

**The Role of Public Policy in Private Sector Development
Leadership Academy for Development & Insper
June 27-July 1, 2016**

Introduction:

This five day intensive program for a select group of mid- and high-level Brazilian government officials and business leaders is designed to address how government can encourage and enable the private sector to play a larger, more constructive role as a force for economic growth and development. A driving principle of this LAD-Insper program is that policy reform is not like engineering or other technical fields that have discrete skills and clear, optimal solutions. Instead, successful reformers must be politically aware and weigh a broad range of factors that influence policy outcomes. For example, they must have a solid grasp of country-specific economic, financial, political and cultural realities. Most importantly, they must have a sense of how to set priorities, sequence actions and build coalitions. This program is designed to provide participants with an analytical framework to build these leadership abilities and operate effectively under adverse conditions. Major themes are: 1) The State as catalyst for private sector development, 2) Anti-corruption initiatives, 3) Financial sector reform and access to finance, and 4) Public private partnerships in infrastructure. The program is designed to reinforce and illustrate three critically important hypotheses about the role of public policy in private sector development:

1. Public policy matters! The performance of the private sector and its role as either a catalyst or an obstacle to economic growth is closely connected to how well or badly government policies are designed and implemented.
2. The government officials responsible for enhancing private sector participation must acquire a range of analytical skills to be effective. But policy reform is not like other technical fields where there is a clear optimal solution to a problem. Designing and implementing meaningful policy reform requires a broader, more interdisciplinary knowledge of economics, politics, local history and culture, combined with a sense of how to set priorities, sequence actions and build coalitions.
3. Successful policy outcomes that encourage and strengthen private sector participation are contingent upon the capacity of government officials and business leaders to understand and appreciate the interests, motivations and objectives of their counterparts.

Leadership Academy for Development (LAD)

The Leadership Academy for Development (LAD) trains government officials and business leaders from developing countries to help the private sector be a constructive force for economic growth and development. It teaches carefully selected participants how to be effective reform leaders, promoting sound public policies in complex and contentious settings. LAD is a project of the Center for Democracy, Development and the Rule of Law, part of Stanford University's

Freeman Spogli Institute for International Studies, and is conducted in partnership with the Center for International Business and Public Policy at the School of Advanced International Studies, Johns Hopkins University.

Inspere

Inspere is an education and research institution, currently focused on the fields of Business, Economics, Law and Engineering, exploring their complementarities to positively impact organizations and society. We develop, at all stages of their professional lives, innovative leaders to make a difference, preparing them to deal with the complexities of the real world, by strongly engaging both faculty and students in the teaching and learning process.

Inspere began its operations in São Paulo under the name of Ibmece – São Paulo (which was changed to Inspere in 2009) in 1987, through the Executive MBA program. Since 2004, it was separated from Ibmece Group and became a not-for-profit organization, which we believe to be of great value given our objectives towards the society. Currently, our learning programs cover from undergraduate and graduate students to doctoral and executive education programs, aligned with our objective of developing people at all stages of their lives.

The Case Method

The “case method” is a technique of teaching and learning through the analysis of actual events that have occurred, allowing you to gain a realistic understanding of the roles, responsibilities and analytical skills required of decision makers, as well as the tensions that may arise between various stakeholders with different objectives. The cases in this course highlight both the political challenges and analytical tasks encountered by government officials in different countries who are responsible for formulating policies and programs designed to encourage a larger, more constructive private sector role in the economy, such as the design and implementation of public-private partnerships (PPPs) that attract private sector expertise and financial resources to public infrastructure projects. Each case is presented from the point of view of a practitioner—usually a government official—who played a central role in the policy making process. As the reader of the case, you are required to assume the role of the principal analyst/decision maker who must thoroughly analyze the problem, identify and assess the issues, and make a defensible decision on whether to proceed, and if so, how.

The case method is an *active* approach to learning. Rather than listening to lectures by professors (i.e. passive learning), participants are expected to *actively* engage in a structured class discussion of the case led by the professor. It cannot be stressed too strongly, therefore, that **success with the case method used in this course hinges on your willingness and ability to prepare meticulously in advance of each class, and then participate actively in the class discussion.** Because this is a relatively realistic, “hands-on” method of learning, the case method approach should help you to develop the skills needed to analyze some of the complex issues you

encounter in your work. In addition, it should strengthen your ability to make difficult decisions and communicate effectively.

Study Groups

You will be assigned to a study group consisting of about five members on the first morning of the course. Time will be set aside during the course for groups to meet to discuss the case assignments *after* you have completed a careful reading of the case. These group sessions provide an opportunity to exchange views and discuss some issues likely to arise during class discussion. Reaching a group consensus is *not* the objective. Ultimately, the goal of this process is to challenge all participants to be more effective class participants, which heightens the quality of class discussion for everyone.

Final Study Team Assignment

Each study team will prepare a 15-minute presentation that will be given before the entire class on the final day of the course. The presentation will address a specific Brazil government policy challenge regarding an aspect of private sector development and recommend a new government initiative to address this challenge, drawing on lessons learned during the course. For example, the presentation might focus on a policy initiative designed to combat corruption that has adversely affected private sector performance, or a regulatory change that would attract higher levels of infrastructure investment via public-private partnerships (PPPs).

This assignment is designed to encourage you and your study team colleagues to apply what you have learned during the course to an actual problem that is impacting private sector performance in Brazil. This assignment is a central component of the course. Study teams are expected to dedicate significant time during the week to this task, and produce a quality presentation that demonstrates original thinking. On the afternoon of the first day, instructors will assist each group to identify the policy challenge that they will address, and they will be available throughout the week to provide guidance on the presentations. One session at the end of each day is dedicated to working on the assignment.

COURSE PROGRAM

DAY 1: MONDAY 27 JUNE

09:00 - 9:45 COURSE OVERVIEW & PARTICIPANT INTRODUCTIONS (Francis Fukuyaman, Roger Leeds, Fernando Schuler and Roberto Pedote)

9:45-11:00 LECTURE- Francis Fukuyama: “The State and Private Sector Development”

11:00 – 11:15 COFFEE BREAK

11:15-11:45 STUDY GROUP MEETINGS TO DISCUSS CASE 1

11:45 – 13:000 CASE 1 CLASS DISCUSSION – HYDERABAD METROPOLITAN WATER SUPPLY AND SEWERAGE BOARD (Fukuyama)

CASE 1: The Hyderabad Metropolitan Water Supply and Sewerage Board (India): This case discusses the efforts by the state of Andhra Pradesh and the Hyderabad Metropolitan Water Supply and Sewerage Board to provide water services to its poorest inhabitants - approximately 1.7 million people. The state government must reconcile the demands of politicians and private investors as well as the underserved inhabitants. Undermining this challenge is the reality that Hyderabad is located in a comparatively dry region of India, and the Water Board is only able to provide water for an average of two hours per day. In order to attract much needed investment and upgrade the service, the local government decides to privatize the Board. The case will enable the class to explore the economic, operating and behavioral issues associated with this type of decision.

Study Questions

1. What are the goals of the HMWSSB? How should it prioritize among its various goals? (Which goals should it prioritize, and on what basis?)
2. To whom does Mr. Gopal answer? Whose interests does he have to be concerned with? Why? What resources does he have, and what constraints does he face, for managing this external environment?
3. What are the constraints on privatization facing the HMWSSB? How attractive would it be to international water companies?
4. Analyze the cost structure and user charges, using the data provided at the end of the case. Note in particular the gap between income and expenditure in Table 1. What are the implications of these figures for the ability of the HMWSSB to finance service improvements?

5. What strategies should HMWSSB pursue to achieve its priority goals? The case identifies three options related to the question of privatization. But there may be other alternative or additional strategies or actions to take. (For example, you might consider increases in user charges, improving collection efforts, adjusting the labor force size, etc.) What are the advantages and disadvantages of each strategy? Make sure to consider constraints that may limit feasibility.

Reading: Jennifer Davis & Sunil Tankha. “The Hyderabad Metropolitan Water Supply and Sewerage Board.” HKS Case #319.

13:00-14:00 GROUP PHOTO AND LUNCH

14:00-14:30 STUDY GROUP MEETINGS TO DISCUSS CASE 2

14:30—16:00 CASE 2 CLASS DISCUSSION—DEVELOPING THE LOCAL WATER INDUSTRY, SINGAPORE (Fukuyama)

Case 2: From Water Scarcity to a Global Hydro-Hub: Developing the Local Water Industry (Singapore): The Singapore government placed a very high priority on making the transition from water scarcity to water self-sufficiency. Ultimately, they developed an internationally competitive water industry by harnessing the resources, initiative, and creativity of the private sector. The case traces the challenges encountered by government officials as they assessed alternative strategies for achieving this ambitious objective, and the specific actions they took to strengthen the capacity of local water companies to compete internationally. The case highlights the strong and effective public-private cooperation that was designed to increase the export of Singapore’s technological know-how and water management expertise.

Study Questions

1. Many developing countries have state-owned utility companies that both lose money, fail to provide adequate services, and are tremendous sources of corruption. Why didn’t that happen in the case of the PUB?
2. What considerations went into the setting up of the Research, Innovation and Enterprise Council (RIEC) in the manner chosen? What advantages did this have over other governance structures?
3. What are the main pitfalls facing the RIEC at present? In particular, how should it treat SMEs in the water business?

4. Could your country have done what Singapore has done with its state-owned utilities? What are the specific obstacles standing in the way?

Reading: Selina Ho, “Growing Singapore’s Water Industry: From Water Scarcity to Global Hydro-Hub,” Case Study, Leadership Academy for Development.

16:00-16:15 COFFEE BREAK

16:15-17:45 ROUNDTABLE: STATE REFORMS IN BRAZIL—Ricardo Paes de Barros, Fernando Schuler, João Manoel Pinho de Mello: [*subject to be defined*]

17:45-18:30 STUDY GROUP MEETINGS FOR DISCUSSION OF FINAL PROJECTS

DAY 2: TUESDAY 28 JUNE

9:00-9:30 STUDY GROUP MEETINGS TO DISCUSS CASE 3

9:30-11:00 CASE 3 CLASS DISCUSSION - PUBLIC OR PRIVATE PROVISION OF PUBLIC SERVICES? A CASE STUDY IN PRISONS IN BRAZIL (Sergio Lazzarini e Sandro Cabral)

CASE 3: PUBLIC OR PRIVATE PROVISION OF PUBLIC SERVICES? A CASE STUDY IN PRISONS IN BRAZIL: This case focuses on the decision to “make or buy” as applied to government decisions. In light of calls for greater government efficiency and the need to improve the quality of public services, Brazil has witnessed several cases involving the engagement of private agents execute public services through privatization, outsourcing and, more recently, through the so-called private-public partnerships (PPPs). The key problem is how to encourage investments in prison infrastructure to help reduce complaints of poor quality in the provision of correctional services. Three options are discussed: (1) full-blown public management; (2) state construction of corrections facilities and subsequent outsourcing of operations to private operators in a period up to five years; and (3) PPP, in which the private company invests in the construction of the prison facility and is responsible for its operation for 35 years. The case study assesses the pros and cons of each option, from the point of view of the government and other stakeholders.

Study questions:

1. Why is private involvement in prisons normally seen as problematic? What are the sources of risks and how could they be mitigated?
2. What are the possible organizational arrangements that can be used to run prisons? What are the pros and cons of each model?

3. Secretary Marcos Paulino needs to offer a concrete proposal for Governor Wanderlei Sampaio on how to improve correctional services in the State of Santa Clara. Which course of action would you recommend for Mr. Marcos Paulino?

Reading: Sergio Lazzarini & Sando Cabral, “Gestao Publica ou Privada? Um Caso no Sistema Prisional,” (Insper 2010)

11:00—11:30 COFFEE BREAK

11:30-13:00 LECTURE - Roger Leeds: Economic Growth, Poverty Alleviation and Financial Sector Development

This lecture will make the case that a critically important determinant of the pace of economic growth and poverty alleviation is the level of development of a country’s financial sector. Although foreign investment is important, most investment in developing countries comes from the efficient mobilization and allocation of domestic savings into productive investment through banks and other financial intermediaries. In many developing countries, however, large segments of the population do not participate in the formal financial sector because they lack confidence that their savings will be protected and used productively. This lecture will highlight a range of public policy challenges for governments seeking to encourage higher levels of participation in the financial sector, and how successful outcomes impact economic growth and reductions in poverty. Some of these challenges are technical, but many others are political, such as the government’s ability to mobilize public support for reforms that may be resisted by stakeholders with a vested interest in maintaining the status quo.

Reading:

1. World Bank, “Rethinking The Role of The State in Finance,” (Global Financial Development Report, 2013), pp 1-14 (“Overview)) and Chapter 5, “The Role of The State in Financial Infrastructure,” pp. 129-160. [The entire Report, available online: www.worldbank.org].
2. Paulson, Henry, “Let China’s Markets Speak Truth to Power,” Financial Times, July 22, 2015 (op ed). (Available online: www.ft.com).
3. Quintyn, Marc, & Verdier Genevieve, “Trusting the Government,” Finance and Development, Dec. 2010, pp. 41-43, <http://www.imf.org/external/pubs/ft/fandd/2010/12/quintyn.htm>

13:00-14:00 LUNCH

14:00-14:30 STUDY GROUP MEETINGS TO DISCUSS CASE 4

14:30-16:00 CLASS CASE DISCUSSION OF CASE 4 – TAIWAN HIGH SPEED RAIL (Leeds)

Case 4: Taiwan’s High-Speed Rail: A Public-Private Partnership Hits a Speed Bump

(Taiwan): This case traces the evolution of Taiwan’s high-speed railroad from project inception in the late 1980’s until its financial problems in 2009 describing the planning efforts, ridership projections, financial plans and cost-benefit analysis involved in the project, as well as the contracting process for the project. This project was one of the largest infrastructure projects in the world and one of the largest infrastructure projects ever built, using a “public-private partnership” (PPP) – a method for infrastructure development where the private sector would build and operate a project for several decades and then transfer ownership to the government. However, in 2009, after only two years of operation, Taiwan High Speed Rail Corporation (THSRC), the private consortium responsible for building and operating the high-speed rail system, was in deep financial trouble due to low ridership and the worldwide economic crisis. Unable to pay back the principal on bank loans, the President of the THSRC requested a meeting with Taiwan’s Minister of Transportation and Communications asking to hand the railroad over to the government to run. THSRC requested that compensation be set by an independent third party, as provided for in the event of a government takeover in the government’s original contract with the company. Readers are left with the question of what Taiwan’s Minister of Transportation and Communications should do in response to THSRC’s request.

Study Questions:

1. As a Brazilian government official with responsibilities for infrastructure development, what are your views about the pros and cons of using PPPs for producing and operating infrastructure?
2. As a key advisor to the Taiwanese Minister of Transport in the early 1990s, what arguments would you make to support the recommendation to proceed with the High-Speed Rail project using a PPP approach? Were there feasible alternatives to a PPP?
3. Who are the key stakeholder groups and how will each be impacted by the PPP project? What motivates them to support/oppose the project?
4. What’s your assessment of the government’s:
 - a. Feasibility study & cost-benefit analysis for the project?
 - b. Request for proposals (RFP) process?
 - c. Design of the its high-speed rail contract (e.g. establishing performance measures for the concessionaire, estimating ridership, allocating risk for variations in ridership from the original projections)
5. As an executive at a major Taiwanese banks, would you have advised participating in the PPP financing? Why/why not?

6. It took 25 years from the time of the initial feasibility studies (1992) until the trains were operating (2007). Why did the process take so long? In Brazil, would the time line have been shorter?
7. What should the Taiwan government do about the THRSC request to be bailed out? Is there an alternative solution for the government?
8. Based on your experience in Brazil, what lessons do you draw from this case for public-private partnerships more broadly?

Reading: “Taiwan’s High Speed Rail: A Public-Private Partnership Hits a Speed Bump,” Harvard Kennedy School Case # HKS116, 2010.

16:00-16:30 COFFEE BREAK

16:30 – 17:30 STUDY GROUP MEETING FOR DISCUSSION OF FINAL PROJECTS

DAY 3: WEDNESDAY 29 JUNE

9:00 – 10:30 LECTURE: IMPROVING THE QUALITY OF GOVERNMENT (Fukuyama)

10:30-10:45 COFFEE BREAK

10:45 – 11:15 STUDY GROUP DISCUSSION OF CASE 5

11:15 - 12:45 CLASS DISCUSSION OF CASE 5– POLICE REFORM IN GEORGIA (Fukuyama)

Case 5: Police Reform in Georgia (Georgia) The new, reformist government of Mikheil Saakashvili that came to power following the 2004 Rose Revolution needed to dramatically upgrade public services, beginning with the police. The police in Georgia were underpaid, poorly trained, and rife with corruption, but reforming them would be very expensive and potentially dangerous. The new government ended up sidelining thousands of existing officers, hiring and training a new cadre, and dramatically increasing their salaries. Doing so however required going to foreign donors, requisitioning funds from business owners, and using sometimes questionable means to raise revenues. Moreover, the new police in their efforts to crack down on crime and corruption often began to violate the rights of many Georgian citizens, leading ultimately to the fall of Saakashvili’s government and indictments of many of his officials. This case explores whether his government was justified in using the methods it did, and how his successors could sustain the positive parts of that legacy.

Study Questions:

1. Are non-democratic means ever appropriate in reforming public institutions? Can human rights be violated in the process of reforming the public sector?

2. How can Georgia retain and build on the current progress while simultaneously transforming itself from a development-oriented state to a competitive parliamentary democracy?
3. It is clear that the MoIA reforms were not carried out uniformly and simultaneously across the different government agencies. How important was it for Georgian leaders to demonstrate an early success with the patrol police? Did they pick the right sequence in rolling out their reforms?
4. Does Georgian police reform appear sustainable from an economic standpoint, if the state cannot pay for amortization of foreign-sourced MoIA assets? Can the additional expenses be justified by the means of developing the private sector?
5. How can a law enforcement career remain an attractive choice in Georgia if it no longer pays at or above the national average wage? Are there other ways of maintaining institutional esprit de corps apart from higher salaries?

Reading: Daniel Kharitonov, “Police Reform in Georgia,” Case Study, Leadership Academy for Development.

12:45 – 13:45 LUNCH

13:45 - 14:15 STUDY GROUP DISCUSSION OF CASE 6

14:15-15:45 CLASS DISCUSSION OF CASE 6: GIFFORD PINCHOT AND SUSTAINABLE FORESTRY (Fukuyama)

Case 6: Gifford Pinchot and the US Forestry Service (early 20th cent. US): The year was 1909, and Gifford Pinchot, Chief Forester of the United States, faced a terrible personal dilemma. He had discovered a pattern of corruption in the sale of public lands to developers and other private interests. But the new president, William Howard Taft, depended on support from western Republicans and had placed a gag order on the whole affair. Pinchot was outraged at this evidence of corruption reaching the White House, but he wanted to give Taft a fair hearing. The new president had, after all, vowed to support conservation and strong control over federal lands. Taft invited Pinchot to the White House, where he alternately implored Pinchot not to go public with the matter and threatened him with dismissal if he violated the gag order. Pinchot had in his pocket a letter that could expose the scandal. This case explores the dilemma of Pinchot, a mid-

level bureaucrat dependent on a president's good will, and the strategies available to him. It shows the power of a single leader and the similarities the United States once had with many developing nations struggling with widespread corruption.

Study Questions:

1. Should Gifford Pinchot send the letter to Senator Dolliver and risk being dismissed by President Taft? Does he have other strategies available for accommodating the wishes of the President?
2. How did Pinchot succeed in defying the wishes of Speaker Cannon in arranging for the transfer of forests from the Interior Department to USDA?
3. What in Pinchot's background contributed to his success as a bureaucrat?

Reading: "Gifford Pinchot and Sustainable Forest Management," Francis Fukuyama, LAD Case.

15:45-16:00 COFFEE BREAK

16:00-17:00 STUDY GROUP FINAL PRESENTATION PREPARATION

DAY 4: THURSDAY 30 JUNE

9:00-10:30 GUEST LECTURER – Marcos Lisboa: "The current Brazilian economic scenarios and perspectives"

10:30-10:45 COFFEE BREAK

10:45-11:30 LECTURE: INTRODUCTION TO PUBLIC-PRIVATE PARTNERSHIPS (Leeds)

11:30-12:00 STUDY GROUP DISCUSSION OF CASE 7

12:00-13:00 LUNCH

13:00-14:30 CLASS DISCUSSION OF CASE 7: YOGYAKARTA BUS TERMINAL: WHAT WENT WRONG? (Leeds)

Case 7: Yogyakarta Bus Terminal: In 2009 the Mayor of Yogyakarta, an Indonesian city of 400,000 inhabitants, was confronted with the possible failure of his first effort to attract a private company to finance and operate a municipal infrastructure project: the Yogyakarta Bus Terminal. The firm selected to build and operate the bus terminal five years earlier, was now contesting the original contract, claiming that the government had failed to comply with the terms and conditions of the concession agreement. As a result of this claim, the private firm was taking legal action to nullify the deal and receive reimbursement for its investment. The Mayor

was struggling to determine the reasons why this high profile project had gone wrong, and what his government should do now.

Study Questions:

1. What are the pros and cons for governments to do public-private partnerships rather than assume all the responsibility to build, operate and own (BOT) infrastructure projects, such as the Yogyakarta Bus Terminal?
2. Were the four criteria used to award the bus terminal concession sufficient? Would you have advised the Mayor to make revisions to the selection criteria?
3. What factors contributed to the “outstanding success” of the bus terminal during the first two years of operation?
4. What were the problems that led PTPK to announce its intention to withdraw from the bus terminal concession? Could the Mayor have taken steps to mitigate some of the problems that emerged before PTPK announced its intentions?
5. What options does the government have to resolve the dispute with PTPK?
6. What would you advise the Mayor to do?

Reading: Danank Parikesit, “Yogyakarta Bus Terminal: The Private Provision of Municipal Infrastructure,” Harvard Kennedy School Case #HKS734.

14:30-15:00 COFFEE BREAK

15:00-15:30 STUDY GROUP DISCUSSION OF CASE 8

15:30-17:00 CLASS DISCUSSION OF CASE 8:- DOM ELISEU, BRAZIL DEFORESTATION (Leeds)

CASE 8: Defending the Environment at the Local Level: Dom Eliseu, Brazil, 2008-2014. A former center of the timber industry in the Brazilian Amazon, the municipality of Dom Eliseu had built its economy around deforestation—much of it illegal. In 2008, as part of a strategy to enforce the country’s environmental policies, the federal Ministry of the Environment included Dom Eliseu on a list of the worst violators of deforestation laws. The blacklist cut off residents’ access to markets and credit and made the municipality the target of intensive law enforcement. To get off the blacklist, the community had to overcome a collective-action problem. The local government had to persuade the owners of 80% of private land—more than 1,000 properties—to map their property boundaries, declare the extent of deforestation, enter their properties in the state environmental registration system, and adopt more-sustainable methods of production. The municipality also had to build the capacity to take on new responsibilities for environmental

protection—most important, environmental licensing, which would enable the local government to regulate land use.

Study Questions:

1. Who are the key stakeholders in the case, and what are the specific interests or concerns of each with regard to the policies being implemented in Dom Eliseu?
2. Are the interests of the various stakeholders shared or divergent? Are relationships between them cooperative or conflictual?
3. Was the municipal government well placed to take on the challenges of removing Dom Eliseu from the blacklist and taking on the deforestation problem? What made the task difficult?
4. What did Neto and Poggi need to do to be successful?

Reading: Maya Gainer, “Defending the Environment at the Local Level: Dom Eliseu, Brazil, 2008-2014,” Case Study, Leadership Academy for Development.

17:00- 18:00 STUDY GROUP MEETINGS AND FINAL REHEARSAL FOR PRESENTATIONS

DAY 5: FRIDAY 1 JULY

09:00 - 09:30 COURSE TAKEAWAYS (Fukuyaman & Leeds)

9:30-11:00- GROUP FINAL PRESENTATIONS

11:00-11:15 COFFEE BREAK

11:15-13:00 GROUP FINAL PRESENTATIONS (CONT.).

13:00 - 14:00 LUNCH

14:00 - 14:30 EVALUATIONS

14:30 - 14:30 GRADUATION