

The Role of Public Policy in Private Sector Development
Leadership Academy for Development & Lee Kuan Yew School of Public Policy
26-30 January 2015

Introduction:

This module addresses the challenges faced by public sector leaders as they foster economic growth in politically charged environments. Offered in partnership with the Leadership Academy for Development (LAD) at Stanford University and Johns Hopkins University School of Advanced International Studies, it uses case studies (mostly drawn from Asia) on how public policy can help the private sector be a constructive force for economic growth and development. A driving principle of the LAD module 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. 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. LAD provides participants with an analytical framework to build these leadership abilities and operate effectively under adverse conditions. Major themes are 1) Providing Public Goods 2) Bypassing Bureaucratic Obstacles, 3) Facilitating Investment, and 4) the State as Economic Catalyst. 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.

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.

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.

Course Program

DAY 1: MONDAY 26 JANUARY

08:30— 09:30 REGISTRATION AND COURSE OVERVIEW

09:30— 10:30 LECTURE by Kent Weaver: “Promoting Behavior Change Among Businesses and Individuals”

10:30—11:00 BREAK

11:00—11:30 CASE 1 PREP

Case 1: 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.

11:30—13:00 CASE 1 DISCUSSION – Kent Weaver

13:00—14:30 GROUP PHOTO AND LUNCH

14:30—16:00 LECTURE by Roger Leeds: “Introduction to Financial Sector Development”

16:00—16:30 BREAK

16:30—17:45 STUDY TEAM MEETING

DAY 2: TUESDAY 27 JANUARY

08:30— 09:00 CASE 2 PREP

Case 2: 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.

09:00—10:30 CASE 2 DISCUSSION – Roger Leeds

10:30-11:00 BREAK

11:00—11:30 CASE 3 PREP

Case 3: 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.

11:30—13:00 CASE 3 DISCUSSION – Roger Leeds

13:00—14:30 LUNCH

14:30—15:30 LECTURE by Francis Fukuyama: "The State and Private Sector Development"

15:30—16:00 BREAK

16:00—17:30 STUDY TEAM MEETING OR GUEST LECTURE

DAY 3: WEDNESDAY 28 JANUARY

08:30— 09:00 CASE 4 PREP

Case 4: 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

09:00—10:30 CASE 4 DISCUSSION – Francis Fukuyama

10:30-11:00 BREAK

11:00—11:30 CASE 5 PREP

Case 5: 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. Pradesh must respond to the demands of politicians and private investors all the while ensuring the provision of a public good. 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. To attract investment, the government decides to privatize the Water Board, but the World Bank conditions its support for this privatization on Andhra Pradesh's ability to develop a program that will provide water to the city's slums.

11:30—13:00 CASE 5 DISCUSSION – Kent Weaver

13:00—14:00 LUNCH

14:00—14:30 CASE 6 PREP

Case 6: 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.

14:30—15:30 CASE 6 DISCUSSION – Selina Ho

15:30—16:00 BREAK

16:00—17:30 STUDY TEAM MEETING OR GUEST LECTURE

DAY 4: THURSDAY 29 JANUARY

08:30— 10:30 LECTURE by Kent Weaver: “The Challenge of Policy Implementation”

10:30—11:00 BREAK

11:00—11:30 CASE 7 PREP

Case 7: Mongolia's Child Money Program (Mongolia): This case is focused on the Child Money Program (CMP) that existed in Mongolia from January 2005 to 2010, when the program was abolished. The CMP began as a conditional cash transfer program that allocated cash benefits to families with children who lived below the country's poverty line. In mid-2006, at the time the case takes place, the Mongolian Parliament was considering a proposal to significantly alter the Child Money Program by expanding both the number of beneficiaries and the amount of cash benefits. This proposal would open the transfer program to families with children regardless of income level. The decision maker, Sanjaasuren Oyun, the vice-speaker of the Mongolian Parliament, must decide whether the benefits of expanding the CMP outweigh the risks of stressing government resources while moving away from the CMP's original goal of reducing poverty.

11:30—13:00 CASE 7 DISCUSSION – Kent Weaver

13:00—14:00 LUNCH

14:00—14:30 CASE 8 PREP

Case 8: Outsourcing customs inspections (Indonesia):

This case describes the Indonesian government's decision to combat systemic corruption and enhance efficiency in the customs service by "outsourcing" the customs inspections function to a foreign private company. Although the program was a success from an efficiency point of view—the cost of importing goods fell and customs revenues increased significantly—the decision was highly controversial and eventually there was strong pressure to reverse the decision and return customs inspection to the national customs service. The case highlights how the government struggled to reconcile the interests of diverse stakeholders in government and the private sector. Nationalist constituencies in the country advocated returning customs inspection to the government, arguing that it was an issue of national sovereignty, but importers and other business groups wanted to continue with the outsourcing approach because of its success in reducing corruption and lowering transaction costs. The objective of this case is to evaluate the pros and cons of the two alternative approaches, taking into consideration the interests of powerful and important stakeholder groups.

14:30—15:30 CASE 8 DISCUSSION – Roger Leeds

15:30—16:00 BREAK

16:00—17:30 REHEARSAL FOR FINAL PRESENTATIONS

DAY 5: FRIDAY 30 JANUARY

08:30— 12:00 LECTURE AND CASE by Ed Araral: "Public Private Partnerships"

12:00— 13:00 LUNCH

FINAL PRESENTATIONS

13:00—16:00 GROUP PRESENTATIONS

16:00—16:30 GRADUATION