishing that process of 'self-discovery' requires, in turn cooperation among diverse private and public agents to solve complex coordination problems.<sup>4</sup>

In cooperating, public and private agents will need to share information. They will also learn new information, previously unknown to both of them. This will help to identify the public goods that the government needs to provide and the market failures it needs to fix, such that sectors achieve their potential.

Some of those public goods or market failures are likely to be cross-cutting and can be, perhaps, allocated and implemented at a national level. But a large percentage is very sector-specific. We give generic names to public inputs to private production like 'infrastructure,' and 'regulation', that are, in practice, highly sector-specific. They need to be identified and implemented at that level.

*Mesas Ejecutivas* (MEs) is a useful tool for PDPs that allows the institutionalization of the process to obtain the information needed. They also allow acting upon it in such a way that they further generate positive momentum and get all actors involved engaged.<sup>5</sup>

The public sector needs to learn quickly during policy implementation. This is crucial. The key to delivery in public policy, more than designing and executing the perfect plan, is to quickly learn lessons during implementation and, based on that information, to make adjustments to the original plan if needed. It is to monitor closely whether policies are having the intended effects, and correct them when they are not. Also, to identify exactly where, in the whole chain, the problem lies. Sometimes lies in the original design of the policy, other times in a law, or its regulation. Many times, the problem is not in the norm, but its implementation due to poor public management and/or limited capacities at lower levels of government.

### Mesas Ejecutivas

In this section we describe *Mesas Ejecutivas* (MEs), a tool we designed in Peru to implement PDPs more effectively.<sup>6</sup> A ME is a public-private working group that takes concrete actions to enhance the productivity of a vertical sector (such as forestry, tourism, agro-export, etc.) or a horizontal factor (such as logistics, capital markets, transit, etc.)

It does not aim at permanently replacing ministries or public agencies. Instead, it draws in participants from across these public entities and the private sector stakeholders of the sector or factor subject of the ME to define and suggest solutions to problems that cannot be solved within existing structures. Naturally, as part of its work a ME may reform or

create public sector entities, but the objective is to strengthen and improve the operation of the public sector, not to generate a parallel structure.<sup>7</sup>

A ME is a space mainly for action and execution. It focuses on the identification of the constraints limiting the productivity of a sector (or a factor), and in the implementation of solutions to remove them. It does not focus on high-level dialogue (although the focus on action can lead to high-level discussion considerations). MEs try to avoid generic discussions about the competitiveness of the economy. The majority of the unresolved problems in developing countries are unique to particular sectors and activities, and can only be identified and resolved at that level. In that sense, MEs are also an attempt from moving from high level competitiveness or productivity national councils into a forum that encourages continuous discussions and collaboration between the public and the private sector.

### Participants of MEs and types of meetings

A typical ME has two levels. A ground level body, composed by participants that have better and earlier information on the details of the productive problems of the sector or factor focus of the ME. These participants are of three types:

1. representatives from the private sector stakeholders around the sector or factor focus of the ME;
2. representatives of public sector stakeholders around the sector or factor focus of the ME; and
3. a dedicated team appointed by the public sector entity in charge of coordinating the ME.

Private sector representatives are the principal actors in a ME. They will be the ones that actually create the employment. The relevant business associations designate them. There needs to be a combination of those with firsthand knowledge of the problems of the sector on the ground, with those with sufficient perspective to be able to identify its key challenges. Crucially, they need to help the rest of the ME participants, particularly from the public sector, to understand better the sector or factor. Continuous private sector engagement in the MEs is a precondition for success. Naturally, this will only happen if the MEs show progress.

The representatives of public sector stakeholders relevant to the sector or factor are the ones that have the formal responsibility to provide the public goods or correct the market failures that the sector/factor subject of the ME will need. Some of these public stakeholders are regular participants of the ME; other will come occasionally for specific problems.

The dedicated team will be in charge of running the day-to-day operations of the ME. This team is responsible for securing the continuous public-private interaction needed to uncover bottlenecks in the sector/factor productivity, identifying the solutions and implementing them. In order to do so, they have to secure that the public sector stakeholders are receptive to the suggestions of the private participants. Many times they are not. Public sector stakeholders become

often defensive, at least initially, given that the private sector is telling them essentially how to improve on what they are doing. They also tend to mistrust the private sector. Due to this, the dedicated team needs to remain neutral and act as an honest broker. That neutrality requires that they do not have formal responsibility of the sector or factor subject of the ME. This neutrality is also the reason why one representative of the dedicated team needs to moderate the periodic ME sessions. This team also needs to be highly capable in negotiating and to have a very good grasp of public sector management.

The participants of the ground level body attend the ME sessions and directly scope and understand problems and work on solutions. This proximity provides them with the best information and context about the private sector productive challenges.

In many cases, the problems identified are resolved at the level of the ground body. However, there are occasions when they reach a gridlock because the solutions go beyond the purely technical, or a capacity for convening, persuading, problem solving, dispute resolution or budget allocation that only ministers (or above) have. It is on those occasions when a higher-level body of the ME, which operates at ministerial level (or even head of state), intervenes.

The ground and higher-level bodies are complementary. Each one corrects the limitations of the other.<sup>8</sup>

### Meetings of MEs and the importance of the dedicated team

MEs have two types of meetings: the periodic sessions and the inter-sessional meetings. Representatives of the ground level body normally attend the periodic sessions. It is in these sessions when problems (and progress towards solving them) are presented. Their ideal periodicity will depend on the ME, but experience shows that weekly or biweekly may be ideal for at least two reasons. First, it allows continuity in the public-private interaction needed to improve the understanding of the sector/factor. Second, the session of the ME acts as a constant pressure mechanism for its participants, who know they will need to report progress.<sup>9</sup> Infrequent sessions could result in procrastination.

Of course, not everything has to be completed by the next session. Some actions may require more time. But the principle is the same: fixed deadlines and the need to report progress to the ME generates a strong incentive to come through.

Perhaps more important than what happens in the regular periodic sessions of the ME is what happens between sessions, in the inter-sessional meetings. These are smaller (bilateral or multilateral) meetings in which the solutions to the problems identified in ME sessions are worked and implemented. Many times inter-sessional meetings are held exclusively among public sector participants. Sometimes these meetings include members of the higher-level body.

To understand the importance of the inter-sessional meetings and, particularly, of the dedicated team that leads those meetings it makes sense to remember that the main

objective of the *ME* is not to simply discuss or to have a forum where the private sector can ventilate its frustrations with the lack of coordination with (and within) the public sector. The main objective is to execute, to get things done. This requires a deeper diving into the problems and potential solutions identified at the periodic sessions. This normally is assigned to task forces holding smaller meetings.

The dedicated team of the *ME* also leads those meetings and makes sure there is continuous progress from session to session. The existence of an efficient dedicated team could well be the single most important determinant of success of *MEs* as a tool. It reduces significantly the risk of endless discussions that do not get reflected into implementable (let alone implemented) solutions.

### Why are *MEs* useful?

In a perfect world where everything works *ME* would not be needed. But in the real world, there are coordination failures. There are obvious public-private coordination problems. The communication between public and private sectors can be complicated (capture, mistrust, etc.) But in identifying and carrying PDPs, the public sector requires information that only the private stakeholders of the sector/factor can provide. Without such information, it would not really understand the sector/factor. Likewise, private participants normally know their problems but rarely know the solutions to them. The public sector has information and a perspective that complements the private one. In some cases, the information is unknown to both of them and will only be learned in the continuous interaction and in attempts at implementing solutions.

The result of the lack of coordination between the private and public stakeholders of the sector/factor may be bad policies, or good policies that, by not being properly implemented, do not achieve their objectives.

There are also problems of public-public coordination. The solutions of many problems in government involve multiple entities. But those entities only rarely coordinate between themselves. This lack of coordination normally generates public policies that are not aligned, excessively bureaucratic procedures, implementation gaps, etc.

These public-public and public-private coordination failures are harmful to all economic activity and sectors. But they are particularly damaging for incipient and new sectors, which do not even have the (already imperfect) traditional channels to interact with the public sector. At the same time, coordination failures are larger precisely because the sectors are new.

In addition to these coordination failures particularly damaging to PDPs, governments in developing countries have limited bandwidth. There are few effective proactive public administration professionals with an open mind to listen to the private sector, learn, and solve problems. The number is limited precisely because it has not been the traditional way to conduct industrial policies.

*MEs* can help with these three problems. By meeting regularly with private counterparts in *ME* sessions, public sector

starts to understand the bottlenecks that affect productivity of the sector/factor. That continuous public-private interaction allows sharing information but also learning new information, previously unknown to the agents involved.

Hence, they help with public-private coordination. Interestingly, experience shows that because the private sector is so interested in the success of the *ME*, and because misleading information can be eventually detected, private sector participants tend to provide truthful information (or that at least they believe it is correct) to the public sector.<sup>10</sup>

*MEs* also help with public-public coordination given that they include relevant public stakeholders of the sector/factor. Issues of duplicity (or more) of requirements by public sector entities, implementation gaps (where, for example, one local decentralized entity does not implement the national guidelines given by a ministry or national institution) or the need for complementary interventions, etc. are all made evident in *MEs* sessions. Of course, *MEs* do not solve public-public coordination issues but can go long ways towards it.

Finally, the *MEs* allow the public sector to learn how to identify and solve problems. This generates tacit knowledge and increases public sector's bandwidth.

### What does the government provide in a *ME*?

The government, with respect to the private sector, ideally differentiates between YPs ('your problems') and MPs ('my problems'). 'My problems' are related to what the public sector could do better to improve the productivity of the sector/factor of the *ME*. It could be that the public sector is not doing something it should (like having a national phytosanitary entity to gain access to international markets, or regulating/implementing an already passed forestry law), or is doing something that it should not (like slowing down exports with unnecessary red tape).

The objective to increase productivity implies that the *MEs* help the entire public sector to align the supply of public goods and services it provides to the sector/factor and/or help to correct market failures.<sup>11</sup> The following are potential MPs:

- reduction of red tape (norms and implementation);
- regulation that is adequate to productive reality of the sector;
- fill in loopholes;
- help with complying with technical requirements to secure access to new export markets;
- complementary public sector interventions;
- creation of new public entities (or improve the functioning of existing ones) that are appropriate to the productive reality of the sector;
- public infrastructure suited to productive needs of the sector;
- incentives to promote innovation that are suitable to the sector; and
- design of sector-specific training programs

'Your problems' (from the perspective of government) are such things as latent comparative advantages (which should

be clearer once the public sector provides MPs), product design, pricing strategy and competitive pressures, as well as the private market-provided inputs to production.

The distinction 'MP' and 'YP' is useful as a disciplinary device given that private sector's immediate reflex is to ask for tax exemptions or subsidies (which increase their profitability but not their productivity). This distinction allows filtering the list of problems and solutions, focusing on those that increase productivity, and eliminating (or at least give low priority to) those that compensate for low productivity.

### Steps to start operating a ME

Policy makers in middle-income countries everywhere are facing challenges similar to the ones described in previous sections, and looking for ways to solve them. MEs could be a promising tool towards achieving that end.

An obvious pre-condition to start operating a ME is the political decision to move forward. That decision will need to come from a 'convener', someone very high up in government (the prime minister or a cabinet minister), with the ability to allocate budget, enact regulation, induce cooperation between private and public stakeholders, and solve disputes when they arise. The 'convener' will lead the effort.

Once that pre-condition is fulfilled, the next question is to decide on the sectors or factors subject of the first MEs. Given its limited bandwidth, the public sector needs to prioritize initially a very short list of sectors/factors. And to the extent that tacit knowledge about the functioning of the MEs grows (i.e. public sector bandwidth increases), more sectors (or factors) can be sequentially added. We can call this a process of 'sequential prioritization'. Over time there should be no fixed limits on the number of formal MEs that the public sector operates. Below we describe the steps to operate a ME.

### Define the sector / factor candidate for ME

The obvious initial step is to define the candidate. There could be some key principles in deciding how to define a sector that may get a ME, though this is admittedly much more of an art than a science.

One would like the most broadly-defined sectors possible that are still narrow enough to be able to work with them. The sector/factor needs to be narrow enough such that the ME can get into relevant details. Regulatory barriers or infrastructure needs have to be common enough among the actors in the ME. But obviously given that it is achieved, the broader it is, the better to maximize macroeconomic impact.

It is important to rely on self-organization as much as is possible. Private sector actors tend to self-organize around particular shared challenges and needs. They form trade groups and associations, and within those often create sub-groups based on common problems. Therefore it is highly effective to create MEs for a private sector that are self-organized around a common set of interests. Put differently, instead of creating a ME first and then try to bring together members in an arbitrary group, it is better if the private sector sees its own common challenges and self-organizes

around them. This group could be a core private sector counterpart for a ME.

### Decide if the ME is viable

Not all the candidates make it to a ME. It is important to have preliminary meetings with the most important stakeholders, before the ME is formally installed, to make sure that chances of success are relatively high.

The most important determinant of the feasibility of a ME is whether private sector stakeholders are internally coordinated, open for pragmatic problem solving, and willing to devote significant time to the ME. Obviously, that willingness is endogenous. To the extent that MEs are able to show good progress, private sector participation and continuous engagement (at least of the relevant, more important actors) is almost guaranteed.

Private sector participants need an open mind frame during sessions. Their automatic reflex is to prefer subsidies or tax exemptions that compensate for inefficiencies. However, subsidies are justified only in very specific situations. When there is a market failure for example. MEs will prioritize measures that enhance productivity (and only indirectly profitability).<sup>12</sup> Private sector participants need to be willing to focus on those.

Key is also the participation of representatives of the public sector entities relevant to the sector/factor. Those need to willingly participate in the ME sessions and in the inter-sessions meeting. And, crucially, be able to deliver. This requires that they 'own' the ME achievements such that it avoids their potential passive resistance (or outright opposition).

### If the ME is feasible, launch it

Once the ME is launched, there is need for frequent regular meetings. Ideally there should be weekly or biweekly sessions. To the extent that the sessions of the ME act as a constant pressure mechanism for its participants, that frequency is required. Otherwise, there is a risk that momentum (and interest) is lost.

### Generate an initial (filtered) list of the main problems and their (potential) solutions

A typical approach in working groups is very linear. It consists on devoting significant amount of time to 'diagnose' the sectors/factors looking to implement later. Sometimes, external consultants, who write lengthy PDFs, do the diagnosis. Other times, this is done in-house. More often than not, these diagnoses do not lend naturally to an executable action plan. Since the whole process takes a long time without palpable results and other urgencies emerge, actors start to lose interest.

MEs are part of the family of PDP 'recursive' tools that recognize that planning and execution are intertwined. In the words of Sabel and Jordan (2015, p. 2), a recursive model of implementation 'uses the output of one round of review and revision as the input for the next round of implementation'.

To that extent, MEs do not focus on generating a perfectly conceived plan. They acknowledge that initial plans are almost always reviewed during implementation. As a result, the initial sessions of a ME is dedicated to generate an initial list of problems and their potential solutions. Solutions that, more likely than not, will be revised during execution.

In generating that initial list, MEs make use of the obvious complementarity between their public and private sector participants. Normally the private sector actors are better at identifying their most pressing problems. But they are less good at identifying even their potential solutions. At the same time, public sector officials (perhaps not individually but as a group) are better at identifying potential solutions, once provided with sufficient contextual knowledge of the sector/factor.

The list of problems and potential solutions needs to be filtered. In filtering, it is useful to remember that the objective of the ME is to identify and remove barriers to the productivity growth of the sector or factor subject of the ME. In that sense, it is important to go to the root of the problems, and decide MPs and YPs. For example, the private stakeholders of the sector of the ME may ask for a tax exemption to compensate for the fact the sanitary authorities are not working efficiently to gain access to new markets, or because there is insufficient investment in R&D. But in neither case the correct solution is likely to be the tax exemption. In the first case, it is to make the sanitary authority to work better (MP). In the second, it could be a combination of tax incentives and more awareness in the private sector of the importance of R&D (or innovation in general) to increase productivity (YP).

Sometimes the list of problems presented by the private sector may contain 'problems' that are not such, or at least are low priority ones. For example, they may want a norm that declares the sector as a 'national priority'. In that case, the litmus test is to ask whether that would improve in practice the day-to-day operations of the sector. In most cases, the answer is that it is merely declaratory.

In general, the filtered list of problems needs to identify the ultimate constraints to productivity and their potential solutions.

### **Pick 3 or 4 problems from the initial list and start to solve them**

MEs focus initially on the three or four key problems that can 'move the needle', a combination of those particularly important and those that can be fixed relatively rapidly. This allows generating positive momentum and energizes private sector participants who see their efforts start to pay off. It also works to break the inertia of public sector officials that, working in silos and with little private sector information, rarely implement effective PDPs.

### **Based on execution, polish the initial list of problems and solutions**

During implementation the ME goes deeper into the problems and is able to fine-tune the solutions. Solutions could

be identified during the ME sessions, or in the inter-sessional meetings, when task forces deep dive into the problems and find the actual solutions.

In general, it is the continuous interaction between both private and public participants during execution that allows arriving at final solutions: solutions unknown to both of them beforehand. In that sense, beyond the 'information-sharing' in a ME there is significant amounts of what Fernandez Arias et al. (2016) call 'learning-sharing'.

A typical example is one where a norm has, when applied, some undesirable side effects. The automatic reflex of private sector participants is to ask to change the law. But during this phase the root of the problem is found. It may be the case that the problem is indeed the law. But more often than not it is not. It could be the regulation to the law or could be simple poor public management. It could be that officers on the ground in charge of applying the norm distort it. The task of the ME resides in identifying where in the whole chain the real problem lies, and in providing the solution.

As a result the list of problems and solutions (the 'matrix') is a live one. It is polished as new information, normally during execution, arrives. The ME also needs to monitor continuously the impact of its policy implementation.

Precisely because coordination problems are complex, involving very different actors (public and private, national and local, large and small), the ME needs to institutionalize short-learning cycles to make corrections when the policies are not having the intended consequences. This process allows all relevant actors to keep learning.

### **Start solving other problems from the list and incorporate new problems to the list as they arise**

Obviously there is a need to show progress, to keep momentum. To the extent that there is more bandwidth, (because some of the initial 3 or 4 problems originally chosen have been solved or because are simpler than originally thought, for example), the ME can start solving other problems from the list.

The list could also change as new problems are incorporated. This could be because the private sector was unable to articulate at the beginning of the ME a whole picture of their problems, or because problems that were not present at the start appear afterwards.

Every once in a while, participants of the ground level body level hit a wall when solving problems and require the participation of those from the high level body. It could be because some solution requires budget allocation, because participants cannot agree on a solution or because decisions are more political. The need to include the higher-level body normally increases over time.

The entire process is very agile and iterative. It is not a linear one where, in an initial phase, all the problems and their respective solutions are perfectly identified, and in a second phase, those solutions are executed. Instead, there is significant iteration with many loops and mini loops. An initial diagnose of problems and potential solutions is made, and 3 or 4 of them are executed initially. With the

information from implementation the solutions are fine-tuned and the original list is, hence, polished. Also to the extent bandwidth increases, the *ME* starts to implement solutions to other problems of the original list and that implementation, in turn, allows fine-tuning of their solutions. New problems are also incorporated as they arrive. The *ME* goes back and forth continuously between the list of problems and the implementation of their solutions.

The description of the institutional set up of *MEs* and the steps necessary to start operating them were not fully designed from the outset, but rather the dynamics that emerged as the team learned to do their jobs better and accumulated capabilities. Those dynamics took place naturally as the team implemented *MEs* in Peru.

### Experience-with *Mesas Ejecutivas* in Peru

The experience of Peru shows that focusing resources to solve problems for sectors with potential (and for relevant factors) can generate very rapid and important impacts.

In the period between December 2014 and May 2016, the Ministry of Production of Peru created eight *Mesas Ejecutivas*. Six of them were sectorial/vertical:

1. forestry (December, 2014);
2. aquaculture (May 2015);
3. creative Industries (August 2015);
4. textile (September 2015);
5. gastronomical (December 2015); and
6. agroexports (April 2016).

And two were transversal/horizontal:

1. logistics (Feb. 2016); and
2. high-impact entrepreneurship (May 2016).

All *MEs* operated continuously until July 2016, when a new government came in. Some had immediate success. Others delayed taking form. But All *MEs* had impact (at different degrees). The crucial factor that differentiated those *MEs* that hit the ground running and those that did not, was the ability of the private sector participants to identify the main problems/bottleneck to their sector's growth.<sup>13</sup>

In this section, we will focus on the Forestry *Mesa Ejecutiva*, the first one to be set up. Peru's Forestry's potential is very clear. The sector has two major subsectors: plantations and forest concessions in the jungle. These activities have very different intensity. In plantations, 800 to 1,000 trees are planted per hectare. They are harvested from years 6 to 20 (depending on the species). In forest concessions, approximately 4–5m<sup>3</sup> of wood (less than 1 tree on average) is extracted per hectare every 20 years.

Peru's comparative advantages appear to be obvious. The country has about 18 million hectares of forests, of which approximately 10 million hectares are in the Amazon forest. Out of 7.9 million hectares of concessioned forest land, less than two million are operational. This is high-quality wood, ready for use if sustainably managed. In addition, the Andes and Amazon hold approximately nine million hectares of 'potentially reforestable' land. In the Amazon Jungle alone

there are four million hectares, waiting to be planted. However, less than 40,000 hectares have been reforested for industrial/commercial purposes.

Land is also relatively inexpensive. It can be obtained at between \$1,000–2000 per Ha vs. \$5,000–10,000 in neighboring countries. Energy and labor are also relatively inexpensive. But perhaps the most important edge is climate. Wood in clonal plantations grows yearly at 50m<sup>3</sup>/Ha (the highest in the world together with Brazil), vs. 25m<sup>3</sup> in Chile and 5m<sup>3</sup> in Finland. Consider the potential of only one of the innumerable varieties that grow in the Amazon. *Bolaina (Guazuma crinita)*, a species that until recently was practically unknown, reaches its optimal production size in just 8 years, compared to 23 years for the radiata pine, a species with similar properties grown in Chile.

Despite its huge diversity and potential, Peru sells abroad only approximately US\$150 million worth of forest products per year (and imports US\$1.2bn), compared to Chile's US\$ 5.5 bn.

The forest value chain embraces several processes, including: (1) production at nurseries and native forests and plantations that use seeds and seedlings as their main inputs; (2) transformation, both primary (sawmills, lumbering communities, and logistics and services companies) and secondary (furniture and wooden goods manufacturers), who use machines, resins, chemicals and tools; and (3) marketing.

In addition, different government agencies are engaged throughout the process in industry regulation, oversight or policy making (some of these agencies include SERFOR, OSINFOR, Minam, Minagri, regional governments, Produce, etc.), as well as training and technical assistance organizations, including newly created technological innovation centers (CITEs), universities, etc. Because the forestry value chain embraces various ministries and their agencies, as well as private companies, setting up the Forestry *Mesa Ejecutivas* has helped address coordination issues within and between the public and private sectors.

To this end the *Mesa Ejecutiva* prepared an initial industry diagnosis and identified three types of barriers: (1) poor regulation and overwhelming red tape; (2) lack of innovation and low productivity; and (3) insufficient funding.

Thus, just after a few months of operation the *ME* was able to lead the process to regulate the Law for Forestly and Wildlife in September 2015. This had not been possible in more four years (the law had been originally approved in July 2011) because of the large number of actors involved. These regulations allow, for example, those who have possession but not titling of their land to market their timber legally and use the possession certificate to request 'contracts for the transfer of use for agroforestry systems' susceptible to mortgages. In addition, landowners can now register their forest plantations in 3 days. It took them 6 to 12 months before. And can now extract the wood without permits. Before that process lasted from 4 to 8 months.

For concessions in the amazon forest, procedures were simplified, forest production can be used as a guarantee for loans and non-timber products and tourism are also produced. Likewise, it is expected that soon the first forest

concession will be launched in 14 years, with selection processes much shorter than in the past. A new mechanism for accessing forest concessions, known as the 'abbreviated procedure', has been created in which it is not necessary for a regional government (GORE) to call for tender for certain types of land, but for private companies to submit their proposal only to be granted this forest concession.

In terms of management, OSINFOR and SERFOR, Peru's forestry regulator and park service respectively, now coordinate their data and publish on their websites information on concessions, operating permits, surveillance and sanctions, among others; the procedures backlog substantially decreased to almost zero; the export permitting scheme was dramatically streamlined; the five-year audits' management information system was rolled out, and improved regulation of infringements and sanctions. Also the Forest Court was formed, action that had been pending for eight years.

In addition, construction of the facilities for the newly-established Pucallpa Forest CITE should begin shortly to foster innovation in production processes, transfer technology to small and medium enterprises, and attract qualified foreign experts. Its laboratories will award quality certifications and the CITE will help in standardizing manufacturing, improving wood drying and cutting, now far from ideal, and creating the competitiveness needed to take full advantage of Peruvian timber's outstanding quality. Thanks to the new CITE, laminate floor tests will take only 10 to 15 days, compared to 3 to 6 months as is the case now.

Forest plantations ideally require financing terms 10 years or longer, and provide long grace periods to make up for negative cash flows that build up through harvest time. This type of financing has not been in general available for plantations, and financing for primary forest concessions was likewise restricted. Also, in the past, concessions were never accepted as collateral.

To begin addressing the issue of access to capital, a Sol200 million fund enabled the Development Finance Corporation (Cofide) to provide seed second-tier funding (i.e., through private or public financial institutions with a 70/30 breakdown) that is expected to spur larger private financing. Loans have already been granted or about to be granted for Sol180 million. Recent loans have been granted at low single digit rates (for 8y) vs. absolutely no LT financing before ME was launched. Conditions keep improving. Getting access to reasonable (albeit not subsidized rates) is very good per se. But it is also transformational. It allows banks to begin to understand the forestry sector and to increase their exposure to it directly. Beyond debt financing, there are also a number of Forestry Funds for investing equity in plantations being set up.

The challenges for the ME are clear. In plantations, the most important one is to increase the supply of readily available land suitable for foresting. To that end, efforts are underway to prepare a forest land cadaster with San Martín and Huánuco regions (states). More regions (Loreto, Madre de Dios, Ucayali) are expected to join. SERFOR, the park service, is preparing a single integrated and systematized database. SERFOR has launched guidelines for concessions for

plantations. This will help keep attracting large foreign investors. Existing plantations imply fully owning the land.

It is crucial to understand the obvious complementarity between plantations and forest concessions in the Amazon jungle. Plantations are extraordinarily attractive, but if we neglect the forest, we would generate incentives to Amazon forest fires, to replace the Amazon Forest with plantations. In order to avoid this, the forest must be put into value, granting it to responsible operators. It is by far the best way to protect it, and to support strongly legal timber.<sup>14</sup> The consolidation of the legal timber industry would also allow the development of 'mixed' products such as glued boards or structured floors.

In forest concessions, there is still over-regulation. There must be certainty about the legality of the timber at the origin (the forest). This requires OSINFOR to make prior inspections; to improve traceability; improvement in regional offices, involving them in the certification of guides. Also, adjust the law on illegal logging with a comprehensive approach. In addition, to clean up the process of concessions and compete what was never concessioned. Forest operators also must also improve their productivity. Brazil extracts 20–27 m<sup>3</sup> per hectare versus our 4–5 m<sup>3</sup>. Of these, we only take 30–50% versus 70–90% in Finland.

Some neighboring countries decided years ago to boost their forestry industries through subsidies. In many cases, it worked. However, unlike its neighbors, and in view of current fiscal restrictions, Peru has rather chosen to focus on measures to drastically improve productivity.

In the first year and a half of operation of the Forestry *Mesa Ejecutiva*, the industry made very significant progress. One participant mentioned that more was done in the ME than what was achieved in the previous 200 years of Peru's republican history. But much more needs to be done, particularly at the regional and local government levels. The change of government at the end of July 2016 resulted in some institutional upheaval. This included moving the ME from the Ministry of Production to the Ministry of Agriculture at the request of the private sector. But it also brought some positive surprises. The inclusion of small holders, that were previously underrepresented, and a welcoming consolidation of interests. We will come back to this at the end.

### Twelve Lessons from *Mesas Ejecutivas*

The experience of running *Mesas Ejecutivas* provides with some useful lessons: first, more important than having long periods of consultation and studies with the private sector, or hiring an international consulting company that identifies the sectors with latent comparative advantages (and propose some public policy initiatives to develop them) is to start solving problems from the very beginning. To get things done is crucial to create 'momentum'. This is related to the very nature of *Mesas Ejecutiva*. They are part of a family of recursive PDP tools that understand that planning and execution are intertwined. This requires executing and setting the basis for a short learning cycle, where what it is

not working gets corrected rapidly. MEs have flexibility built-in.

Second, it probably makes sense to start slowly. Instead of a big bang approach where many MEs are launched at the same time, it makes sense to start with just a few. And over time, as the public sector starts solving problems and it accumulates tacit knowledge (i.e. its bandwidth expands), increase the number of MEs. There should be eventually no limit to the number of MEs in operation.

Third, MEs created need to be demand-driven. A ME should not be created if there is not real demand from the private sector. A crucial ingredient of a successful ME is to have a capable and committed group of private sector participants. They will be a key thermometer of the success (or failure) of the ME and will continue attending and committed only to the extent there is progress. Private sector continuous commitment is also likely to be the best guarantee that the ME will survive with new administrations. And the existence of private sector champions will help gaining overall public attention towards the sector. Beyond their commitment, the private sector participating in the ME needs to be able to articulate the main problems of the sector/factor.

Fourth, obviously a successful ME also requires public sector officials willing to listen to understand the sector and, collectively, being able to deliver. Many times, neither the private sector nor the public sector will know the solution to the problems of the sector/factor. It is the continuous collaboration that it is likely to lead to results.

Fifth, not all MEs will be alike. Some will 'hit the ground running', while other MEs will take longer as the new pieces are put in order. Experience shows that a ME success will require perseverance. And also on the ability to show results and get things done.

Sixth, MEs regular sessions require relatively high periodicity. Our experience shows that weekly or biweekly sessions (depending on the ME) are ideal to keep constant pressure on everyone to deliver. Private sector participants very happily assist to frequent sessions as long as ME achieves results.

Seventh, as important as the regular sessions are the work inter-sessions, which are bilateral or multilateral. Progress made in these meetings is reported in the regular sessions.

Eighth, there has to be a day-to-day team dedicated to securing progress inter-sessions. Sometimes the dedicated team needs to coordinate the implementation of solutions found in the regular sessions. But more often than not they will need to find the solutions. The fact that there is a dedicated team to make sure there is continuous progress could well be the single most important determinant of success of MEs as a technology.

Ninth, it is important to secure that the public sector participants 'own' the 'achievements' of the ME. The MEs require solving coordination problems within the public sector. This is difficult to achieve. Beyond other incentives or punishments to secure cooperation, public sector participants should not feel overshadowed by the dedicated team that coordinates the ME. This dedicated team needs to be an honest broker between private and public stakeholders.

Tenth, the focus on productivity is a useful disciplinary device. The private sector, when asked for the solution to their problems, will automatically prefer a subsidy or a tax exemption over the more 'time-consuming' solutions aimed at increasing productivity. This makes sense for the private sector to ask, but it does not make sense for the ME to focus on that. For a subsidy one does not need a ME. The objective should be to increase productivity, not to compensate with a subsidy the low productivity.

Eleventh, transparency is crucial due to the mistrust that exists in society regarding public-private dialogue. Transparency will reduce the risk of capture (because of manipulation of private information or outright corruption).

Twelfth, MEs must receive support from the very top of the government. Otherwise, they will sooner or later hit a wall. However, it is not an absolute necessity to have them depending from the president or prime minister, which is the standard solution. Indeed, one remarkable feature of MEs is that they were not part of a fully designed top down government program. The MEs first started to operate and over time the support from the very top came through.

## Conclusion

MEs are an invaluable tool for transparently obtaining information from the productive private sector. They can help the government to identify, for example, the regulations or infrastructure that a sector requires to succeed. To that extent, MEs allow not only to start fixing the private-public coordination failures, but also to organize the battery of public goods and services to offer. It can help substantially with public-public coordination failures.

The MEs in Peru have solved many problems in the productive sectors. That is important. But more importantly, the MEs have allowed learning on how to identify and solve problems. In other words, MEs are not only about removing the barriers to growth for the sectors, but learning how to remove those barriers. This is akin to 'learning to learn'.

MEs also can help strengthening institutions. The obvious channel is providing more information to the public sector in order to take more informed public policy decisions. The process of 'knowing' and 'understanding' the sector allows strengthening the state. It also strengthens the state by monitoring effective compliance of policies on the ground and making adjustments when needed. This reduces the implementation gap. But as important to strengthen institutions is that, by having a very transparent dialogue, it reduces the risk of the state ending up 'captured' by behind-the-scenes, private sector interests.

This article has focused on MEs a tool for PDPs, with an emphasis on the forestry sector. The Forestry ME operated continuously from December 2014 until the end of July 2016, when the government changed. This change resulted in some institutional turbulence as the new team at the Ministry of Production decided to implement some methodological changes, including reducing significantly the periodicity of the regular sessions (from 83 in the previous 19 months to 4 in 5 months) and not having a team dedicated

to making sure that there is continuous progress. This was on the surface a setback for the ME but it proved to be just a temporary one.

Perhaps unsurprisingly, there was almost no progress between August 2016 and January 2017. This reinforced the conviction of the importance of having frequent regular sessions and a dedicated team, two of the main lessons from the previous section. It also showed how left on their own, without the pressure from the ME, public entities related to the sector were not delivering.

Precisely because of this lack of progress and due to private sector demand, the ME moved to the Ministry of Agriculture in February 2017. But much happened in the mean time. Governor Manuel Gambini of Ucayalli, the most important of Peru's six forestry regions, created a regional ME in November 2016 to focus on Ucayalli-specific problems and convened sessions in November and December. That regional ME included some of the smaller holders, under-represented in the original ME. That inclusion was facilitated by the creation of the CONAFOR-Peru (Confederación Nacional Forestal del Perú), an organization that comprises small and medium sized producers from the six Amazonian regions, in October 2016. This allowed a more meaningful representation to the socially, politically and economically relevant small holders.

Despite the institutional turbulence, there has been a surprising (and welcoming) consolidation of interests between small and large stakeholders. CONAFOR Peru's main request is to formalize, given that the majority of small producers are not in the formal economy. In particular they want the government to check in situ the legality of their timber. They understand that the key to boost forest exports is timber traceability and legality, which is exactly what larger producers are also looking for. The private sector stakeholders in the new Forestry ME at the Ministry of Agriculture represent still a lobby, but one that includes almost everyone.

There are not many successful and proven PDPs tools. The MEs are on their way of earning a place in this restrictive list. Experience so far shows that there are significant economics of scope and that there are no fixed limits on the amount of MEs. They can be progressively extended to almost all sectors with (real or potential) comparative advantages. Experience also shows that they can have many uses beyond PDPs and can help towards boosting economically, socially and environmentally sustainable activities.

## Acknowledgements

There are many people to thank for the success of Mesas Ejecutivas. Ricardo Hausmann, for the initial discussions that led us to take the path of "doing" as opposed to spending long time preparing a big report and for his many ideas that convinced us that we were on the right path; Bailey Klinger, for being a continuous intellectual soundboard along the process and for helping with the initial conceptual writing about MEs; Dani Rodrik, for encouraging me to write this paper; My then colleagues cabinet ministers, particularly Alonso Segura, Juan Manuel Benites y Jose Gallardo, for allowing me (and helping me) to lead this effort of public-

public coordination. I would like to particularly thank Chuck Sabel and Ernesto Stein for being extremely supportive of MEs and for their many ideas reflected in this paper. They are true believers. Finally, MEs would have not seen the light if it were not for the "doers", particularly Ivonne Echevarria and Rafael Donaire. They are also original thinkers and, more than me, are the real architects of MEs.

## Notes

- 1 Chinese wages have risen in recent years (partially as a consequence of having reached the Lewisian turning point). For that reason, even China has lost some competitiveness *vis-à-vis* countries like Vietnam or Cambodia. Other middle-income developing countries (in Latin America for example) are in no position to compete on low wages.
- 2 A minor caveat is that those sectors normally require opening new markets fulfilling country (or region) specific requirements including certificates of traceability, phytosanitary permits, etc. Failure to do so effectively limits the size of the export markets and can result in self-defeating dynamics as prices start to fall in response to high supply growth facing unchanged demand.
- 3 Perhaps this potential change is, to a certain extent, semantic. The 'within sector' heterogeneity in productivity in developing countries is well known. Moving resources from traditional to modern agriculture, while still technically a 'within sector' increase in productivity, is no less structural and transformational than the standard mobilization of labor from agriculture to manufacturing. We still call both agriculture but they are dramatically different.
- 4 Hausmann and Rodrik (2003) are the first to introduce the concept of 'self discovery' (i.e. learning what one is good at producing). Sabel (2012) indicates that solving the coordination problems helps mitigating to a large extent The appropriability problems envisioned by Hausmann and Rodrik.
- 5 As Hausmann et al. (2008) say, successful PDPs need to find a way to set up the institutions that allow obtaining all that need information. And to have the capacity to respond to it.
- 6 Even though MEs originated as a tool to PDPs could also be used for improving the functioning of government in general.
- 7 Initially, MEs were thought to be temporary but the experience shows that coordination problems will continue to appear and the need for the ME will not diminish over time.
- 8 This division corresponds almost exactly to what Sabel (2016, p. 13) has described as ideal and very likely a shift in Latin América: 'From industrial policies centered on national business/government councils to industrial policies that encourage ongoing exchanges between higher level bodies (with convening and coordinating capacity) and ground level bodies (addressing concrete problems). Each, correcting the shortcomings of the other.'
- 9 Put differently, ME sessions can also act as a board meeting, where board members are particularly hands-on and well informed. Of course the analogy is imperfect to the extent that the decision on what to do, and what not to do, in terms of public policy needs to be ultimately taken by the senior public sector officials not by the ME's private sector participants.
- 10 This finding coincides with what Fernandez Arias et al. (2016, p. 2) report in a study of 25 PDPs in Latin America. They indicate that in most cases 'the exchange of information was direct and frank, without the strategic considerations that were anticipated.'
- 11 Public goods are clearly the government's responsibility to provide. Solution of market failures must be compared to the well-known risks of government failure in these interventions.
- 12 It is partly because of that reason that it is normally not a good idea to include representatives of the Ministry of Finance (the ones that normally decide on tax exemptions or subsidies) as regular members of MEs.

- 13 A detailed description of the main achievements of the different MEs can be found in Ministry of Production of Peru (2016).
- 14 The main environmental threat to the Amazon rainforest is deforestation due to fires set up originally for agriculture and livestock breeding. It is precisely because of this activity, that there is currently a vast amount of available 'reforestable' land for plantations. Those fires are not set up in area concessioned to responsible operators.
- 15 Sabel (2012) makes similar points.

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