

**The Role of Public Policy in Private Sector Development
Leadership Academy for Development & LBSNAA
August 8 - 12, 2016**

Introduction:

This five day intensive program for a select group of mid- and high-level Indian 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-LBSNAA 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.

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 Indian 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 India. 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 8 AUGUST

09:00-10:15 COURSE OVERVIEW & APPROACH + LECTURE, “The State and the Private Sector” (Francis Fukuyama) + MINI-LECTURE, “Building Stakeholder Coalitions for Policy Change” (Kent Weaver)

10:15-10:35 TEA BREAK

10:35-11:05 STUDY GROUP MEETINGS TO DISCUSS CASE 1

11:05-12:35 CASE 1 CLASS DISCUSSION – HYDERABAD METROPOLITAN WATER SUPPLY AND SEWERAGE BOARD (Weaver)

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.

12:35-13:45 GROUP PHOTO AND LUNCH

13:45-14:15 STUDY GROUP MEETINGS TO DISCUSS CASE 2

14:15-15:45 CASE 2 CLASS DISCUSSION–DELHI POWER SECTOR REFORMS (Fukuyama)

CASE 2: Privatizing and Regulating Electricity: The Challenge of Reform in New Delhi (India) By the late 1990s, decades of rural migration and population growth in New Delhi, India had caused enormous strain on public services and infrastructure. A public utility company, the Delhi Vidyut Board (DVB), managed the generation, transmission, and distribution of electricity in this burgeoning megacity. Like many other state electricity boards (SEBs) across India, the DVB reported consistent financial losses due to rampant theft, under-billing, and difficulty collecting payments. As revenue-cost gaps increased and the electrical infrastructure became increasingly dilapidated, electrical outages increased and political support for reform of Delhi’s electrical sector grew. However, as Delhi’s chief minister soon realized, the government would also have to work hard to attract and maintain the support of private investors. This case describes the 2001 unbundling and privatization of the DVB, with particular attention to how Jagdish Sagar, then-chairman of the Delhi Electricity Regulatory Commission (DERC), helped to create a regulatory environment that would attract and secure investment.

Study Questions

1. Why did Indian SEBs perform poorly as commercial entities, and how were they politicized?
2. What channels of collusion and corruption existed between Indian SEBs, their customers, and local government?
3. What lessons from the privatization experience at Orissa could be applied in Delhi?
4. Who were the key stakeholders supporting and opposed to privatization? How were the concerns of opponents neutralized?

5. What were the a) key risks and b) key opportunities to privatizing the DVB
 - a. For the Delhi government?
 - b. For Delhi residents?
 - c. For investors?
6. Given that high distribution losses and frequent power outages were frequent in most state electricity boards (SEBs) across India in the late 1990s, what are some possible reasons that this kind of reform did not materialize elsewhere at the time?
7. Why does rapid migration, urbanization, and population growth make the provision of basic services and infrastructure more difficult?
8. What are the key activities and responsibilities of regulatory institutions for utilities? Why are regulatory institutions important – why are these activities not under the government’s purview?
9. What are the advantages and disadvantages of annual tariff setting in regulatory institutions for utilities?

Reading: Leah Nosal, “Privatizing and Regulating Electricity: The Challenge of Reform in New Delhi,” Case Study, Leadership Academy for Development.

15:45-16:00 TEA BREAK

16:00-17:30 STUDY GROUP MEETINGS, DISCUSSION OF FINAL PROJECTS

DAY 2: TUESDAY 9 AUGUST

9:00-10:15 LECTURE, “The Challenge of Policy Implementation” (Kent Weaver)

10:15-10:35 TEA BREAK

10:35-11:05 STUDY GROUP MEETINGS TO DISCUSS CASE 3

11:05-12:35 CASE 3 CLASS DISCUSSION – CHOOSING CHINA: GHANA’S \$3 BILLION LOAN DECISION (Fukuyama)

CASE 3: Choosing China: Ghana's \$3 Billion Loan Decision This case examines the decision process concerning the 2011 \$3 billion loan proposal from the China Development Bank (CDB) to the Government of Ghana. The Ghanaian Parliament chose to accept the Master Facility Agreement in December 2011. The loan has several conditions detractors identified that could negatively impact Ghana's future oil revenues and debt structure. In mid-2011, when the case takes place, the decision maker, MP Papa Owusu-Ankome, must choose whether to vote in support of this CDB loan or whether other options, including delaying the choice or working with the World Bank, would be preferable.

Study Questions:

1. Why is there a time pressure to complete the CDB deal?
2. What are the advantages and disadvantages of commodity-backed financing deals?
3. What political realities should be considered when discussing a long-term economic project?
4. Perform a sensitivity analysis using some "worst case scenario" numbers. At what point does the deal with CDB become less attractive? Compare with comparable World Bank offers.

Reading: Lucas Beard, "Choosing China: Ghana's \$3 Billion Loan Decision," Case Study, Leadership Academy for Development.

12:35-13:45 LUNCH

13:45-14:15 STUDY GROUP MEETINGS TO DISCUSS CASE 4

14:15-15:45 CLASS DISCUSSION OF CASE 4 - TATA NANO (Weaver)

CASE 4: Land Acquisition for Industrialization in West Bengal: the Tata Nano Case Industrial development in West Bengal is a central platform of the new Left Front government ushered in by a landslide electoral victory in 2006. Chief Minister of West Bengal Buddhadev Bhattacharya aggressively pursued a major investment in a new factory by Tata Motors Ltd, a subsidiary of the large Indian conglomerate, the Tata Group. When Rajan Tata, chairman of Tata Group, announced its choice of West Bengal as the site for the company's newest car production facility, the head of the West Bengal Industrial Development Corporation (WBIDC) Debasish Som became responsible for acquiring the 997 acres needed for the project. This case explores the challenges of acquiring land for industrial development. In particular, it encourages students to examine the political, economic, and logistical complexities of land acquisition when faced with diffuse rural landholding and a predominately agricultural economy.

Study Questions:

1. What is the proper balance between the rights of rural landholders and agricultural laborers, and the goal of bringing economic growth through industrial development?
2. Are large packages of incentives offered by governments a good way to attract industrial investment into a region? What other tools can policymakers use to bring investment?
3. Should the government use legal tools like eminent domain to acquire land on behalf of a private enterprise? What about when that private investment is strategically important for the economy of the region?
4. Which stakeholders stand to gain from the Tata Nano factory in Singur? Who may lose? How can the government most equitably distribute the gains and mitigate the losses in the land acquisition process?
5. How can Debasish Som better balance the need to update small landholder and sharecropper registries in West Bengal against Tata Motors' demand for speed in setting up their production facility?
6. Given the landslide victory of the Left Front government in 2006 based on a platform of industrial development, why did the execution of their first major industrial development project face so many problems?

Reading: Michael Woollsey, "Land Acquisition for Industrialization in West Bengal: the Tata Nano Case," Case Study, Leadership Academy for Development.

15:45-16:00 TEA BREAK

16:30-17:30 STUDY GROUP MEETING, DISCUSSION OF FINAL PROJECTS

DAY 3: WEDNESDAY 10 AUGUST

9:00-10:15 LECTURE, "Promoting Private Sector Development: A Behavioral Approach" (Kent Weaver)

10:15-10:35 TEA BREAK

10:35-11:05 STUDY GROUP MEETINGS TO DISCUSS CASE 5

11:05-12:35 CLASS CASE DISCUSSION OF CASE 5 – THE INFORMAL SECTOR IN MEDELLIN (Weaver)

CASE 5: 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. There are several policy options implicit in the text. These include:
 - a. Increase penalties for informal businesses
 - b. Create business service centers in marginalized areas that serve as a one stop shop
 - c. Work to increase the access to markets for small businesses via trade fairs and other government assistance programs
 - d. Reduce the number of procedures for opening a business or locate all of the registration process in one central location
 - e. Provide a tax holiday for registering businesses

Identify the advantages and disadvantage of each option. Which stakeholders would you have to collaborate with in order to execute each option? Which policy option would you choose?

7. Consider the policy options outlined in Question 7. How you would react to these options if you were:
- a small bakery with one outlet and five employees
 - a small manufacturer of apparel with ten employees
 - a small construction company that employs ten employees on an irregular basis, depending on demand for services
 - Front-line workers in tax and labor inspectorates
 - Local drug gangs

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

12:35-13:45 LUNCH

13:45-14:15 STUDY GROUP MEETINGS TO DISCUSS CASE 6

14:15-15:45 CLASS DISCUSSION OF CASE 6: YOGYAKARTA BUS TERMINAL: WHAT WENT WRONG? (Fukuyama)

CASE 6: Yogyakarta Bus Terminal (Indonesia) 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.

15:45-16:00 TEA BREAK

16:00-17:30 STUDY GROUP MEETING, DISCUSSION OF FINAL PROJECT

DAY 4: THURSDAY 11 AUGUST

9:00-10:15 LECTURE, “Quality of Government” (Fukuyama)

10:15-10:35 TEA BREAK

10:35-11:05 STUDY GROUP MEETINGS TO DISCUSS CASE 7

11:05-12:35 CLASS DISCUSSION OF CASE 7– ANTI-CORRUPTION COMMISSION (Fukuyama)

CASE 7: Indonesia’s Corruption Eradication Commission The prevalence of widespread corruption in Indonesia has, among other consequences, distorted markets, increased business uncertainty, and undermined the development of a dynamic and efficient private sector. Believing that serious anti-corruption reform was an imperative in order to unleash Indonesia’s significant economic potential and strengthen private sector capacity, in 2003 the government created the Indonesian Corruption Eradication Commission (KPK). Despite high public expectations, many were skeptical that the government was sincere about cracking down on corruption and would provide the KPK with the political support necessary to be successful. In July 2004 the KPK commissioners faced the first major challenges to its credibility: bringing the powerful and well-connected governor of Aceh to justice for corruption.

Study Questions:

1. What is the nature of corruption in Indonesia? Who is involved? Why have previous anti-corruption Initiatives failed?
2. Do you expect the KPK to be successful where other anti- corruption initiatives in Indonesia and elsewhere have failed? If so, why? If not, why not?

3. What are the pros and cons of ordering Megawati to suspend Puteh?

Reading: Michael Goldfien, “Indonesia’s Corruption Eradication Commission,” Leadership Academy for Development Case Study

12:35-13:45 LUNCH

13:45-14:15 STUDY GROUP MEETINGS TO DISCUSS CASE 8

14:15-15:45 CLASS DISCUSSION OF CASE 8– POLICE REFORM IN GEORGIA (Fukuyama)

CASE 8: Police Reform in 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.

15:45-16:00 TEA BREAK

16:00-17:30 STUDY TEAM MEETING FOR GROUP PROJECT

DAY 5: FRIDAY 12 AUGUST

09:00 - 10:15 GROUP MEETINGS TO FINALIZE GROUP PRESENTATIONS

10:15-10:35 TEA BREAK

10:35-12:35 GROUP FINAL PRESENTATIONS

12:35-13:25 LUNCH

13:25-14:00 COURSE EVALUATIONS AND GRADUATION (Fukuyama and Weaver)