

**The Role of Public Policy in Private Sector Development
Leadership Academy for Development & University of Sarajevo
3-7th July 2017**

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 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.

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 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 new program to facilitate SME access to affordable financing, 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 a real world problem that is impacting private sector performance in your country. 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

SUNDAY 2 JULY

20:00 WELCOME DINNER
Little Museum of BiH, Ambassadors Alley
Bentbasa, Sarajevo

DAY 1: MONDAY 3 JULY

09:00— 09:30 COURSE OVERVIEW

09:30— 10:15 LECTURE by Francis Fukuyama: “Stakeholder Analysis”

10:15—10:30 BREAK

10:30—11:00 GROUP MEETINGS TO DISCUSS CASE 1

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. 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.

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.

6. Consider the policy options outlined in Question 5. How you would react to these options if you were:
 - Unions representing workers at the Hyderabad Metropolitan Water Supply and Sewerage Board and the Municipal Corporation of Hyderabad
 - The World Bank
 - An international water firm interested in entering the Indian market
 - A civil society organization that represents slum-dwellers who do not have water and sewerage connections
 - The Municipal Corporation of Hyderabad

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

11:00—12:15 CASE 1 DISCUSSION – Frank Fukuyama

12:15—12:30 GROUP PHOTO

12:30—13:30 LUNCH

13:30— 14:45 LECTURE by Frank Fukuyama: “The State and Private Sector Development”

14:45—15:15 GROUP MEETINGS TO DISCUSS CASE 2

CASE 2: Reviving Georgia’s Wine Industry: Reviving Georgia’s Wine Industry focuses on efforts to respond to an unexpected Russian embargo on Georgian wine in 2006. In particular, it focuses on the head of the National Wine Agency, Vasil Managadze, as he considers how the Georgian government can support winemakers as they cope with the loss of their largest export market. Managadze and his colleagues believe they have two broad options: seek to reopen the Russian market or develop new export markets to fill the vacuum. At the time of the case, Russo-Georgian relations are fraught and it is widely believed that the embargo is an effort by Moscow to punish Tbilisi for its courtship of the West. This international political dimension, combined with wine cultural importance in Georgia, means that dealing with the wine ban is not just a matter of economics. There are two primary objectives to this case. First, it aims to make students think about comparative advantage and the mechanics of trade. Second, it seeks to encourage students to think about the importance of both domestic and international politics in trade policy. Through this case, students should see that there is more to developing trade policy than abstract economic theory; politics always plays a role.

Study Questions

1. What would you describe as the strengths and weaknesses of the Georgian wine industry? Does it have the potential to be successful in the global wine market?
2. What is the role of government in promoting domestic businesses abroad? What is the appropriate mandate for the National Wine Agency? Should this role change over time?
3. How might each choice impact the Saakashvili government's political fortunes? How does the wine embargo fit into the broader Russo-Georgian relationship? Should international politics impact the government's policy choice?

Reading: Michael Goldfien. "Reviving the Georgian Wine Industry," Case Study, Leadership Academy for Development.

15:15—16:30 CASE 2 DISCUSSION – Frank Fukuyama

16:30—16:45 BREAK

16:45—18:00 STUDY TEAM MEETINGS TO DISCUSS POTENTIAL GROUP PROJECTS

19:30 PANEL: "Captured States in Post-Conflict Societies – Are State Building, Anti-Corruption and Accountability Possible?"

21:00 DINNER

DAY 2: TUESDAY 4 JULY

09:00— 10:30 LECTURE by Michael Bennon: "Introduction to the Financial Sector"

10:30—10:45 BREAK

10:45—11:15 GROUP MEETINGS TO DISCUSS CASE 3

CASE 3: Megaprojects & the Role of the Public: Germany's Embattled 'Stuttgart 21' Rail Project: In February 2010, Germany's national railway broke ground on a project that had been under negotiation for more than 20 years—the Stuttgart segment of the European Magistrale, a 930-mile cross-Europe high-speed rail line that would one day extend from Paris through Munich and Vienna to Budapest and Bratislava. At long last, the German national railway, the state of Baden-Württemberg, and the city of Stuttgart had come to agreement on the routing and station design of the megaproject. Yet within the year, the project would spark the largest citizen demonstrations Germany had seen since the reunification of the country. The Stuttgart 21

opponents were diverse, and so were their concerns, but nearly all were united by one overriding contention: that political elites had conceived the plan without public input and had later refused to take citizen objections seriously. The case provides basic background and context for this controversy, then describes four kinds of public participation that took place in the course of developing the project: (1) a city-sponsored open-participation process in 1997 allowing citizens to weigh in on the neighborhood re-development portions of the project; (2) a petition drive by opponents to hold a city referendum on the project, later followed by mass demonstrations; (3) a state-sponsored mediation process between supporters and opponents of the project; and (4) a state election followed by a state referendum on the project.

Study Questions:

1. Evaluate each form of citizen participation in the Stuttgart 21 project. Who participated? What were their interests? Was participation "invited" or "claimed" by citizens? What levels of empowerment were given to citizens that participated?
2. What was the nature and quality of each form of citizen participation in the project? Was communication one way or two way? Was there a vote or response to comments? What were the roles of experts and political leaders vs. general citizens?
3. How effective were each of the government's efforts along key metrics? Progressing the project? Incorporating citizen input? Reaching consensus? In general, how could political leaders and project managers have better managed public outreach and approvals?

Reading: Quinton Mayne & Pamela Varley. "Megaprojects & The Role of the Public: Germany's Embattled 'Stuttgart 21' Rail Project." HKS Case #1130.

11:15—12:30 CASE 3 DISCUSSION – Michael Bennon

12:30—13:30 LUNCH

13:30—14:45 GUEST LECTURE by Professor Fikret Causevic: "Financial Globalization and Economic Sovereignty"

14:45—15:00 BREAK

15:00—16:15 LECTURE by Frank Fukuyama: "Promoting Behavior Change by Businesses and Individuals"

16:15—16:30 BREAK

16:30—17:30 GROUP PROJECT MEETINGS

19:30 PANEL: “Liberal Democracy in the West/The End of History 25 Years Later”

21:00 DINNER

DAY 3: WEDNESDAY 5 JULY

09:00— 10:30 LECTURE by Frank Fukuyama: “The Quality of Government”

10:30—10:45 BREAK

10:45—11:15 GROUP MEETINGS TO DISCUSS CASE 4

CASE 4: 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,” Case Study, Leadership Academy for Development.

11:15—12:30 CASE 4 DISCUSSION – Frank Fukuyama

12:30—13:30 LUNCH

13:30—14:00 GROUP MEETINGS TO DISCUSS CASE 5

CASE 5: Public Broadcasting in Ukraine: What Does it Take to Break Through Decades of Inertia and an Avalanche of Resistance? On March 25, 2014 Zurab Alasania became the newly appointed Head of NTKU (National TV Company of Ukraine) and faced the challenges of creating a public broadcasting institution. It was a period in Ukrainian history when the Revolution of Dignity had just taken place, the Crimea had been annexed, and the situation in the country was very unstable. Parliament announced presidential elections for May of 2014. The creation of an independent public broadcaster had been mandated by the Council of Europe but had stalled for 10 years. There was an unsuccessful attempt to reform NTKU into PSB in 2005 and now a new window of opportunity had appeared. The former President's administration prepared a draft law based on the concept of transforming the National Television Company of Ukraine (NTKU) and put it before Parliament. NTKU was the only provider of broadcasting on 100% of territory in Ukraine and was affiliated with 32 state-owned regional TV companies across Ukraine. There was high pressure from civil society for independent media, since oligarchs owned all current commercial media and there was a clear understanding of how they worked in Ukraine due to previous experience. This case will enable the class to explore who are the major players and how they can influence reforms in the short and long run.

Study Questions:

1. How would you make PSB an independent institution if the system does not accept independent institutions? If the law were adopted (through a window of opportunity) how would you ensure efficacy of reforms?
2. Who are the major players and how would you work with them?
3. When enacting reforms, how much does a leader's character matter, or is it only a question of management competence?

Readings:

1. Yaryna Klyuchkoska, Sophia Opatska, Andriy Rozhdestvensky, and Igor Rozkladay, "Public Broadcasting in Ukraine: What Does it Take to Break Through Decades of Inertia and an Avalanche of Resistance?" Case Study, Ukrainian Catholic University.
2. "Why Does the West Insist on Public Broadcasting in Ukraine?" http://mymedia.org.ua/en/articles/reformy/eu_zayava_suspilne_movlennya.html
3. "Coalition Building," <http://siteresources.worldbank.org/EXTGOVACC/Resources/CoalitionBuildingweb.pdf>

14:00—15:15 CASE 5 DISCUSSION – Frank Fukuyama

15:15—15:45 BREAK

15:45—17:00 GROUP PROJECT MEETINGS

DAY 4: THURSDAY 6 JULY

09:00— 10:30 LECTURE by Michael Bennon: “Public-Private Partnerships”

Reading: “Guasch, J. Luis. 2004. Granting and Renegotiating Infrastructure Concessions: Doing it Right. WBI Development Studies;. Washington, DC: World Bank.” Ch. 2

10:30—10:45 BREAK

10:45—11:15 GROUP MEETINGS TO DISCUSS CASE 6

CASE 6: Yogyakarta Bus Terminal: The Private Provision of Municipal Infrastructure (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.

11:15—12:30 CASE 6 DISCUSSION – Michael Bennon

12:30—13:30 LUNCH

13:30—14:00 GROUP MEETINGS TO DISCUSS CASE 7

CASE 7: Gifford Pinchot and the US Forestry Service: 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?

Readings:

1. Francis Fukuyama, “Gifford Pinchot and Sustainable Forest Management,” Case Study, Leadership Academy for Development.
2. Balogh, Brian. “Scientific Forestry and the Roots of the Modern American State: Gifford Pinchot's Path to Progressive Reform.” *Environmental History*, vol. 7, no. 2, 2002, pp. 198–225.

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14:00—15:15 CASE 7 DISCUSSION – Frank Fukuyama

15:15—15:45 BREAK

15:45—17:00 GROUP PROJECT MEETINGS AND FINAL REHEARSAL FOR GROUP PRESENTATIONS

DAY 5: FRIDAY 7 JULY

08:30—09:00 WRAP-UP

09:00—10:30 GROUP PROJECT PRESENTATIONS

10:30—10:45 BREAK

10:45—12:30 GROUP PROJECT PRESENTATIONS + EVALUATION

12:30— 13:00 GRADUATION

13:00—14:00 LUNCH