

The Role of Public Policy in Private Sector Development
Leadership Academy for Development & Ukrainian Catholic University
January 30 – February 3, 2017

Introduction:

This five day intensive program for a select group of mid- and high-level 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-UCU program is that policy reform is not like engineering or other technical fields that have discrete skills and clear, optimal solutions. Instead, successful reformers must be politically aware and weigh a broad range of factors that influence policy outcomes. For example, they must have a solid grasp of country-specific economic, financial, political and cultural realities. Most importantly, they must have a sense of how to set priorities, sequence actions and build coalitions. This program is designed to provide participants with an analytical framework to build these leadership abilities and operate effectively under adverse conditions. Major themes are: 1) The State as catalyst for private sector development, 2) Anti-corruption initiatives, 3) Financial sector reform and access to finance, and 4) Public private partnerships in infrastructure. The program is designed to reinforce and illustrate three critically important hypotheses about the role of public policy in private sector development:

1. Public policy matters! The performance of the private sector and its role as either a catalyst or an obstacle to economic growth is closely connected to how well or badly government policies are designed and implemented.
2. The government officials responsible for enhancing private sector participation must acquire a range of analytical skills to be effective. But policy reform is not like other technical fields where there is a clear optimal solution to a problem. Designing and implementing meaningful policy reform requires a broader, more interdisciplinary knowledge of economics, politics, local history and culture, combined with a sense of how to set priorities, sequence actions and build coalitions.
3. Successful policy outcomes that encourage and strengthen private sector participation are contingent upon the capacity of government officials and business leaders to understand and appreciate the interests, motivations and objectives of their counterparts.

Leadership Academy for Development (LAD)

The Leadership Academy for Development (LAD) trains government officials and business leaders from developing countries to help the private sector be a constructive force for economic growth and development. It teaches carefully selected participants how to be effective reform

leaders, promoting sound public policies in complex and contentious settings. LAD is a project of the Center for Democracy, Development and the Rule of Law, part of Stanford University's Freeman Spogli Institute for International Studies, and is conducted in partnership with the Center for International Business and Public Policy at the School of Advanced International Studies, Johns Hopkins University.

The Case Method

The “case method” is a technique of teaching and learning through the analysis of actual events that have occurred, allowing you to gain a realistic understanding of the roles, responsibilities and analytical skills required of decision makers, as well as the tensions that may arise between various stakeholders with different objectives. The cases in this course highlight both the political challenges and analytical tasks encountered by government officials in different countries who are responsible for formulating policies and programs designed to encourage a larger, more constructive private sector role in the economy, such as the design and implementation of public-private partnerships (PPPs) that attract private sector expertise and financial resources to public infrastructure projects. Each case is presented from the point of view of a practitioner—usually a government official—who played a central role in the policy making process. As the reader of the case, you are required to assume the role of the principal analyst/decision maker who must thoroughly analyze the problem, identify and assess the issues, and make a defensible decision on whether to proceed, and if so, how.

The case method is an *active* approach to learning. Rather than listening to lectures by professors (i.e. passive learning), participants are expected to *actively* engage in a structured class discussion of the case led by the professor. It cannot be stressed too strongly, therefore, that **success with the case method used in this course hinges on your willingness and ability to prepare meticulously in advance of each class, and then participate actively in the class discussion.** Because this is a relatively realistic, “hands-on” method of learning, the case method approach should help you to develop the skills needed to analyze some of the complex issues you encounter in your work. In addition, it should strengthen your ability to make difficult decisions and communicate effectively.

Study Groups

You will be assigned to a study group consisting of about five members on the first morning of the course. Time will be set aside during the course for groups to meet to discuss the case assignments *after* you have completed a careful reading of the case. These group sessions provide an opportunity to exchange views and discuss some issues likely to arise during class discussion. Reaching a group consensus is *not* the objective. Ultimately, the goal of this process is to challenge all participants to be more effective class participants, which heightens the quality of class discussion for everyone.

Final Study Team Assignment

Each study team will prepare a 15-minute presentation that will be given before the entire class on the final day of the course. The presentation will address a specific Indian government policy challenge regarding an aspect of private sector development and recommend a new government initiative to address this challenge, drawing on lessons learned during the course. For example, the presentation might focus on a policy initiative designed to combat corruption that has adversely affected private sector performance, or a regulatory change that would attract higher levels of infrastructure investment via public-private partnerships (PPPs).

This assignment is designed to encourage you and your study team colleagues to apply what you have learned during the course to an actual problem that is impacting private sector performance in India. This assignment is a central component of the course. Study teams are expected to dedicate significant time during the week to this task, and produce a quality presentation that demonstrates original thinking. On the afternoon of the first day, instructors will assist each group to identify the policy challenge that they will address, and they will be available throughout the week to provide guidance on the presentations. One session at the end of each day is dedicated to working on the assignment.

COURSE PROGRAM

SUNDAY 29 JANUARY

18:00 – 20:00 WELCOME DINNER

DAY 1: MONDAY 30 JANUARY

09:00 – 11:00 COURSE OVERVIEW & APPROACH + INTRODUCTORY LECTURE – Francis Fukuyama and Pavlo Sheremeta, + MINI-LECTURE – “Stakeholder Analysis” (Fukuyama)

11:00 – 11:15 BREAK

11:15 – 11:45 STUDY GROUP MEETINGS TO DISCUSS CASE 1

11:45 – 13:15 CASE 1 CLASS DISCUSSION – (Fukuyama)

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.

13:15 – 14:25 GROUP PHOTO AND LUNCH

14:25 – 14:55 STUDY GROUP MEETINGS TO DISCUSS CASE 2

14:55 – 16:25 CASE 2 CLASS DISCUSSION – (Stephen Krasner)

CASE 2: Police Reform in Georgia: The new, reformist government of Mikheil Saakashvili that came to power following the 2004 Rose Revolution needed to dramatically upgrade public services, beginning with the police. The police in Georgia were underpaid, poorly trained, and rife with corruption, but reforming them would be very expensive and potentially dangerous. The new government ended up sidelining thousands of existing officers, hiring and training a new cadre, and dramatically increasing their salaries. Doing so however required going to foreign donors, requisitioning funds from business owners, and using sometimes questionable means to raise revenues. Moreover, the new police in their efforts to crack down on crime and corruption often began to violate the rights of many Georgian citizens, leading ultimately to the fall of Saakashvili’s government and indictments of many of his officials. This case explores whether his government was justified in using the methods it did, and how his successors could sustain the positive parts of that legacy.

Study Questions:

1. Are non-democratic means ever appropriate in reforming public institutions? Can human rights be violated in the process of reforming the public sector?
2. How can Georgia retain and build on the current progress while simultaneously transforming itself from a development-oriented state to a competitive parliamentary democracy?

3. It is clear that the MoIA reforms were not carried out uniformly and simultaneously across the different government agencies. How important was it for Georgian leaders to demonstrate an early success with the patrol police? Did they pick the right sequence in rolling out their reforms?
4. Does Georgian police reform appear sustainable from an economic standpoint, if the state cannot pay for amortization of foreign-sourced MoIA assets? Can the additional expenses be justified by the means of developing the private sector?
5. How can a law enforcement career remain an attractive choice in Georgia if it no longer pays at or above the national average wage? Are there other ways of maintaining institutional esprit de corps apart from higher salaries?

Reading: Daniel Kharitonov, “Police Reform in Georgia,” Case Study, Leadership Academy for Development.

16:25 – 16:40 BREAK

16:40 – 18:00 STUDY GROUP MEETINGS, DISCUSSION OF FINAL PROJECTS

18:00 – 18:30 DINNER

DAY 2: TUESDAY 31 JANUARY

09:00 – 10:15 LECTURE – “Policy Reform: Three Distinct Influences” (Stephen Krasner)

10:15 – 10:35 BREAK

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

11:05 – 12:35 CASE 3 CLASS DISCUSSION – (Terry A. Anderson, Pavlo Sheremeta)

CASE 3: The Quest for a Local Economic Development Strategy for Lviv, Ukraine: This case study examines two major strategic initiatives undertaken by Lviv, Ukraine to increase its economic competitiveness and development. The first was the Lviv Economic Competitiveness Strategy for 2015 that was based on extensive research conducted throughout the summer of 2008 into the overall competitiveness of Ukraine. The final project was organized into two stages: 1) an in-depth system diagnosis of Lviv’s economy, a determination of the City’s most critical issues, and the identification of its key barriers to development; and 2) continued collaboration by representatives of the City government, the business community, and educators to elaborate on specific actions related to implementation of the strategy. The second major strategic initiative was the Lviv Complex Development Strategy for 2025. This project was

designed to address three key priorities identified by project leaders and others as essential for Lviv's future development: 1) improving quality of life in Lviv by creating a city that would be comfortable to live, study and work in; 2) increasing the quality of businesses operating in Lviv by developing a competitive and innovative economy; and 3) protecting and supporting national, cultural, and educational traditions by establishing Lviv as a stronghold for national values and as a city of traditions, knowledge, culture, tourism, and sport. This initiative was also designed to serve as a management tool for the implementation and monitoring of several other specific development initiatives.

Study Questions:

1. What should the city do immediately about the garbage issue?
2. What are the lessons of applying the cluster-based development strategy?
3. What should the future Lviv strategy be?

Reading: Terry A. Anderson and Pavlo Sheremeta, "The Quest for a Local Economic Development Strategy for Lviv, Ukraine," Case Study, Ukrainian Catholic University.

12:35 – 13:45 LUNCH

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

14:15 – 15:45 CASE 4 CLASS DISCUSSION (Krasner)

CASE 4: Why the Lights Went Out: Reform in the South African Energy Sector: 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. Is electricity a 'natural monopoly'? What is the rationale for unbundling electricity generation, transmission and distribution?

2. A white paper, published by the South African government in 1998, stated “Eskom’s present generation capacity will be fully utilized by about 2007.” What steps did the South African authorities take in each of the periods 1998- 2003 and 2004- 2008 to address this predicted supply shortfall?
3. What were (i) the formal roles, (ii) actual incentives and (iii) constraints for each of:
 - The Department of Minerals and Energy;
 - The Department of Public Enterprises;
 - The Electricity Regulator, Eskom, in addressing the supply shortfall? What did each actually do? Why?
4. What similarities exist between the ESKOM case, and the situation of the Ukrainian gas sector?

Reading:

1. Tracy van der Heijden, “Why the Lights Went Out: Reform in the South African Energy Sector,” Case Study, Leadership Academy for Development.
2. Anders Åslund, “Securing Ukraine’s Energy Sector,” April 2016.

15:45 – 16:00 BREAK

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

17:30 – 18:00 DINNER

DAY 3: WEDNESDAY 1 FEBRUARY

09:00 – 10:15 LECTURE – “The Rise of Populism in Europe and the United States” (Dr. Martin Zaborovsky)

10:15 – 10:35 BREAK

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

11:05 – 12:35 CLASS CASE DISCUSSION OF CASE 5 – (Sophia Opatska, Andriy Rozhdestvensky)

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_movle_nnya.html
3. “Coalition Building,” http://siteresources.worldbank.org/EXTGOVACC/Resources/Coalition_Buildingweb.pdf

12:35 – 13:45 LUNCH

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

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

CASE 6: Yogyakarta Bus Terminal (Indonesia): In 2009 the Mayor of Yogyakarta, an Indonesian city of 400,000 inhabitants, was confronted with the possible failure of his first effort to attract a private company to finance and operate a municipal infrastructure project: the Yogyakarta Bus Terminal. The firm selected to build and operate the bus terminal five years earlier, was now contesting the original contract, claiming that the government had failed to comply with the terms and conditions of the concession agreement. As a result of this claim, the private firm was taking legal action to nullify the deal and receive reimbursement for its investment. The Mayor was struggling to determine the reasons why this high profile project had gone wrong, and what his government should do now.

Study Questions:

1. What are the pros and cons for governments to do public-private partnerships rather than assume all the responsibility to build, operate and own (BOT) infrastructure projects, such as the Yogyakarta Bus Terminal?
2. Were the four criteria used to award the bus terminal concession sufficient? Would you have advised the Mayor to make revisions to the selection criteria?
3. What factors contributed to the “outstanding success” of the bus terminal during the first two years of operation?
4. What were the problems that led PTPK to announce its intention to withdraw from the bus terminal concession? Could the Mayor have taken steps to mitigate some of the problems that emerged before PTPK announced its intentions?
5. What options does the government have to resolve the dispute with PTPK?
6. What would you advise the Mayor to do?

Reading: Danank Parikesit, “Yogyakarta Bus Terminal: The Private Provision of Municipal Infrastructure,” Harvard Kennedy School Case #HKS734.

15:45 – 16:15 TEA

16:15 DEPART FOR TRAIN STATION (board 17:30 train to Kiev)

DAY 4: THURSDAY 2 FEBRUARY

09:00 – 10:15 LECTURE – “Quality of Government” (Fukuyama)

10:15 – 10:35 BREAK

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

11:05 – 12:35 CLASS DISCUSSION OF CASE 7 (Krasner)

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

Study Questions:

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

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

12:35 – 13:35 LUNCH

13:35 – 14:05 STUDY GROUP MEETINGS TO DISCUSS CASE 8

14:05 – 15:35 CLASS DISCUSSION OF CASE 8 – (Sergiy Potapov)

CASE 8: ProZorro – From a Volunteer Initiative to State Reform in Public Procurement:

One of the biggest sources of corruption in Ukraine were public procurements. After the Revolution of Dignity (2014), a team of volunteers decided to save budget money (up to USD 2 billion per year). This case discusses the efforts to build a public procurement eco-system, including regulation policy changes, modern IT-system development, various stakeholders' engagement, trainings for different actors and others strategic initiatives. During case discussions, we should find solutions on scaling-up initiatives from a small group of activists to successful change(s) that impact the whole state, including how to spread the experience to other reforms.

Study Questions:

1. What were the critical success factors of Ukrainian public procurement reforms?
2. How to keep sustainability of this reform?
3. How to build coalition with reliable stakeholders?
4. Which findings could be used as a recommendation for other reforms?
5. Could you propose new strategic goals for public procurement reform in Ukraine?

Reading: Yuriy Bugay, Sergiy Potapov, and Olexandr Starodubtsev, “ProZorro – From a Volunteer Initiative to State Reform in Public Procurement,” Case Study, Ukrainian Catholic University.

15:35 – 15:55 BREAK

15:55 – 17:35 STUDY TEAM MEETINGS FOR GROUP PROJECTS

17:35 – 16:45 TEA

18:00 – 20:30 SPEAKERS PANEL – “Democracy that Delivers: Building an Effective Reform Dialogue”

DAY 5: FRIDAY 3 FEBRUARY

09:00 – 10:30 CLASS DISCUSSION OF CASE 9 (Fukuyama)

CASE 9: 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.

10:30 – 11:15 GROUP MEETINGS TO FINALIZE GROUP PRESENTATIONS

11:15 – 11:30 BREAK

11:30 – 13:00 GROUP FINAL PRESENTATIONS

13:00 – 14:00 LUNCH

14:00 – 15:30 GROUP FINAL PRESENTATIONS

15:30 – 16:15 COURSE EVALUATIONS AND GRADUATION (Fukuyama and Krasner)

18:00 DRAPER HILLS ALUMNI + LAD JOINT DINNER