

The Role of Public Policy in Private Sector Development

Leadership Academy for Development & Strathmore Business School

November 28-December 2, 2016

Course Overview

Introduction

This five-day intensive program for a select group of mid-high-level East African 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-SBS 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. 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 promoter or 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.

Strathmore Center for Public Policy and Governance

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 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 East African 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.

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 the region or a specific 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

DAY 1: MONDAY 28 NOVEMBER

09:00 – 10:00 COURSE OVERVIEW & PARTICIPANT INTRODUCTIONS (Roger Leeds & Robert Mudida)

10:00 – 11:00 LECTURE- “The State and Private Sector Development”- Alan Trager

11:00 – 11:15 COFFEE BREAK

11:15 – 12:00 STUDY GROUP MEETINGS TO DISCUSS CASE 1

CASE 1: 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

12:00 – 13:00 GROUP PHOTO AND LUNCH

13:00 – 14:30 CASE 1 CLASS DISCUSSION (Leeds)

14:30 – 14:45 COFFEE BREAK

14:45 –15:15 STUDY GROUP MEETINGS TO DISCUSS CASE 2

CASE 2: Endesa Chile: Raising the Ralco Dam: Endesa Chile, the largest electricity generation company in Chile, is building a major power plant on the Biobio River in Southern Chile. A historic conflict involving the indigenous people of the Biobio River, the Chilean government, and international conservation groups results. The conflict threatens the completion of the project and the longstanding culture and community of the Penhuenche, the indigenous people of the Upper Biobio.

Study Questions:

1. Is a river or water a public asset that is eligible for a PPP?
2. Who has the authority to allocate opportunities and risks over these assets?
3. How can we think strategically about the relationship with the private sector players?
4. How can we set up a negotiation strategy in this scenario?
5. How can PPPs be used to improve competitiveness in the country?

Reading: McGinn, Kathleen L. et al. *Endesa Chile: Raising the Ralco Dam (A) and (B)*. HBS Case #9-906-014 and #9-906-015.

15:15 – 16:45 CASE 2 CLASS DISCUSSION (Trager)

16:45 – 17:00 COFFEE BREAK

17:00 – 18:30 STUDY GROUP MEETINGS FOR DISCUSSION OF FINAL PROJECTS

18:30 – 20:00 *Reception*

DAY 2: TUESDAY 29 NOVEMBER

9:00 – 10:15 LECTURE - Introduction to Public-Private Partnerships – Alan Trager

10:15 – 10:30 COFFEE BREAK

10:30 – 11:00 STUDY GROUP MEETINGS TO DISCUSS CASE 3

CASE 3: Lesotho Hospital and Filter Clinics: A Public Private Partnership: 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>

11:00 – 12:30 CASE 3 CLASS DISCUSSION (Trager)

12:30 – 13:30 LUNCH

13:30 – 14:00 STUDY GROUP DISCUSSION OF CASE 4

CASE 4: Sharing Resources Fairly: The Evolution of Kenya’s Revenue Sharing Formula, 2012-2015: The case study deals with the theme of sharing resources fairly among Kenya’s counties using the basis of the evolution of Kenya’s revenue sharing formula, 2012-2015. The case study considers the key actors in the revenue sharing decision and their interests. The Senate is the principal decision maker in the case study and the decision is on how to share resources fairly given imperfect data, and competing interests and visions of equity. International perspectives on revenue sharing are also provided for comparative public policy analysis.

Study Questions:

1. How has Kenya’s historical evolution leading up to the 2010 constitution affected the way that key actors think about the revenue sharing formula? Is it mainly a constraint or an opportunity?
2. Who are the key actors in the revenue sharing decision and how has this changed over time?
3. By what criteria would you evaluate a revenue sharing formula and how would you apply these to Kenya’s first formula?
4. Who or what do you think drove the changes to the first formula?
5. What factors affected the fate of the proposed formula revisions?
6. Given all of this, how would you approach the formula if you were a Senator?

Reading: Lakin, Jason and Mudida, Robert. *Sharing Resources Fairly: The evolution of Kenya’s revenue sharing formula, 2012-2015*. Strathmore Business School Case.

14:00 – 15:30 CLASS DISCUSSION CASE 4 (Lakin)

15:30 – 15:45 COFFEE BREAK

15:45 – 17:15 GUEST LECTURE – “Public-Private Partnerships in an African Context” – Dennis Kwena, Private Sector Development Advisor, Department for International Development (UK)

17:15 – 18:15 STUDY GROUP MEETING FOR DISCUSSION OF FINAL PROJECTS

DAY 3: WEDNESDAY 30 NOVEMBER

9:00 – 10:30 LECTURE – “Economic Growth, Poverty Alleviation and Financial Sector Development” – Roger Leeds

This lecture will make the case that a critically important determinant of the pace of economic growth and poverty alleviation is the level of development of a country’s financial sector. Although foreign investment is important, most investment in developing countries comes from the efficient mobilization and allocation of domestic savings into productive investment through banks and other financial intermediaries. In many developing countries, however, large segments of the population do not participate in the formal financial sector because they lack confidence that their savings will be protected and used productively. This lecture will highlight a range of public policy challenges for governments seeking to encourage higher levels of participation in the financial sector, and how successful outcomes impact economic growth and reductions in poverty. Some of these challenges are technical, but many others are political, such as the government’s ability to mobilize public support for reforms that may be resisted by stakeholders with a vested interest in maintaining the status quo.

Readings:

1. World Bank, “Rethinking The Role of The State in Finance,” (Global Financial Development Report, 2013), pp 1-14 (“Overview)) and Chapter 5, “The Role of The State in Financial Infrastructure,” pp. 129-160. [The entire Report, available online: www.worldbank.org].
2. Paulson, Henry, “Let China’s Markets Speak Truth to Power,” Financial Times, July 22, 2015 (op ed). (Available online: www.ft.com).
3. Quintyn, Marc, & Verdier Genevieve, “Trusting the Government,” Finance and Development, Dec. 2010, pp. 41-43, <http://www.imf.org/external/pubs/ft/fandd/2010/12/quintyn.htm>

10:30 – 10:45 COFFEE BREAK

10:45 – 11:15 STUDY GROUP DISCUSSION OF CASE 5

CASE 5: 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 chose 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

11:15 – 12:45 CLASS DISCUSSION OF CASE 5 (Leeds)

12:45 –13:45 LUNCH

13:45 – 14:15 STUDY GROUP DISCUSSION OF CASE 6

CASE 6: The Nairobi City Water & Sewerage Company: This case study considers the critical challenges faced by a major water utility company in Kenya: the Nairobi Water and Sewerage Company. The case study considers the challenges of Non-Revenue Water and also evaluates the attempt to increase water tariffs. The water sector in Nairobi has many stakeholders who sometimes have conflicting interests. Public Private Partnerships are proposed as one way of addressing the challenges of Nairobi Water Company.

Study Questions:

1. Who are the main stakeholders in the issues of Non-Revenue Water faced by Nairobi Water Company?

2. What are their interests of the key stakeholders?
3. What are the conflicts of interest?
4. Examine the viability of Public Private Partnerships as a way of addressing the challenges of Nairobi Water and Sewerage Company.

Reading: Lehmann, Tim and Mudida, Robert. *The Nairobi City Water & Sewerage Company*. University of St. Gallen Case Study Series, March 2015.

14:15 – 15:45 CLASS DISCUSSION OF CASE 6 (Mudida)

15:45 – 16:00 COFFEE BREAK

16:00 – 16:30 STUDY GROUP DISCUSSION OF CASE 7

CASE 7: Getting Special Economic Zones to Work in 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. What are the potential advantages of Special Economic Zones in Tanzania?
2. What are the challenges experienced by Special Economic Zones in Tanzania?
3. Explain how SEZs were used in Asia to facilitate economic growth. Compare the conditions that existed in Asia with those that exist in Africa. How would you adapt the SEZ model to Tanzania?

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

16:30 – 15:30 STUDY GROUP FINAL PRESENTATION PREPARATION

DAY 4: THURSDAY 1 DECEMBER

9:00 – 10:30 CLASS DISCUSSION OF CASE 7 (Mudida)

10:30 – 10:45 COFFEE BREAK

10:45 – 11:15 STUDY GROUP DISCUSSION OF CASE 8

CASE 8: Financing Slum Rehabilitation in Mumbai: Maharashtra state is accepting bids to redevelop Dharavi, the largest slum in Asia. A real estate developer assesses the risks and tenders a bid. The bid conditions include providing new free housing to tens of thousands of slum dwellers, which is anticipated to be paid for from the revenues from developing and selling market-rate housing. While the primary concerns are cost of construction, cost of capital, and revenues from sale of units, the analysis must consider many aspects of risk including political risk, foreign exchange risk, market risk, and execution risk. Further, the discussion covers social aspects including whether the slum should be redeveloped at all, whether it should be redeveloped by government or by the private sector, and whether to accomplish it in large chunks or in smaller increments. Additional topics that can be covered include consideration of what happens to commercial activities formerly run from slum dwellings, whether the market-rate units will indeed sell for high prices if there are tens of thousands of former slum dwellers housed nearby, and whether the slum dwellers will be allowed to resell their units or whether they must remain in them. Other issues include timing of the project, guarantees to and from the government and the private parties to mitigate risk, and whether this model, if successful, can be extended to other slums in Asia.

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 the latest project structure an effort to share risk and return by public and private players in this PPP?
4. Does this financial structure meet the traditional requirements, such as maximizing return and minimizing risk? Does this structure potentially achieve other benefits and minimize 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.

11:15 – 12:45 CLASS DISCUSSION OF CASE 8 (Trager)

12:45 – 13:45 LUNCH

13:45 – 14:15 STUDY GROUP DISCUSSION OF CASE 9

CASE 9: Defending the Environment at the Local Level: Dom Eliseu, Brazil, 2008-2014: A former center of the timber industry in the Brazilian Amazon, the municipality of Dom Eliseu had built its economy around deforestation—much of it illegal. In 2008, as part of a strategy to enforce the country’s environmental policies, the federal Ministry of the Environment included Dom Eliseu on a list of the worst violators of deforestation laws. The blacklist cut off residents’ access to markets and credit and made the municipality the target of intensive law enforcement. To get off the blacklist, the community had to overcome a collective-action problem. The local government had to persuade the owners of 80% of private land—more than 1,000 properties—to map their property boundaries, declare the extent of deforestation, enter their properties in the state environmental registration system, and adopt more-sustainable methods of production. The municipality also had to build the capacity to take on new responsibilities for environmental protection—most important, environmental licensing, which would enable the local government to regulate land use.

Study Questions:

1. Who are the key stakeholders in the case, and what are the specific interests or concerns of each with regard to the policies being implemented in Dom Eliseu?
2. Are the interests of the various stakeholders shared or divergent? Are relationships between them cooperative or conflictual?
3. Was the municipal government well placed to take on the challenges of removing Dom Eliseu from the blacklist and taking on the deforestation problem? What made the task difficult?
4. What did Neto and Poggi need to do to be successful?

Reading: Maya Gainer, “Defending the Environment at the Local Level: Dom Eliseu, Brazil, 2008-2014,” Case Study, Leadership Academy for Development.

14:15 – 15:45 CLASS DISCUSSION OF CASE 9 (Leeds)

15:45 –16:00 COFFEE BREAK

16:00 – 17:30 STUDY GROUP MEETINGS AND FINAL REHEARSAL FOR PRESENTATIONS

DAY 5: FRIDAY 2 DECEMBER

9:00 – 9:30 COURSE CONCLUSIONS/TAKEAWAYS (Trager & Leeds)

9:30 – 11:00 GROUP FINAL PRESENTATIONS

11:00 – 11:15 COFFEE BREAK

11:15 – 13:00 GROUP FINAL PRESENTATIONS (CONT.).

13:00 – 14:00 LUNCH

14:00 – 14:30 EVALUATIONS

14:30 – GRADUATION