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The Need for a Strategic Partnership – Who does What?

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THE NEED FOR PUBLIC-PRIVATE SECTOR STRATEGIC PARTNERSHIPS - WHO DOES WHAT?

A succinct definition of a Strategic Partnership is an association (or an alliance) between two (or more) entities where collaboration will be mutually beneficial. The idea, in this case, is for governments (the public sector) to promulgate policies, make investments, provide tax concessions, or other calculated measures to stimulate small, medium and large sized service enterprises (the private sector) and collectively reap rewards. That is, the service sector gains a greater market share in its respective area thereby increasing profits while the government expands its tax base.

The rational behind seeking strategic public sector-private sector alliances is that each has an indispensable role in a country's economy and via coordination substantial synergies can be realized. This essay focuses on various areas (examples) where government policy and investment potentially produces rewards for the country's economy and increases its ability to compete internationally. In the final analysis a county's utilization of its comparative advantages, ability to compete globally, and increasing efficiency is the only way to increment real income and thereby socio-economic well being. In the least developed countries strategic partnerships, focused on the under-exploited service sector, are emerging as a viable and valuable development tool.

Regardless of the enterprise some degree of dependence on the public sector exists, conversely the ability of the public sector to govern is dependent on the ability of its economy to compete and provide revenues. Thus there is an inherent partnership between the two sectors, transforming that partnership into a strategic alliance requires calculated actions, investment, stability and transparency, and above all communication between the sectors. The interactive nature of public-private partnerships also produces externalities with the potential to be beneficial in unforeseen ways and to other areas of the national economy; i.e. a strategic public-private sector is worth more than the sum of its parts.

At the macro level there are specific roles that government and the private sector must play in order to attract strategic partnerships (FDI) that will benefit and foster the creation of alliances. From the side of the governments, there must be clear strategies that convey the elements that foreign investors look for when deciding to enter a new market for an investment venture or for joint venture with a national government. Generally, they include independent courts, stability, simple laws, transparency, and of course tax incentives. Governments that promote their countries as having these characteristics will glean more attractive international partners thereby enhancing their national economies.

It is therefore, the role of the government to create the legal frame-work that will guide and protect national and foreign enterprises that build partnerships either to produce goods or services for local markets or for exports. Moreover, the government is, and will be solely responsible for the political stability necessary to sustain the feasibility of a partnership, along with the necessary policies that entice and create the right structure to attract foreign alliances. In the case of the private sector, the entities which comprise this important element for a partnership, must posses the values, ethics and the business capabilities to enter into a business relationship that will strengthen their partners positions and will foster growth for their companies and their countries, i.e. play their role in the synergy.

In the case of Nicaragua, which has a robust history of public-private "partnerships," (whether strategic or not is a debate for revisionist historians) example are used herein to demonstrate the potentially mutually beneficial nature of private-public sector alliances. They are: utilizing the bilingual nature of the Atlantic coast to provide remote services (on-line technical assistance, data entry, call centers etc.) to industrialized countries; the use of free trade zones to stimulate exports, increase employment, and attract foreign investment; and the use of advertising campaigns to support agro-tourism and environmental protection. These have been chosen as they exemplify the areas (policy, tax concessions, and investment) that are commonly used by the public sector to stimulate the private sector as well as areas in which Nicaragua has a competitive advantage that is currently only being marginally exploited.

The issue of trust between the private and public sector has been a significant impediment to the formation of strategic alliances in Nicaragua. Many in the private sector see the public sector as a hinder to business development (complicated laws, taxes, corruption etc.) and many in the public sector see the private sector as being short sighted, unconcerned with workers rights, the environment, and the needs of society as whole. This has created a system where the government sees its role as supervising or “checking” the private sector and the private sector devotes time and resources to circumventing those checks, resulting in inefficiency, unused capacity and a loss of revenue for both. Creating forums to address these misconceptions and to identify areas of cooperation (potential strategic alliances) is the first step in the formation public-private partnerships.

Recently Nicaragua created a national coffee council (CONACAFE) which acts as forum where the public and private sector develop policies and other activities that will benefit the Nicaraguan coffee cluster. The budget comes partially from a tax on exported coffee (paid by the coffee growers) and part comes from the national coffers. This has created an arena where coffee growers and representatives of the public sector (traditionally at odds with each other) openly discuss what is best for the coffee sector, which produces about 30% of agriculture export revenue. Thus the initial *sine quo non,* i.e. space, place and location has been created for forming a strategic public-private partnership.

A potential result of creating this forum is a government sponsored (underwritten) advertising campaign to promote the little known high-quality of Nicaraguan coffee in the United States, Europe, or Japan. Vis-à-vis CONCAFE (and the dialogue between the private and public sectors) the original idea for the campaign, similar to Columbia’s where the name of the country was associated with high quality coffee, as embodied by Juan Valdez (now a house-hold name in the United States), may be expanded to include the budding eco-tourism on Nicaraguan coffee farms such as Selva Negra and Finca Esperanza. Moreover, a key selling point of Nicaraguan coffee is that most of it is shade grown thereby increasing biodiversity and animal habitat, so via a promotional campaign the government is fostering various potential service exports as well. That is, the public sector pays for an advertising campaign in United States, and allows tax concessions to farms that promote eco-tourism, promote biodiversity, and export high quality coffee. The partnership between coffee growers and public sector investment potentially yields increased eco-tourism on coffee farms, increased tourism in general through enhanced flora and fauna, and greater exports of value added coffee. The coffee growers increase their revenues by exporting more coffee at a higher price obliging them to pay more taxes into government coffers, the environment is protected, and the tourism sector has new potential for growth.

The synergy was created because both sectors used their respective advantages in a congruent way. The private sector (the coffee growers) created a forum for discussion with the public sector and then made compromises to facilitate the partnership, i.e. committed themselves to producing coffee in an environmentally friendly manner, producing specialty coffee, and opening their farms to tourism. The government used its access to monetary resources to facilitate the coffee growers’ ability to generate greater income (via increased value added exports) while at the same time increasing its revenues. At the heart of all strategic partnerships is the willingness to negotiate and compromise, and take risks. In any strategic alliance a cost-benefit analysis must be conducted before any concrete measures are taken.

This is one example where the formation of a strategic alliance between the public and private sector creates a mutually beneficial synergy with positive externalities, in this case a more robust tourism industry which means more jobs and more taxes. It cannot be overstated the room that strategic public-private alliances provide for innovation and creativity. Often these alliances, which would appear to be the natural result of the interdependency between the sectors, do not occur because the space, place, and location are simply non-existent. Thus a fundamental question becomes who assumes the responsibility for creating these forums. Given that the private sector usually knows what it needs, that is what would increase its revenues, and the public sector has access to the monetary and intellectual resources needed by the private sector it is generally the private sector that must initiate the strategic partnership process in specific areas from which it will benefit. However it is the interest of government to generate as much revenue as possible and therefore the public sector’s responsibility to provide programs through which the private sector is able to approach the government regarding potential strategic alliances. In short the government must make itself available to perspective private sector partners and the private must take initiatives to create specific strategic alliance with the public sector.

An example where a private sector public sector partnership potentially functions as a viable development strategy in Nicaragua is the currently under exploited human capital on the Atlantic cost. This region historically been isolated, under developed, and its relationship with Managua has been fraught with conflict, occasionally erupting into armed conflict. As this area was originally colonized by Great Britain many of its inhabitants speak English which, with the proper investment and infrastructure, could be utilized to provide remote services such as call centers, on-line computer technical support, and/or data entry. This would produce positive results for the government and provide much needed employment.

The government in conjunction with entrepreneurs, whether national or international, could agree to allow a data entry center to function as a tax exempt enterprise, donate the land, and provide basic computer training. This would be attractive to investors and potentially very profitable as out sourcing this type of work is gradually becoming the norm for US businesses. In this case the roles of the private sector and public sector have shifted, now the government must seek partners in the private sector to enhance a development strategy. This illustrates a critical characteristic of strategic public private sector alliances, i.e. that the morphology of the partnership does not follow a formula and depending on needs roles change. Again there are positive externalities as the call center aside from generating employment, attracting foreign direct investment, improving the central governments relationship with the coast and eventually expanding the tax base, will lead to the development of human capital (from on the job training with computers) and begin the process of connecting the Atlantic coast with the global economy.

Thus, when developing strategic alliances a critical component is defining what the end goals are and what or who the appropriate partner is. In the case where the private sector component already exists, the onus for developing the partnership lies with the private sector- per the CONACAFE example, when the government fosters export services as a development strategy the roles are more-or-less inverted. The point is that strategic partnerships are dynamic and multi-faceted implying the need for deductive reasoning (early goal identification) and careful planning.

The final example of Nicaraguan public-private-sector partnerships used herein is the case of the *Zona Francas,* or free trade zones. Basically, the government allows foreign, and to a lesser extent, national entrepreneurs to operate tax free with the caveat that all the goods produced must be exported. Often the government builds access roads and other forms of infrastructure to facilitate the transportation and exportation of these goods. Every year sees additional free trades zones created providing much needed employment for the vast pool of unskilled labor. Many argue that the free trade zones are exploitative of workers and that the majority of the wealth generated accrues to foreigners, yet however true that may be positive externalities are created.

Aside from employment generated those individuals working in free trade zones are developing skills that can be used to open small business such as carpentry, mechanics, or small textiles. The Zona Francas are used as an example because they demonstrate that public private sector partnerships can and do work. Moreover partnerships, like everything else, are governed by learning curves meaning that both sectors can apply the lessons learned form one partnership to another. Creating an environment where the public and private sectors actively engage stimulates economies in various ways while simultaneously fostering stability and transparency. In essence strategic partnerships act as an internal checks and balance system by creating increased interdependency which once established is not easily undone.

In Central America a new modality of strategic private public sector partnership has emerged in recent years. These new business alliances are causing some profound effects in the regions economies and are contributing to Central America's integration in the global economy. The traditional model of production (basic goods and agriculture products) is slowly transforming into one of partnerships based on comparative advantages, linkages with multi nationals and market niches, and recently public private sector alliances.

These structural reforms have produced an abundance of examples where Strategic Partnerships have acted as catalysts in reinvigorating the Nicaraguan economy. The importance of such alliances is firmly embedded in the entrepreneurial business sectors as well as a corner-stone of government policy. The inherent advantages of strategic partnerships and their potential to maximize/optimize resource use (and raise socio-economic well–being) are clear to the keen observer of the Nicaraguan economy and indeed those of all Central America. Exports from Central American have more than tripled in various categories through the implementation of strategic partnerships that have resulted in massive production increases of fruits, vegetables, and other agricultural goods. The overwhelming consumption of these goods occurs in other countries and the once stagnant or declining farming sector (especially in Nicaragua) is forging ahead and gaining greater market shares. Thus in some cases the ideal model of a strategic partnership is realized, whereby small, medium and large enterprises in the developing world gain access to industrialized consumer demand, and those consumers pay less for the same basket of goods consumed, while the intermediary (the multi national) also profits i.e. synergy

It must be understood that in recent years countries like the United States, those comprising the European Community and other industrialized nations, as well as the transition economies of the former USSR, have engaged in strategic partnerships usually taking the form Trade Agreements (NAFTA, OPEC, the EU etc.). The impetus to enter such agreements (or economic alliances) is, simply stated, to more efficiently utilize scarce resources, raise productivity, and in turn standards of living and socio-economic well-being. Countries achieve these ends by forming strategic partnerships at the macro-national level yet the principals and desired outcomes closely resemble those of any strategic partnership, i.e. one entity provides assets that another entity is lacking and vice versa, thereby creating a synergy where the partnership's value is greater than the some of its parts. In sum, strategic partnerships maximize and optimize resource use.

This particular objective (optimizing/maximizing resource use) has been instrumental in the negotiations of the Free Trade Agreement between the United States of America and the Central American countries and the Dominican Republic (DR-CAFTA). This partnership aims at an alliance that will foster and promote the free movement of goods and services among all countries involved in the alliance thereby creating new economic opportunities and generating increased wealth in participating countries. As with all strategic partnerships this is accomplished vis-à-vis the maximizing of scarce resources via improved production efficiency, accessing of greater market shares, and exploiting comparative advantages.

In the particular case of Nicaragua, where dramatic structural changes in the political and economic policies-- aimed at curtailing the process of strategic partnership creation-- in the 80´s caused the collapse of its economy resulting in a decline of its exports from 750 M USD at the start of the decade to 250 M USD by the decades end. The need for strategic partnerships and alliances became of paramount importance and tantamount to the country's economic survival in the fledging global economy of the 90's. At the beginning of the 90´s, when a different form of government emerged the revival of Nicaragua's beleaguered economy became the center of all initiatives and the formation of strategic partnerships were at its core, both on political and economic fronts.

The principle impetus for DR-CAFTA is rooted in, and generated by, different economic conditions and comparative advantages existing in the Central American countries and those in the more developed economies of the United States and Canada. This means that one country's comparative advantage can be easily accessed by all the members of the alliance. One country may contribute with the aperture of its large consumer markets and technical assistance (the US and Canada) and other countries may contribute to the alliance with resources such as land, abundant natural resources (coal, natural harbors, lobster, etc.) as well as supply human resources. In the ideal model, then, a synergy has been created that augments consumption in developed countries while increasing the demand for labor in developing counties, thereby raising socio-economic well-being in both. While it could be argued that this is an essentially exploitative relationship (in a classic Marxist model) the nature of strategic-partnerships is precisely a more efficient exploitation (or utilization) of scarce resources via differences in comparative advantage.

At present, Nicaragua is a land of opportunities where the weaknesses of the past have become the strengths and opportunities of the future for those looking for partners overseas to take advantage of inexpensive labor and the catch up-effect (the rapid growth experienced by countries after long periods of stagnation) which has resulted from the recent opening of Nicaraguan markets. This Central American country has vast opportunities to form alliances with multinational to build and operate facilities in the areas of traditional tourism and ecotourism. The coasts, neglected throughout the eighties are now synonymous with tranquility and perfect vacations dreams for those people in the market looking for basic, nature oriented facilities at an affordable price. While Nicaragua has its problems with petty crime it is by far the safest country in Latin America and the current government is taking the steps necessary to liberalize its long constricted economy making it an ideal location for investors.

In sum, finding and nurturing the right strategic public-private sector partnership will take time, dedication, money, and trust, but the potential benefits justify investigating potential strategic-alliance partners. The externalities generated by successful strategic partnerships provide beneficial outcomes for society as a whole as increased efficiency is the only real way to raise consumption, income, and socio-economic well-being. In a simple way strategic public sector private sector partnerships are as old as society itself when it was realized that more could be accomplished by collective farming and that some form of overall governance was necessary to promote harmonious divisions of labor.