

The Role of Public Policy in Private Sector Development
Leadership Academy for Development & Strathmore Business
School
18-22 May 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.

Center for Public Policy and Competitiveness

The Centre for Public Policy and competitiveness at Strathmore Business School (SBS) was set up in 2012 in the context of Kenya and the New Constitution, to act as an avenue for generating and channeling SBS research output to society and to the economy. The Centre, which has collaborative research agenda with the Institute for Strategy and Competitiveness at the Harvard Business School, seeks to promote Interdisciplinary Policy Research, document generated knowledge and translate social research findings to society in order to build a community of East African thinkers.

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 18 MAY

7:30 – 8:30	Breakfast
8:30 – 9:00	Course Overview and outline of team project: Prof. Francis Fukuyama
9:00 – 10:15	LECTURE: The State and the Private Sector by Prof. Francis Fukuyama
10:15 – 10:45	TEA
10:45 – 11:15	Study teams prep for Hyderabad water case

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.

11:15 – 12:45

CASE 1: The Hyderabad Metropolitan Water and Sewerage Board (India)
-- Prof. Mary Hilderbrand

12:45 – 13:45

LUNCH

13:45 – 14:15 Study teams prep 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.

14:15 – 15:45 **CASE 2:** From Water Scarcity to a Global Hydro-Hub: Developing the Local Water Industry – Prof. Francis Fukuyama

15:45 – 16:15 TEA

16:15 – 17:15 Students begin work on final presentations

Evening Networking Cocktail Event

DAY 2: TUESDAY 19 MAY

7:30 – 8:30 Breakfast

8:30 – 9:45 **CASE 3 + LECTURE: Introduction to Public-Private Partnerships (PPP) -- Prof. Alan Trager.**

Case 3: Parks and Partnerships in New York City (A) & (B): This combined case and lecture provides a focus on the role of public assets and private capital, using a case study on New York City Parks as an example. Public-Private Partnerships (PPP) are collaborative structures supported by public, private or even non-profit partners who agree to share risks, resources and decisions in building and implementing certain projects. PPPs address issues with innovation, financing, operational capacity (including skills and technology), and political support and authority. The parties to a solution may share powerful motivations for addressing a particular problem but may not agree on how it should be addressed, by whom, at what risk, and for what incentives.

Study Questions

1. What are the PPP elements in the Bryant Park case? How do they differ from Central Park? Where are values shared by both sectors? Where are they different?

2. How would you describe the alignment of interests and resources in this case?

Reading: John D. Donahue & Susan Rosegrant. “Parks and Partnership in New York City (A) & (B).” HKS Case #086 and #229.

9:45 – 10:15 Study teams prep for the Lesotho hospital case

10:15 – 10:45 TEA

Case 4: Lesotho Hospital and Filter Clinics: A Public Private Partnership (Lesotho): This case looks at the public-private partnership (PPP) between the Health Ministry for the Lesotho government and a private consortium headed up by a South African company, to build and operate a new referral hospital and four feeder clinics in Maseru, the nation's capital. The project was one of the first efforts to design a PPP in Africa for the construction and the operation of a major hospital plus the clinical services. The case addresses a number of PPP-specific issues, including the steps taken by the key stakeholders (government, IFC, private consortium) to form a workable public-private partnership; the design of mutually agreeable key performance metrics to be continued in the contract; and the myriad challenges of implementation and sustainability.

Study Questions:

1. What are the benefits of delivering integrated healthcare via PPP?
2. How can PPPs be used to improve competitiveness in healthcare?
3. What do advocates for the poor think of this PPP model?
4. How does operational success translate into corporate/investor performance?

Readings:

1. Lesotho hospital PPP IFC. "Lesotho Hospital PPP: A model for integrated healthcare delivery." <http://www.ministerialleadershipinhealth.org/wp-content/uploads/sites/19/2013/07/Lesotho-Hospital-PPP-A-Pioneering-Healthcare-Transaction.pdf>
2. Lesotho Hospital and Filter Clinics: A Public-Private Partnership by Henry Lee and Iulia Cojocaru, KSG Case # 1999.0
3. The Guardian. "Healthcare in Lesotho at risk as hospital threatens to bankrupt health budget." Video <http://www.theguardian.com/world/video/2014/apr/07/oxfam-lesothohospital-video>

10:45 – 12:15	CASE 4: Lesotho Hospital and Filter Clinics – Alan Trager
12:15 – 13:15	LUNCH
13:15 – 14:45	GUEST LECTURE: Public Private Partnerships in Kenya by Engineer Stanley Kamau
14:45 – 15:15	TEA
15:15 – 16:45	Study teams work on final assignment
Evening	Public Lecture by Prof. Francis Fukuyama

DAY 3: WEDNESDAY 20 MAY

7:30 – 8:30 Breakfast

8:30 – 9:00 Study teams prep for Peru decentralization case

Case 5: 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.

9:00 – 10:30	CASE 5: Peru Decentralization – Prof. Francis Fukuyama
10:30 – 10:45	TEA
10:45 – 12:15	GUEST LECTURE: Public-Private Partnerships: The World Bank Experience by Prof. Apurva Sanghi, Lead Economist of the World Bank in Kenya, Rwanda and Eritrea
12:15 – 12:45	Group photograph in SBS Atrium
12:45 – 13:45	LUNCH

Case 6: Getting Special Economic Zones to Work in Tanzania (Tanzania): Tanzania spent years trying to attract foreign investment using Special Economic Zones (SEZs). In theory, SEZ’s create special spaces within the economy where there is a greater ease of doing business. These zones are supposed to spur export activity, facilitate economic dynamism, and promote job growth. Despite significant efforts, the country’s initial attempts have failed to yield the desired results due to confusing regulations and little consultation with the private sector. A new leader is brought in to design and implement a new strategy for Special Economic Zones. The strategy must placate different stakeholders, allay the concerns of business, create new jobs, and make the economy more dynamic in the process. The case focuses on inherent tensions and challenges associated with SEZs.

Study Questions:

1. Regardless of the country, what are the objectives of special economic zones? Based on your experience, are SEZ an effective vehicle for encouraging higher levels of private sector activity?
2. As an advisor to the recently appointed Dr. Meru, what should be his top priorities as he sets out to revitalize the government’s efforts to establish SEZs?
3. Should his new approach continue to separate the functions of SEZs and Economic Processing Zones (EPZs)? If not, what alternative would you recommend?

4. What are the most important explanations for why previous government efforts to promote SEZ's have been unsuccessful?
5. Who are the key stakeholders that are likely to support Dr. Meru's agenda, and how should he go about mobilizing their support? Who are the likely opponents, and how can he effectively address their concerns in order to gain their support?
6. Are there lessons to be learned from the East Asian experience with SEZs? What adjustments to the E. Asia model should Dr. Meru consider to increase the likelihood of success in Tanzania?

Reading: Robert Mudida, "Getting Special Economic Zones to Work in Tanzania," Case Study, Leadership Academy for Development.

13:45 – 14:15	Study teams prep for the Tanzania SEZ case
14:15 – 15:45	CASE 6: The Special Economic Zone Strategy (Tanzania) – Prof. Robert Mudida
15:45 – 16:15	TEA
16:15 – 16:45	Study teams work on final assignment

DAY 4: THURSDAY 21 MAY

7:30 – 8:30	Breakfast
8:30 – 9:00	Study teams prep for Medellin case

Case 7: 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.

9:00 – 10:30	CASE 7: Diminishing the Size of the Informal Sector in Medellin (Colombia) – Prof. Mary Hilderbrand
10:30 – 11:00	TEA
11:00 – 12:15	LECTURE: Making Government Work Better by Prof. Mary Hilderbrand
12:15 – 13:15	LUNCH
13:15 – 13:45	Study teams prep for Mumbai Slum Rehabilitation case

Case 8: Financing Slum Rehabilitation in Mumbai (India): The case deals with an Indian NGO that's mission is to improve housing for Mumbai slum dwellers. The non-profit is encountering serious financial problems that threaten to stall a major new housing project in Dharavi, one of Asia's largest slum areas. After mobilizing support for the project from a diverse group of private and non-profit investors, including Citibank, serious issues arise that might derail the project. Citibank unexpectedly raises doubts about the housing project's feasibility, forcing the NGO to reassess the pros and cons of alternative financing schemes for the high priority project. The case highlights the challenges of reconciling the competing interests of a range of government, private and non-profit stakeholders in order to improve housing for the poor.

Study Questions:

1. What are the challenges to applying traditional financial structuring for Dharavi?
2. What are some of the innovative areas and terms in this financial structure?
3. How is risk and return shared by public and private players in this PPP structure?
4. Does this financial structure meet the traditional requirements, such as maximizing return and minimizing risk? Does this structure potentially achieve other benefits and attract risks?

Reading: Lakshmi Iyer, John Macomber & Namrata Arora. "Dharavi: Developing Asia's Largest Slum (A) and (B)." HBS Case #9-710-004 and #9-711-107.

13:45 – 15:30	CASE 8: Financing Slum Rehabilitation in Mumbai – Prof. Alan Trager
15:30-16:00	TEA
16:00-17:00	Study teams work on final assignment

DAY 5: FRIDAY 22 MAY

7:30 – 8:30	Breakfast
8:30 – 10:00	Final assignment prep
10.00 – 10:30	TEA

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10:30 – 12:00	Final assignment presentations, Round 1
12.00 – 13:00	LUNCH
13:00 – 14:30	Final assignment presentations, Round 2
14:30-15:30	Conclusion and presentation of certificates