



HARVARD Kennedy School

MOSSAVAR-RAHMANI CENTER for Business and Government **30** YEARS

CREATING PUBLIC VALUE BY
ENGAGING BUSINESS AND
GOVERNMENT

September 2013

Floors 3-5, Belfer Building



HEPG CELEBRATES 20 YEARS

This month, the Harvard Electricity Policy Group (HEPG) celebrates its 20th anniversary of examining the ongoing changes to the electricity sector since the passage of the Energy Policy Act of 1992. The country's most capital-intensive industry has gone through a revolution in its business model, market structure, legal and regulatory framework, and institutional settings that neither the framers of the Act, or the advocates of its passage, ever envisioned.

A sophisticated system was needed to oversee the trading and scheduling of electricity. **William Hogan's** economic research of the 1990s was instrumental in the design and establishment of the PJM Interconnection, the first successful independent system operator overseeing real-time, day-ahead, and hour-ahead markets based on bid-based-security-constrained-economic dispatch. In 2007, the International Energy Agency described this model as "the textbook ideal that should be the target for policy makers." After much experimentation and many false starts with other approaches, this design has become the *de facto* standard for all the organized electricity markets in the United States.

Founded as a knowledge network spanning government, business and academia, HEPG has convened over 100 meetings across the country. Participants include state and federal regulators, senior executives, academics, representatives from the non-profit sector, and international experts, as well as legislators, judges, and the President of Brazil. Justice Stephen Breyer and Congressman Philip Sharp, Chairman of the House Energy and Power Subcommittee were among the first members. HEPG has been at the heart of the policy debate over such issues as market design, transmission policy, development of the smart grid, and financial rules for a unique market. While HEPG itself does not take positions on issues, the participants do, and they have provided much at the forefront of policy leadership and innovation. Learn more at www.hks.harvard.edu/hepg

M-RCBG WELCOMES NEW SENIOR FELLOWS

This fall, M-RCBG welcomes eight new senior fellows who will work on research projects and engage with students. They include **Binta Niambi Brown**, former global law firm partner; **Eoin Gahan**, former Head of the Forfás Trade, Environment, and Survey Analysis Dept.; **Vikram Mansharamani**, lecturer at Yale; **Karen Mills**, former Administrator of the US Small Business Administration, **James Segel**, former Special Counsel to Congressman Barney Frank; **Douglas H. Shulman**, former Commissioner of the Internal Revenue Service (IRS); **Paul Tucker**, former Deputy Governor, Financial Stability, at the Bank of England; and **Howard L. Wolk**, Co-President of The Cross Country Group (CCG). They join continuing fellows **Esko Aho**, **Richard J. Balzer**, **Justin Fox**, **Thomas J. Healey** and **Lisa A. Robinson**. For full bios of new and continuing senior fellows, visit: www.hks.harvard.edu/centers/mrcbg/about/fellows/currentsfellows

Seminars & Events

M-RCBG has over 50 seminars and events scheduled for the fall semester. Visit www.mrcbg.org for a complete listing.

M-RCBG's Fall Open House; Bell Hall, Sept. 12, 12:30-1:30pm.



Climate Change Returns to the U.S. Supreme Court Six Years after MA v EPA; **Richard Lazarus, HLS.** Nye A, Sept. 17, 11:45-1.

Conventional and Renewable Energy Development on Public Lands and in Offshore Waters; **David Hayes, Deputy Secretary of the Department of the Interior.** Bell Hall, Sept. 19, 11:45-1.



The Impact of Environmental Regulation on U.S. Oil Refineries; **Richard Sweeney, Harvard.** L-382, Sept. 25, 4:10-5:30.

Lobbying Around the Globe – A Comparison of Regulation, Business and Public Policy; **Mark Fagan, HKS.** Bell Hall, Sept. 26, 11:45-1.



The Future of International Climate Policy; **Christiana Figueres, UN Framework Convention on Climate Change.** Nye ABC, Sept. 27, 1-2:30.



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FACULTY AND PROGRAM UPDATES

Frankel publishes paper on commodity pricing



Prof. **Jeffrey Frankel** has recently published a paper titled *Effects and Speculation of Interest Rates in a "Carry Trade" Model of Commodity Prices*. In it, he presents and estimates a model of the prices of oil and other storable commodities, which can be characterized as reflecting the carry trade. It focuses on speculative factors, here defined as the trade-off between interest rates on the one hand and market participants' expectations of future price changes on the other hand. It goes beyond past research by bringing to bear new data sources: survey data to measure expectations of future changes in commodity prices and options data to measure perceptions of risk. Some evidence is found of a negative effect of interest rates on the demand for inventories and thereby on commodity prices and positive effects of expected future price gains on inventory demand and thereby on today's commodity prices.

HEEP co-hosts workshop on new climate regime



The Harvard Project on Climate Agreements and the Mercator Research Institute on Global Commons and Climate Change (MCC) convened 30 leading international researchers and policy-makers on May 23 – 24, 2013 at MCC in Berlin.

Over these two days, participants identified and discussed options for a new international climate regime based on the Durban Platform for Enhanced Action. The Platform, adopted by the United Nations Framework Convention on Climate Change (UNFCCC) in December 2011, provides an opportunity for all key greenhouse-gas-emitting countries to engage in a new international climate regime that could bring about meaningful emissions reductions within a feasible timetable and at acceptable costs. MCC and the Harvard Project are preparing a synthesis report intended to inform the UNFCCC's Ad Hoc Working Group on the Durban Platform for Enhanced Action as it attempts to forge a new agreement by December 2015.

CSRI publishes on the fight against malaria

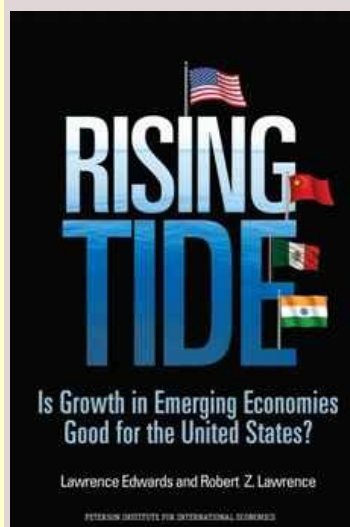
The Corporate Social Responsibility Initiative (CSRI) published a report in July by research fellow **Christina Gradl**. The report, "Sumitomo Chemical and the Fight Against Malaria Using Bednets," examines how Sumitomo Chemical chose to use its innovative long-lasting insecticidal net (LLIN) technology to empower a local ecosystem for net production in Tanzania, and is part of CSRI's series of research reports focused on collaboration between business and other sectors to drive systemic change.

Scherer publishes on the consequences of financial mergers



There may be some benefits to consumers when big banks become bigger, but the Great Recession has demonstrated how potentially harmful the risks may be. That is one conclusion in a new Harvard Kennedy School Faculty Working Paper authored by **F.M. Scherer**, professor of public policy and Corporate Management in the Aetna Chair, Emeritus. "Financial Mergers and Their Consequences" examines the history and implications of the concentration of market share and assets in the hands of a small number of banking companies and financial institutions – and the ways in which recent trends are related to changes in the financial industry structure. For additional information, visit: www.hks.harvard.edu/news-events/news/articles/financial-mergers.

BOOK SPOTLIGHT: RISING TIDE



Many Americans believe that trade with emerging-market economies is the most important reason for US job loss (especially in manufacturing), is detrimental to American welfare and is an important source of wage inequality. Several prominent economists have reinforced these public concerns. Here, Lawrence Edwards and M-RCBG affiliate and HKS Professor **Robert**

Z. Lawrence confront these fears through an extensive survey of the empirical literature and in-depth analyses of the evidence. Their conclusions contradict several popular theories about the negative impact of US trade with developing countries. They find considerable evidence that while adjusting to foreign economic growth does present America with challenges, growth in emerging-market economies is in America's economic interest. It is hard, of course, for Americans to become used to a world in which the preponderance of economic activity is located in Asia. But one of America's great strengths is its adaptability. And if it does adapt, the American economy can be buoyed by that rising tide. To view Prof. Lawrence discussing the book at a recent M-RCBG seminar, visit: <http://vimeo.com/61897245>.

STUDENT INTERNSHIP UPDATES

AC Sustain: Adam Banasiak, MPP '14

Adam Banasiak spent the summer in California as the Climate Policy Intern at Alameda County Sustainability (AC Sustain), with support from M-RCBG. The group was tasked with helping reduce Alameda County's government emissions by at least 15% by 2020, and 80% by 2050 from a 2003 baseline. He writes:

AC Sustain uses cross-agency teams to guide change and the cross-cutting nature of the Climate Action Plan (CAP)—the county's blueprint for emissions reduction—is a natural starting point to help break down the silo nature of the county government and help realize other significant savings to offset the cost of CAP measures.

Now that the pilot phase of the project is wrapping up, I spent much of my time this summer debriefing with the teams, attending the executive committee oversight meetings with department heads and the county administrator, and gathering information on the team products and outcomes. As part of a cost-benefit effort, I also developed a model for the cost of efforts. Alongside AC Sustainability staff, we looked at what worked and what didn't in the team's existing structure to help guide what the next round of cross-agency teams should look like. I helped develop changes to the team format that will help keep department heads more engaged, streamline completion time, increase employee engagement, increase team accountability and ownership, improve the quality of team products, and help bring in additional business and academic partners to help expand the effort's resource and knowledge base. I also worked on a gap analysis to identify how existing work and the CAP measures align, and to identify opportunities for more cross-agency collaboration as the CAP moves forward. I've definitely learned how much the culture and structure of business and governments can affect their potential to change to meet market and social pressures. I'm sure that my experience in building effective teams from distributed, varied backgrounds will be useful carrying out the work needed across the business and government communities in the future to help keep our environments and livelihoods strong and sustainable.



Adam Banasiak (center) on a trip to an asphalt recycling facility in Dublin, CA. this past summer as an AC Sustain intern.

Turkish Treasury: Juan Tellez Sandoval, MPP '14

Juan Tellez Sandoval was one of five HKS students who served as a summer intern at the Turkish Treasury, with support from M-RCBG. The position included rotations at the Capital Markets Board (the equivalent of the US Securities and Exchange Commission), the Central Bank, and the Ministry of Development. He writes:

The first four weeks we spent at the Treasury. I worked in the Directorate General of Foreign Economic Relations within the International Capital Markets Department. My first days here consisted in getting familiar with Turkey's capital markets, doing research about Islamic finance, and writing a speech about the accomplishments and future strategy of Turkey's capital markets, to be given at an international conference for one of the highest level officials in the Turkish government.

The country was taken by surprise by protests regarding the destruction of a park in their main square to build a new mall, which created the biggest political crisis in recent times in Turkey's memory and negatively impacted the borrowing prospects for the Turkish Government. Part of my job in this team was to work with the team in doing research, participating in meetings with investment bankers, and providing advice on the impact and duration of the protests in the terms of Eurobonds issuances. As a future MBA student who plans to go into the public finance department of an investment bank, being in the government side of the table over bonds analysis is of paramount importance of my career.

I then rotated to the Directorate General of Public Finance, where I had the opportunity to work with the Cash Management team. I learned their operations and provided policy recommendations on how to improve accuracy and coverage. My consulting skills proved particularly useful when looking for data and viable options. (continued on p. 4)



Interns in front of the Capital Markets Board of the Republic of Turkey (CMBRT). From l to r: Anita Niangoran, MPA/ID, Juan Tellez Sandoval, and incoming MPA/ID student Ali Erdurmus.

STUDENT INTERNSHIPS

Juan Tellez Sandoval continued from p. 3

My final rotation at the Treasury was at the Directorate General of the Financial Sector Relations and Exchange. As the Turkish government has set very ambitious economic goals (including becoming the 10th largest economy in the world at \$2 trillion USD and achieving a per capita income of \$25,000 USD) for the celebration of the centennial of the establishment of the Republic of Turkey in 2023, the departments are taking the appropriate measurements to boost economic growth. One of these initiatives has been the encourage venture and private equity initiatives. For this matter, my tasks included researching U.S. and Mexican (where I am originally from) laws, regulations, and financial instruments that promote these initiatives. I then performed a gap analysis and an opinion on which measures might be most successful when applied in Turkey. As I will be taking a Private and Venture Capital courses when doing my MBA in the University of Cambridge (England) after finishing the MPP, this effort has not only been a great preparation, but it also gave me the opportunity to see the macroeconomic framework that is supposed to allow and boost such funds. At the Foreign Exchange department, I followed their regulations regarding companies that buy and sell foreign currencies and learned about the challenges that they face in monitoring their activities.

For the first rotation outside the Treasury, I was sent to the Capital Markets Board, the rough equivalent of the SEC and FINRA of the US. More specifically, I was in the Financial Intermediaries division and focused on comparing the U.S.' regulations to the European Union ones in terms of client categorization and conflicts of interests. The practitioners of the division first taught me what they did in general and on a day to day basis and then asked me to start attending meetings. The second rotation outside the Treasury was in the Central Bank. The week consisted of meetings and presentations with personnel from different divisions of the Central Bank, from protocol, to research, and risk analysis. My favorite part of this rotation was the Markets department because I was able to learn from the professionals that monitor securities transactions, intervene the currency and foreign exchange markets, and perform the world-famous currency and government debt auctions.

My last rotation was at the Ministry of Development, which is more of a State Planning agency rather than a poverty alleviating agency. Our days consisted of meetings and presentations with the different departments and their duties, as well as their long term strategies for their areas, such as a 10-year plan on Information Technology social transformation, or their short and medium term Rural Development plan. At the end of the week, we were expected to submit a report with our recommendations to the different fiscal and macroeconomic policies we saw over the week.

PROGRAM CLOSE-UP: SUSTAINABILITY SCIENCE PROGRAM (SSP)

Governance Innovations for Sustainable Development: Building Public-Private Partnerships for Sustainable Environmental Regulation and Energy Use in India

Environmental externalities from rapid growth, such as air and water pollution, arise from a joint failure of government and industry to create an economy where the most profitable action is also best socially. Can appropriately designed public-private partnerships promote sustainable development in India? The Governance Innovations India Initiative uses rigorous field studies, conducted in association with Indian regulators and industry partners, to examine how public-private partnerships can enable smart policy design and enhance efficiency and compliance with environmental standards. Members of this initiative conduct field trials of innovative environmental policies with the goal of providing rigorous evidence on their effectiveness. For instance, recently completed work identifies improvements to third-party environmental audit mechanisms, while ongoing work examines how a market-based emissions trading system, developed in partnership with India's Ministry of Environment and Forests and regulatory bodies, can lower abatement costs and air pollutant emissions.

Fellows include:

Rahul Banerjee, Giorgio Ruffolo Mid-Career Research Fellow. *The design of capacity for long-term power supply markets in India*

Santosh Kesavan, Giorgio Ruffolo Research Fellow. *Design and evaluation of a public-private partnership scheme to promote sustainable transportation in India*

Yusuf Negggers, Giorgio Ruffolo Doctoral Research Fellow. *The impacts of joint forest management in India*

Janhavi Nilekani, Giorgio Ruffolo Doctoral Research Fellow. *Policy instruments for pollution control: Evaluating particulate matter control policies in India*

Varad Pande, Giorgio Ruffolo Research Fellow. *India's market-friendly environmental mechanisms: Lessons for developing countries*

Nicholas Ryan, Post-doctoral Research Fellow and Prize Fellow in Economics, History, and Politics. *Is there an energy-efficiency gap? Measuring returns to efficiency with a field experiment in India*

Hardik Shah, Giorgio Ruffolo Research Fellow. *Applicability of US water quality trading programs in an Indian scenario*

Anant Sudarshan, Giorgio Ruffolo Post-doctoral Research Fellow. *A particulate emissions trading scheme for India: Evaluating the impact of information and markets*

Anish Sugathan, Giorgio Ruffolo Post-doctoral Research Fellow. *Evaluating emission control policies for the Indian power sector: Policy alternatives considering abatement and growth*