

The Role of Public Policy in Private Sector Development

Leadership Academy for Development & University of Cape Town 20-24 April 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.

Graduate School of Development Policy and Practice (GSDPP)

The GSDPP promotes and inspires strategic public leadership in Africa. The School builds and promotes peer networks and linkages between leaders in government and in other fields such as academia, business, civil society and the arts, in order to strengthen public leadership in Africa.

The School provides professional and academic training for senior public officials and those engaged in public policy, providing graduate programs, executive courses, conferences and workshops in key areas of relevance to public and private sector leaders in Africa.

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 20 APRIL

9:00 – 9:30	Course Overview
9:30 – 10:30	Introductory Lecture: State and Market by Alan Hirsch. This lecture focuses on how we need to conceive the social institutions that support economic growth and development, and to provide a sufficiently nuanced understanding of the relationship between the state and markets. Reading: Fukuyama, Francis. <i>State-Building: Governance and World Order in the 21st Century</i> , Cornell Univ. Press, 2004, Ch. 1, “The missing dimensions of Stateness,” pp. 1-42 (42 pages).
10:30 – 11:00	TEA

Case 1: Gifford Pinchot and the US Forestry Service (early 20th cent. US): The year was 1909, and Gifford Pinchot, Chief Forester of the United States, faced a terrible personal dilemma. He had discovered a pattern of corruption in the sale of public lands to developers and other private interests. But the new president, William Howard Taft, depended on support from western Republicans and had placed a gag order on the whole affair. Pinchot was outraged at this evidence of corruption reaching the White House, but he wanted to give Taft a fair hearing. The new president had, after all, vowed to support conservation and strong control over federal lands. Taft invited Pinchot to the White House, where he alternately implored Pinchot not to go public with the matter and threatened him with dismissal if he violated the gag order. Pinchot had in his pocket a letter that could expose the scandal. This case explores the dilemma of Pinchot, a mid-level bureaucrat dependent on a president's good will, and the strategies available to him. It shows the power of a single leader and the similarities the United States once had with many developing nations struggling with widespread corruption.

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?

Reading: Francis Fukuyama, "Gifford Pinchot and Sustainable Forest Management," Case Study, Leadership Academy for Development.

11:00 – 11:30 Study Team Case 1 Discussion

11:30 – 12:45 Case 1 Class Discussion – Instructor: Brian Levy

12:45 – 1:45 LUNCH

1:45 – 3:15 **Lecture: Introduction to Public-Private Partnerships (PPP) by Alan Trager.** This 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.

3:15 – 3:45

TEA

Case 2: 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 characteristics of water as an asset class?
2. What are the major sources of leverage to increase operational capacity, equity, and efficiency in water services? What are the risks?
3. What are the major factors that impact the alignment of public and private value in water PPP structures?
4. How does the case address these challenges by forming a PPP, and what are the realities and potential pitfalls?

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

3:45 – 4:15	Study Team Case 2 Discussion
4:15 – 5:30	Case 2 Class Discussion – Instructor: Alan Trager
5:30 – 6:00	Study Team Discussions about Final Project

DAY 2: TUESDAY 21 APRIL

Case 3: 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>

8:30 – 9:00 Study Team Case 3 Discussion

9:00 – 10:15 Case 3 Class Discussion – Instructor: Alan Trager

10:15 – 10:45 TEA

10:45 – 12:15 **Lecture: Introduction to the Role of Financial Sector Development as a Catalyst for Economic Growth and Poverty Alleviation by Roger Leeds.** This lecture makes the case that the level of development of the domestic financial sector is a critically important determinant of the pace of economic growth and poverty alleviation. Although foreign capital 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, many potential savers do not participate in the formal financial sector because they lack confidence that their money will be protected and used productively. This lecture highlights a range of public policy challenge for government officials to develop the financial sector. Some of these challenges are technical, such as implementing regulations that encourage higher levels of participation in the financial sector. Others are political, such as the government’s success in winning support for reforms that may be resisted by stakeholders with a vested interest in maintaining the status quo.

Study Questions:

1. What are the key inter-related components of a country’s financial sector?
2. What are most important functions performed by the financial sector?
3. Why is finance “different”_from other private sector activities from a regulatory perspective?
4. What specific factors explain why more than 50% of the world’s adult population does not use the formal financial services to save and borrow?
5. How would you make a convincing case to the finance minister of a developing country that there is a direct correlation between financial sector development and the country’s overall level of economic growth and development?

6. What factors explain why, according to one reading, “...financial development does not merely enlarge the pie, but also divides it more evenly?”
7. Why is financial sector performance directly linked to pace the of economic growth & poverty alleviation?
8. What are the most important building blocks for financial sector development?

Readings (all are excellent background for the lecture, but 1-3 are most important):

1. Chala, Alberto, et.al., “Half The World Is Unbanked,” Financial Access Initiative Framing Note, October 2009, pp. 2-18.
2. Sarwat Jahan & Brad McDonald, “A Bigger Slice of a Growing Pie,” *Finance and Development*, September 2011, pp. 16-19.
3. Quintyn, Marc, & Verdier Genevieve, “Trusting the Government,” *Finance and Development*, Dec. 2010, pp. 41-43.
4. World Bank, “Rethinking The Role of The State in Finance,” *Global Financial Development Report, 2013*, pp 1-14 and pp.15-40.
5. World Bank, *Global Financial Development Report, 2014: Financial Inclusion*, [relevant but not required; available on World Bank web site].

12:15 – 1:15

LUNCH

Case 4: Customs Reform in Indonesia (Indonesia): This LAD case describes the Indonesian government’s decision to combat systemic corruption and enhance efficiency in the customs service by “outsourcing” the customs inspections function to a foreign private company. Although the program was a success from an efficiency point of view—the cost of importing goods were dramatically reduced and customs revenues increased significantly—the decision was highly controversial and eventually there was strong pressure to reverse the decision and return customs inspection to the national customs service. The case highlights how the government struggled to reconcile the interests of diverse stakeholders in government and the private sector.

Study Questions:

1. Based on the Indonesia case and your own experience, how would you make the case that customs service performance is critically important for private sector development?
2. Compared to Indonesia, how are the circumstances in your country similar and different for policy makers attempting to undertake a similar reform?
3. From a government perspective, how would you characterize the advantages and disadvantages of outsourcing “pre-shipment inspection” (PSI) to a private company? What key risks would you highlight, and how might they be mitigated?
4. Why were private businesses in Indonesia major advocates of outsourcing PSI? Would the private business community in your country be supportive of customs service reform? Why/why not?
5. In Indonesia, “nationalists felt that customs was a function of the state, not a matter for private firms, especially foreign ones.” Critics also claimed, “government functions that relate to ‘the peoples’ dignity’ should not be outsourced” Do you agree/disagree?
6. What should the Minister recommend to President Suharto in 1995, and why?
7. What lessons from Indonesia’s experience in reforming the customs service are relevant to your country? What would you do differently (for example, see alternative strategies presented in the supplementary World Bank reading, “Integrity in Customs”)?

Reading: Jeff Meyers & Julia Oliver, “Customs Reform in Indonesia: A Case Study,” Leadership Academy for Development, 2011.

1:15 – 1:45	Study Team Case 4 Discussion
1:45 – 3:00	Case 4 Class Discussion – Instructor: Roger Leeds
3:00 – 3:30	TEA

Case 5: Chad-Cameroon Petroleum Development and Pipeline Project (Chad, Cameroon):

The case deals with a broad range of complex issues—from finance to environmental to ethics—surrounding financing, construction and operation of the Chad-Cameroon pipeline. In addition to the two governments the key stakeholders are the World Bank/IFC, the major multinational oil companies that would partially finance and operate the pipeline, and various NGOs representing the interests of poor local communities and those concerned with environmental protection. Although the project presented a unique opportunity to alleviate poverty in Chad, one of the poorest countries in the world, the country's president had been labeled "warlord" and Chad had a history of civil war, rampant corruption and oppression. The case describes the project, the setting, and the World Bank's reasons for participating in the deal--mainly an opportunity to alleviate poverty, enforce environmental standards, and minimize the impact on indigenous people. The case also illustrates the difference between project and corporate finance and shows that risk sharing and risk mitigation are motivations for using project finance.

Study Questions:

1. What is the "resource curse" and why is it especially prevalent in so many low-income countries?
2. Who are the key stakeholder groups in the case, and what are the pros and cons of the proposed project for each?
3. As a staff member working at the World Bank or IFC, other than serving as a source of financing what reasons would you give to justify participating in such a capital intensive, complex project like this in a country characterized by extreme poverty, civil unrest and rampant corruption?
4. How is the project financed (see Exhibit 3B)? Could the project be adequately financed without the World Bank/IFC (e.g. exclusively from funding provided by the governments and the private sector)?
5. What non-financial project risks would you highlight, and how might WB/IFC participation contribute to mitigating them?
6. What is your assessment of the strengths and weaknesses of the Revenue Management Plan (RMP)? Would you recommend changes to the RMP?
7. As a World Bank Director, would you vote yes or no to proceed with the project? What reasons would you give to justify your vote?

Reading: Benjamin Esty, “The Chad-Cameroon Petroleum Development and Pipeline Project (A),” HBS Case # 9-202-010 (March 2006).

3:30 – 4:00	Study Team Case 5 Preparation
4:00 – 5:15	Case 5 Class Discussion – Instructor: Roger Leeds
5:15 – 6:00	Study Teams Work on Final Assignment
6:30 – 9:30	Jazz Evening

DAY 3: WEDNESDAY 22 APRIL

Case 6: A Public-Private Partnership for Slum Redevelopment (India): 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. The cost of constructing the housing 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, 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.

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.

8:30 – 9:00	Study Team Case 6 Preparation
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9:00 – 10:15 Case 6 Discussion – Instructor: Alan Trager

10:15 – 11:15 TEA

Case 7: Kibera and the Kenya Slum-Upgrading Project (Kenya): This case focuses on the pressures facing the Kenya government to deal with the severe housing problems in Kibera, a slum in Nairobi with an estimated 800,000 inhabitants living in an area that is roughly half the size of New York City’s Central Park. The key stakeholders are the Ministry of Housing and Public Lands, the UN-Habitat agency that deals with human settlement issues, and a number of local community groups that were pressuring the government to upgrade living conditions in Kibera. The key issue focuses on how the Government could design a scheme that would significantly supplement its limited financial resources with a new program designed to attract private funding to develop new, better housing units in Kibera.

Study Questions:

1. From the Kenya Government’s perspective, what is the rationale for creating a housing development entity that would finance new residential development in Kibera? What are the key risks?
2. What are the key functions of the proposed special purpose development entity (SPDE), and why is this structure considered essential for attracting private sources of finance? Can you think of alternatives to this structure that would achieve the same objective?
3. What specific advice would you offer the Minister on strategies designed to mobilize support amongst the broad range of public, private and non-profit stakeholders, each with different interests in for the Kibera Housing Development proposal?
4. As a private institutional investor with capital to invest in Kenya, would you purchase the bonds being offered via the special purpose vehicles (SPVs) being administered by the SPDE? Why/why not?
5. As a special advisor to the Minister, what is your assessment of the pros and cons of each of the three options being considered? Which of the three would you recommend, and why?

Reading: Nicholas Retsinas & Arthur Segel, “Kibera and The Kenya Slum Upgrading Project (A),” HBS Case # 9-207-017 (May 2009).

11:15 – 11:45 Study Team Case 6 Preparation

11:45 – 1:00 Case 7 Discussion – Instructor: Roger Leeds

1:00 – 2:00 LUNCH

Case 8: When The Lights Went Out: Reform in the South African Energy Sector (South Africa): This case uses the example of South Africa’s electricity sector to explore how ambitious agendas for reform interact with contestation among multiple, divergent interests. For most of the twentieth century, South Africa’s electricity generation, transmission and distribution were controlled by a small number of public sector players, with the state-owned enterprise, ESKOM, the dominant player. In 1998, reformers outlined a far-reaching program of unbundling and private participation in the sector. In 2004, the decision to restructure the sector was reversed – but the time lost in the intervening six years has been a crucial contributory factor to the electricity supply crisis that hit the country in 2008, and continues into the present. A central goal of the case discussion is to explore different ways in which reformers might go about aligning their agendas with a country’s political economy realities.

Study Questions:

1. One important aspect of the proposed reforms was to introduce independent power providers (IPPs) into the South African electricity sector. What needs to be in place in order to attract IPP participation? Between 1998 and 2004, how much progress did South Africa make in putting these elements in place?
2. What were the key steps in the decision-making processes in the years following 1998 that culminated in the policy reversal of 2004?
3. Who were the key actors in the decision-making processes, and how did they influence the decisions?

Reading: “Why the Lights Went Out: Reform in the South African Energy Sector.” This case study was researched and written by a team at the Public Affairs Research Institute (PARI), lead by Tracy van der Heijden, for the University of Cape Town’s Graduate School for Development Policy and Practice.

2:00 – 2:30 Study Team Case 8 Preparation

2:30 – 3:15 Case 8 Discussion – Instructor: Brian Levy

3:15 – 4:15 TEA

4:15 – 5:30 **Guest Lecture: Entrepreneurial Capital for Private Sector Growth in Sub-Saharan Africa, A Perspective from the Trenches by Oliver Drews, Chief Executive Officer, Clifftop Colony Capital Partners**

5:30 – 6:15

Study Teams Work on Final Assignment

DAY 4: THURSDAY 23 APRIL

8:30 – 10:00

Lecture: A ‘Good Fit’ Approach to Policymaking and Implementation by Brian Levy. This lecture will explore a ‘good fit’ approach to development policymaking and implementation, as an alternative to basing reform on “best practice” off-the-shelf blueprints. The aim is to provide an orienting framework, as a guide for helping to identify which of a broad array of alternative interventions potentially are most relevant as points of departure, across divergent country settings. The ‘good fit’ approach has two major parts:

- A governance typology to help distinguish systematically among different groups of countries – each with distinctive incentives for the participants, distinctive constraints and risks, and distinctive frontier challenges. And
- A typology of divergent approaches to reform – including comprehensive ‘best practice’ reforms; more modest, incremental approaches; and approaches which involve the participatory engagement of multiple stakeholders (non-governmental as well as governmental) in the process of policy formulation and implementation.

Particular emphasis will be given to the potential for multi-stakeholder approaches to underpin ‘islands of effectiveness’ capable of achieving development gains even in difficult governance environments.

Reading: Brian Levy, *Working with the Grain - Integrating Governance and Growth in Development Strategies*, Oxford Univ. Press, 2014, pp 3 – 25 and 208 – 223.

10:00 – 10:30

TEA

Case 9: The Johannesburg Development Agency and its Role in Revitalizing the Inner City (South Africa): Driving economic growth: As a mid-level government official, how do you make progress in difficult political environments. Johannesburg was in a deep slump at the transition to democracy, and urban degradation is hard to reverse. Moreover, beyond the challenge of stabilising and rebuilding the CBD, the ruling party in the city were committed to transforming Soweto from a dusty dormitory settlement into a liveable urban centre. How they addressed that challenge with limited resources is the story we follow.

Study Questions:

1. What was the nature of the problem that the JDA was set up to address and how did that affect its orientation?
2. Who were the potential allies in the efforts to rejuvenate the city centre, and how did this influence the strategy of the JDA?
3. How did each of the different leaders of the JDA establish the political space to operate effectively?
4. How did the regulatory and governance environment change over time and how did this influence the strategies in different periods?
5. How would you explain the change in the set of goals adopted in 2011 to those adopted in 2001?

Reading: “Turning The Tide: The Johannesburg Development Agency and its Role in Revitalizing the Inner City.” Case study prepared by the Public Affairs Research Institute, University of the Witwatersrand, in partnership with the Graduate School of Development Policy and Practice at the University of Cape Town.

10:30 – 11:00	Study Team Case 9 Preparation
11:00 – 12:15	Case 9 Discussion – Instructor: Alan Hirsch
12:15 – 1:30	LUNCH
1:30 – 4:30	Study Teams Work on Final Assignment

DAY 5: FRIDAY 24 APRIL

8:30 – 10:00	Final Assignment Presentations
10.00 – 10:30	TEA
10:30 – 12:00	Final Assignment Presentations
12.00 – 1.00	LUNCH
1:00 – 2:00	Conclusion and Presentation of Certificates