

## **The Role of Public Policy in Private Sector Development**

### **Leadership Academy for Development & Universidad ESAN 24-28 August 2015**

#### **Course Overview**

This is a four-and-a-half-day intensive program for a small number of mid- and high-level government officials and business leaders, exploring how government can encourage and enable the private sector to play a larger, more constructive role as a force for economic growth and development. The process includes small team interactions, with case studies drawn from Asia, Africa and Latin America. Major themes are 1) Industry promotion 2) Investment promotion 3) Public private partnerships in infrastructure, and 4) Access to finance. This 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 public officials responsible for enhancing private sector participation must acquire a range of analytical skills to be effective. But policy reform is not like engineering or 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.

#### **Course Sponsors**

##### **Leadership Academy for Development (LAD)**

LAD is an executive level training program offered by the Center for Democracy, Development and the Rule of Law, part of Stanford University's Freeman Spogli Institute for International Studies, and the Center for International Business and Public Policy at the School of Advanced International Studies, Johns Hopkins University. The LAD mission is to provide future leaders working in the public and private sectors in developing countries with relevant training about specific government policies designed to encourage the private sector to play a more productive role in economic growth and development.

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## **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 local economy, such as improving consumer credit information in China, eliminating corruption in the Indonesian customs service by contracting out critically important services to a private firm, or restructuring a public water and sewerage authority in India. 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 outline a specific policy challenge regarding some aspect of private sector development and propose a strategy to address this challenge, drawing on lessons learned during the course.

This assignment is designed to encourage you and your study team colleagues to apply what you have learned during the course to a real world problem that you might encounter in your country. This assignment is a central component of the course, and therefore 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.

## COURSE PROGRAM

### DAY 1: MONDAY 24 AUG

8:30 – 9:00	Breakfast and Registration
9:00 – 9:20	Course Overview and Outline of Team Project: Prof. Francis Fukuyama
9:20 – 11:00	<b>LECTURE: The State and the Private Sector by Prof. Francis Fukuyama</b>
11:00 – 11:15	Break
11:15 – 12:00	Study Teams prepare for Hyderabad water case
12:00 – 13:30	Group Photo and Lunch

**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.

13:30 – 15:00	<b>CASE 1: The Hyderabad Metropolitan Water and Sewerage Board (India) -- Prof. Kent Weaver</b>
15:00 – 15:15	Break
15:15 – 15:45	Study Teams prepare for Singapore water case

**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.

15:45 – 17:00	<b>CASE 2: From Water Scarcity to a Global Hydro-Hub: Developing the Local Water Industry – Prof. Francis Fukuyama</b>
17:00 – 18:00	Study Teams Work on Final Presentation
Evening	Social Event??

### DAY 2: TUESDAY 25 AUG

8:30 – 9:00	Breakfast
9:00 – 10:30	<b>LECTURE: Promoting Behavior Change Among Businesses and Individuals by Prof. Kent Weaver.</b>
10:30 – 10:45	Break
10:45 – 11:15	Study Teams prepare for the Medellin Case

**CASE 3: Diminishing the size of the informal sector in Medellin (Colombia):** The new mayor of Medellin, Sergio Fajardo, arrived to office in 2004 pledging to remake the social contract between society and the state. He campaigned to introduce innovative social programs designed to lessen the high levels of poverty and violence in the city. But the mayor needed money to finance these programs. The Minister of Planning, Federico Restrepo Posada, was charged with engaging the private sector, increasing tax revenue and promoting job creation. To do this, Restrepo needed to address the high levels of informal economic activity hindering economic dynamism and depressing the tax base. The state could not provide the necessary services because it did not collect enough taxes, but businesses refused to pay taxes because they did not believe the state capable of delivering the services that they required. The case looks at how Restrepo addressed this dilemma.

**Study Questions:**

1. From the perspective of a person starting or operating a business, list the benefits and costs associated with operating in an informal context and in a formal context.
2. What are the causes of having a large informal economy? What are the consequences (positive and negative) for a country or a city of having a large informal economy?
3. Why does Restrepo want to decrease informality in Medellin?
4. What are the major challenges in getting Medellin businesses to formalize? How does Restrepo go about thinking about this problem?
5. What constraints does Restrepo face in reducing the informal sector? What tools does he have at his disposal?
6. What are his options? Identify the advantages and disadvantages of each option.

**Reading:** Seth Colby, “Serious Business: Diminishing the Size of the Informal Sector in Medellin, Colombia,” Case Study, Leadership Academy for Development.

11:15 – 12:30

**CASE 3: Diminishing the Size of the Informal Sector in Medellin – Prof. Kent Weaver**

12:30 – 13:30

LUNCH

**CASE 4: Facilitating Trade through Effective Border Control: Costa Rica:** Peñas Blancas, the border post where all overland commerce passed between Costa Rica and Central American countries to the north, was infamously slow and exceedingly congested. Trucks sometimes waited five days or more to pass through the customs post. The inefficiencies also had a real economic cost, as the border crossing was a major contributor to Costa Rica's nation budget through customs-related taxes and duties. Fixing Peñas Blancas had become a major national priority, and the Deputy Minister of Commerce was put in charge of recommending solutions to the congestion problem and improving the collection of taxes and fees. The task was especially complex because of political sensitivities, and the need to reconcile the competing interests of numerous stakeholders. Any solution would have to take into consideration the ways in which government officials, as well as private-sector actors—from exporters to customs brokers to banks—interacted and conducted business at the border-crossing.

**Study Questions:**

1. What factors would you emphasize to make a convincing case that the economic benefits derived from strengthening border management far outweigh the costs, regardless of the country?
2. If there was a “broad consensus” in Costa Rica that addressing the inefficiencies at the Peñas Blancas border-post should be a high government priority, why had the problems persisted for so long without resolution? In your view, are the issues primarily financial/technical or political?
3. Why had it been so difficult to reach agreement on cost-saving reforms at the border post that clearly would be financially beneficial to both private and government stakeholders (see Box 2)?
4. Which government and/or private sector stakeholders stand to lose from enhancing the efficiency of the border crossing process? What can Ocampo propose to mitigate at least some of their opposition?
5. Do you believe that the work of the outside experts added value, and facilitated Ocampo's decision making on an effective package of reforms?
6. If you were in Ocampo's shoes, which 3 World Bank proposed changes would you endorse, and why? Which 3 would you oppose? (see p. 9)

7. Prioritize and provide a justification for the 4 or 5 key recommendations Ocampo should make to President *Chinchilla*.
8. *What specific lessons from the Costa Rica case are relevant to Myanmar's border issues?*

**Reading:** Ronald Arce and Julia Oliver, "Facilitating Trade through Effective Border Control: Costa Rica's Challenging Reform Agenda," Case Study, Leadership Academy for Development.

13:30 – 14:00	Study teams prepare for the Costa Rica case
14:00 – 15:30	<b>CASE 4: Facilitating Trade through Effective Border Control – LAD Assistant Director Molly Selvin</b>
15:30 – 15:45	Break
<b>15:45 – 17:15</b>	<b>LECTURE BY ESAN FACULTY MEMBER OR GUEST?</b>
17:15 – 18:15	Study Teams Work on Final Presentation

### **DAY 3: WEDNESDAY 26 AUG**

8:30 – 9:00	Breakfast
9:00 – 10:15	<b>LECTURE: Economic Growth, Poverty Alleviation and Financial Sector Development by Prof. Francis Fukuyama.</b>
10:15 – 10:30	Break
10:30 – 11:00	Study teams prepare for the China consumer credit case

**CASE 5: Creating a Consumer Credit Information System (China):** This case examines (i) why governments must play a leadership role to ensure the creation of a credit information system (CIS) that is designed to encourage banks and other domestic financial institutions to increase their lending to local consumers; (ii) alternative strategies/models for implementing a new CIS that have been used by different countries; and (iii) the complex issues encountered by the government officials who are responsible for assessing the strengths and weaknesses of the alternative approaches to creating a new credit information system. The case focuses particular attention on the critical role of officials in the central bank of China's (PBOC) who were in charge, and their interactions with their technical advisors from the International Finance Corporation (World Bank affiliate) who were recommending a CIS model that differed from what the Central Bank believed was appropriate for conditions in China.



### Study Questions

1. What is the main explanation for why fewer than 25% of households in many developing countries deposit their savings in a bank?
2. What specific reasons explain why banks and other financial institutions resist lending to consumers and SMEs in many developing countries, including Myanmar?
3. How does a well-functioning credit registry system (CRS) mitigate the risks and strengthen the incentives for banks to increase lending to ordinary citizens and SMEs? (For background please read Chapters 1 & 2 of IFC's "Credit Bureau Knowledge Guide" in the reading packet.)
4. As the case explains, China had no previous experience with a CRS and created a system from scratch. What are the similarities and differences between China's experience creating a CRS under the direction of Mr. Dai and the circumstances in Myanmar today?
5. Did Mr. Dai and his Chinese colleagues encounter specific political and policy challenges that are similar to what Myanmar would likely experience in creating a CRS? For example, are the stakeholders who have a vested interest in the final CRS structure similar?
6. Why did the International Finance Corporation (IFC) advocate a private rather than a public model for the Chinese CRS, and why did Mr. Dai decide not to take the IFC advice? Based on your perception of the realities in Myanmar, which model would be most appropriate, and why?
7. If you were responsible for the design and implementation of a CRS in Myanmar, would you recommend the approach taken by Mr. Dai and put the Central Bank in charge? Is there another institution in Myanmar better suited for this responsibility?
8. What are the broader lessons learned from China's experience creating a CRS that are relevant to Myanmar today?

**Reading:** Sai Ma and Justina Wong, "Establishing the Individual Credit Registry System in China," Case Study, Leadership Academy for Development.

11:00 – 12:30

**CASE 5: Chinese Consumer Credit – Prof. Kent Weaver**

12:30 – 13:30	Lunch
13:30 – 14:00	Study Teams prepare for the Brazil stock market case
14:00 – 15:30	<b>CASE 6: Brazil stock market – Prof. Francis Fukuyama</b>

**CASE 6: Increasing Financing Opportunities for Local Companies by Reforming the Domestic Stock Market (Brazil):** This case focuses on the importance of creating a local stock market that serves as an attractive source of financing for growth-oriented small and medium size enterprises (SMEs) as well as established large companies. Brazilian officials recognized that in order for the private sector to become a larger, more constructive contributor to the country’s economic growth and development there must be major reforms in the regulations and infrastructure of the stock exchange. The case examines the constraints to stock market development and various policy and regulatory options considered by Brazilian officials as they worked to strengthen the domestic stock market and expand private company access to equity capital.

**Study Questions:**

1. What specific factors would you cite to support the proposition that a well-functioning stock exchange is vitally important to Myanmar’s overall development, and therefore should be a high priority for the government?
2. Every country that has attempted to create a stock exchange has discovered that the process takes many, many years to implement. What are some of the critical first steps that Myanmar must take to create a functioning stock exchange, and what are some of the most difficult challenges you would anticipate?
3. Although the circumstances described in the Brazil case are very different from those of Myanmar today (e.g, Brazil has had a functioning stock exchange for decades), are there similarities that demonstrate the challenges of creating a stock exchange that will provide access to capital for growth-oriented companies?
4. How do you define “corporate governance”? Why are internationally acceptable corporate governance standards a fundamental prerequisite for companies, regardless of the country in which they operate, to issue public securities successfully? Why do many company owners resist adopting acceptable corporate governance practices?
5. The Brazil case identifies a diverse range of stakeholders in both government and the private sector who will be affected by stock market reforms—some will benefit, but others may not. What are the

similarities and differences between these Brazilian stakeholders and those in Myanmar today?

6. Based on what is described in the Brazil case, would you be in favor a creating a stock exchange in Myanmar that is geared specifically to addressing the financing needs of SMEs?
7. Which option should Maria Helena Santana and Gilberto Mifano recommend for implementation? What arguments would you emphasize to gain support for your recommendation with the major stakeholders? What are the risks that must be addressed and how can they be mitigated?
8. What are the broader lessons learned from Brazil's experience that are relevant to Myanmar today?

**Reading:** Aaron Mihaly, "Access to Financial Resources for Local Companies: Revitalizing Brazil's Stock Exchange," Case Study, Leadership Academy for Development.

15:30 – 15:45	Break
15:45 – 17:15	<b>LECTURE BY ESAN FACULTY MEMBER??</b>
17:15 – 18:15	Study Teams prepare for final presentation

#### **DAY 4: THURSDAY 27 AUG**

8:30 – 9:00	Breakfast
9:00 – 10:30	<b>LECTURE: The Challenge of Policy Implementation by Kent Weave</b>
10:00 – 10:15	Break
10:15 – 10:45	Study Teams prepare for Gifford Pinchot case
10:45 – 12:15	<b>CASE 7: Peru Decentralization (Peru) – Prof. Kent Weaver</b>

**CASE 7: Administrative Decentralization in Peru (Peru):** Alejandro Toledo's election as Peru's first indigenous president, in 2001, symbolized increased political participation to people who were also "from the provinces" or the rural countryside. Immediately following his election, Toledo's administration passed a constitutional reform that gave sub-state authorities more power in public decision-making. Regional elections were scheduled for November 2002, and the newly elected Regional Presidents (Presidentes Regionales) and Regional Councils (Consejos Regionales) assumed office on January 1, 2003. This case explores the challenges of implementing administrative decentralization, centered on a decision made by Nelson Shack, Peruvian national director of the public budget. It encourages students to consider the difficulties of using decentralization as a mechanism for encouraging sub-state economic growth and the technical, human capital, and budgetary constraints of decentralizing a public budget.

**Study Questions:**

1. Can decentralization work to stimulate sub-state economic growth? Are there other actors that local officials should involve in the process?
2. Are there ways to streamline the MEF's methodology application and selection process for investment projects? If yes, how?
3. What should the consequences be if a region or leader misappropriates the funds devolved to that region?
4. How can Shack find the optimal trade-off between writing regions a "blank check" and not giving them enough autonomy?
5. What political consequences do you foresee from the proposed redistribution transfers, according to the ENAHO poverty index? Which regions might be more in favor of this redistribution scheme than others?
6. Is Peru approaching this process the wrong way; *should* administrative decentralization accompany political decentralization, or come at a later date?

**Reading:** Jessie Bullock, "Administrative Decentralization in Peru," Case Study, Leadership Academy for Development.

12:15 – 13:15

Lunch

13:15 – 13:45

Study Teams prepare for Peru Decentralization case

13:45 – 15:15

**CASE 8: Gifford Pinchot (U.S.) – Prof. Francis Fukuyama**

**CASE 8: 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:** Francis Fukuyama, "Gifford Pinchot and Sustainable Forest Management," Case Study, Leadership Academy for Development.

15:15 – 15:30	Break
15:30 – 16:30	Study Teams prepare for final presentation

**DAY 5: FRIDAY 28 AUG**

8:30 – 9:00	Breakfast
9:00 – 10:00	Group Presentation Preparation
10:00 – 12:00	Group Presentations, Round 1
12:00 – 13:00	Lunch
13:00 – 15:00	Group Presentations, Round 2
15:00-16:00	Graduation