A Growing Role for the Private Sector in the Provision of Public Services in Third World Cities

Amy U. Nolan
Senior Regional Housing and Urban
Development Officer

U.S. Agency For International Development
Private Enterprise Bureau
Office of Housing and Urban Programs

May 1986

(The views and interpretations in this document are those of the author and should not be attributed to the U.S. Agency For International Development)

Table of Contents

Tables and Figures

Part I
Introduction

Cities of the Third World contribute an estimated 50% to 70% of GNP. They are the locational base of value-added production in developing country economies and the source of goods and services vital to both rural and urban production. The economic productivity of cities depends upon the availability of essential urban support services including water, electricity, liquid and solid waste disposal, transport and road infrastructure. (Armstrong-Wright, 3)

The last quarter century has evidenced unprecedented growth in cities due to both economic migration of populations and natural population increase. Urban institutions have been unprepared to manage this explosive growth. The accompanying increase in demand on city infrastructure has resulted in serious congestion, over-loading of existing services systems and the mushrooming of new settlement areas which are largely unserviced. While congestion is less in the smaller and medium-sized cities, their growth rate is typically higher and their resources fewer to cope with the change. In many parts of the Third World. the percent of city populations living in slums and squatter settlements has reached as high as 60 percent.

The danger of unmanaged and under-serviced urban growth is a decline in economic productivity due to an inability to utilize resources, both human and physical, efficiently. The coping mechanism in many urban governments confronted with high levels of growth has been to expand subsidized services and public sector employment. Such policies have only succeeded in pushing public authorities increasingly into debt and overstaffing public agencies with unproductive personnel while still only affecting a small essentially middle to upper income portion of new urban populations. Since many developing countries have a highly centralized spatial development and governing structure, a high standard, heavily subsidized urban services policy in the capital city becomes the role model for the nation.

The oil crisis of the 1970's leading to heavy international indebtedness, worldwide inflation and serious domestic fiscal constraints has forced countries to review national urban policy and to seek new directions to ensure more efficient use of limited resources. One trend emerging has been the move toward decentralization of authority from central government with the goal of making lower levels of government, and especially municipalities, increasingly responsible for generation and management of their own development and resources.

Recognizing government's limitations, a more recent trend has been the conscious mobilization of private sector resources for employment generation and urban goods and services delivery in order to complement and augment those of the public sector. Private Sector mobilization or privatization is really an effort to more systematically involve the energies, skills and resources of non-governmental individuals and collective-groups, firms and companies in urban management through devolution of what have officially and popularly been viewed as government or public sector tasks. Rondinelli et al. have even gone so far as to classify privatization as one form of decentralization.

Since urban governments have not been able to keep up with the demands of urban growth, privatization has occurred in the urban environment in the Third World even without government encouragement. This sense of the independent dynamics of privatization is captured by Rondinelli in the following quote:

"Privatization has usually evolved from situations in which private sector firms [and informal indigenous private sector individuals and businesses] began offering goods and services that government provided poorly, or not at all, or only in some parts of the country, rather than from deliberate attempts by governments to divest themselves of public functions." (Rondinelli, 10;info in parens added)

In the Third World, barriers to private sector expansion appear to be primarily inappropriate regulation, a lack of political will to force public sector employment cutbacks and possible power-shifting to the private sector, and inadequate access to credit for new private ventures.

The privatization movement is not restricted to the Third World. Many industrialized countries, with Great Britain and the United States in the forefront, are pursuing national and municipal privatization strategies as a means of reducing what have been steadily growing public sector expenditures.

The objective of this paper is to set forth for the Third World the context, experiences and issues or opportunities presented by privatization as it affects the delivery of public services. Following the introduction, the second section attempts to define privatization and its institutional forms. The third section discusses the classical theoretical basis for the division between public and private goods and services. The fourth section sketches some of the Third World experiences in private sector delivery of public services. Finally section five summarizes some of the principal issues and opportunities presented by private sector participation in the public services arena, followed by a conclusion.

Part II
The Meaning and Forms of Privatization

What is Privatization?

The verb "to privatize" with its noun form "privatization" only recently made their official debut in American english. (Webster's Ninth New Collegiate Dictionary 1983). Coined from the french word 'privatiser' the verb 'to privatize' is defined as "to make private, especially to change (as a business or industry) from public to private control or ownership." Privatization has been broadly defined in theory and in practice. In its most general sense, it means a greater role for the private sector to more effectively serve the needs of economic and social development. (Berg 1983, p. 73) From an opposite perspective, it means reducing the activities of the state or government at all levels; also denationalization.

Hanke, former chief economist for the President's Council of Economic Advisors (1981-82) helped shape the Reagan administration policy on privatization and defines it as "a process whereby public operations are transferred to the private sector." He establishes three types of privatization (Hanke, 79-89):

a) complete privatization- Transfer of ownership or sale of public assets, infrastructure or service functions to a private entity or to individuals (ESOP, employee stock-ownership program). An example of the former is Britain's sale of British Telecom and of the latter, the sale of Britain's National Bus Co.

b) partial privatization- Ownership of assets or infrastructure used in the production process is retained by the public sector but responsibility for operation and maintenance of the process of production of goods (e.g. roads construction and maintenance) or provision of services (e.g. fire protection) is privatized.

c) temporary privatization- This type has two forms, the first of which was offered by Hanke. The 'intentional' form is where assets and/or infrastructure are sold by the public sector to a private entity who then leases them back to the public sector. The public sector benefits from a refinancing mechanism provided by the exchange. Furthermore, the public sector retains operating and maintenance responsibilities but under contract to and monitored by the temporary private owner. Repurchase option is afforded the public sector at the termination of the lease. This is essentially a U.S. practiced option. The second form which is 'unintentional' is where divestiture in vital public services has occurred and fails such that government is forced to reassume the responsibilities and liabilities. This latter form, while not yet a common occurrence, is a common fear among developing countries considering privatization.

In the context of this paper, the term privatization will be used to mean a greater private sector role in the delivery and maintenance of public services.

Mechanisms For Privatization

There are three principle categories of mechanisms for privatization: 1) divestiture or 'load-shedding', 2) contracting out, and 3)alternative service delivery strategies including free market, vouchers, voluntary and self-help etc. While divestiture is politically more highly visable in the press and popular in literature on privatization, the forms of privatization which relate more specifically to an expanded role for the private sector in public services provision are related to the latter two categories. Therefore divestiture will be discussed only very briefly in order to permit a focus on the latter two.

Divestiture

Divestiture, also called 'load-shedding', is the sale to the private sector or the liquidation of all or parts of government owned enterprises(state-owned enterprises).(Cowan,9) Load-shedding is the key mechanism being used in Britain's denationalization process. In effect, it means that the level of production of the goods or services becomes a matter of the market. Butler indicates that private goods(housing, food-processing, cars) and toll-goods(telecommuniciations, electricity, water), as defined in section three which follows, would be the most appropriate candidates for this transfer since consumers can be charged directly through the market mechanism for their consumption(Butler, 52). The key service sector which comes to mind as most appropriate for this form of privatization in the developing countries is urban transportation.

In the developing world, the most extensive experiences with divestiture have been in Chile, Jamaica and Bangladesh. Other examples are found in Pakistan, Somalia, Sudan, Zaire and the Philippines.(Berg 1983,p.10) In general in the Third world there is much dicussion of divestiture fired by international aid agencies and lenders but the matter is too highly political for there to be much activity. One of the key issues is disemployment caused by private sector reduction of overstaffed public enterprises and more frequently by what Berg has termed 'creeping divestiture' where governments, because of fiscal austerity measures, are shutting down fiscally insolvent state enterprises rather than searching for improved management solutions through a partial or total private sector transfer.

Contracting-Out

Contracting-out is a term popularized during the 1960's and 1970's at the municipal level in the United States and refers to "the practice of having public services (those which any given government unit has decided to provide for its citizens) supplied either by other governmental jurisdictions or by private (profit or non-profit) organizations instead of delivering the service through a government unit's own personnel" (DeHoog,3). As Cowen points out, this is perhaps not true [complete] privatization since the government still retains ownership; but, the private sector is accorded a much larger role including, in some institutional forms, the assumption of risk and the sharing of profits (Cowan, 14; Co ~ud, 4-9). What is created is a public-private partnership for the delivery of services.

Savas writes that "government can be viewed as nothing more than an instrument for making and enforcing decisions about collective goods" and that "while all collective goods require collective action, not all collective action need be taken by governments."(Savas 1982,p.51) The contracting out method is viewed as the most appropriate method of privatization for common-goods and collective goods because it generally takes the form of government retaining the role of 'service facilitator', financing and regulating the service but transferring to the private sector the role of 'supplier,' operating and maintaining the service system.(Hanke, Butler)

While it is only recently that municipal governments in many countries have begun to consider extensive use of the private sector for a broad range of programs and services, the tradition of contracting for delivery of municipal services goes back to the eighteenth century in Western Europe, mainly in the area of water supply. London and Paris were supplied by private water companies in the 1800's. Concessions were granted internationally by Berlin(Germany) in 1856 and Cannes(France) in 1866 to an English company to provide municipal water. The institutional experience of Western Europe in privatized municipal service operations, particularly that of the French, was exported to overseas colonies. The Ivory Coast(W. Africa) is a good example where public transport, water and electricity distribution and solid waste collection for the capital city, Abidjan(popul. 1.7 million), are managed by private sector entities either under contract to government or institutionally organized into a public/private share-holding corporations.(Dei)

In order to become familiar with the various institutional forms of public/private partnerships for delivery of municipal services, it is useful to look at the French experience where the different types are most elaborated and have been tested. Aside from government-owned institutions and intergovernmental arrangements which are government-to-government in nature, there are five other institutional types of public/private partnership exercised through contract with or without government subsidies(Coyaud,4-9):

a)contract for specific operating services
A government-owned enterprise or department contracts with a private company to undertake specific tasks in the operating and maintenance of a municipal service(e.g. bill collection for a municipal water authority)

b)management contract(gerance)
A public authority contracts with a private company to take over full responsibility for operation and maintenance of a municipal service. Extensions to the service system remain a government responsibility. Consumers remain clients of the public authority.

c)management contract with profit-sharing arrangements(regie interessee)
Similar to the management contract above but in this form, the private company receives a share of the profits or a productivity bonus.

d)leasing(affermage)
The municipal service system is put under contract with a private company for operation and maintenance with the full risk of carrying out these responsibilities borne by the private company. Consumers in this case become clients of the private company. The revenues are split by a formula in the contract between the private company and the public authority. Financing extensions to the system is covered by the public authority from its revenues share. Typical term of contract is 10 years renewable to 20 years.

e)concession
The public authority contracts with a private company to undertake full responsibility for operating and maintenance including financial or commercial risk and to undertake any new construction or rehabilitation of the municipal service system. The company effectively receives exclusive rights(monopoly) to provide the service but in exchange must assume all financial responsibilities for the system including capital costs and working capital. If government supplemental funds are used, these are remitted from revenue or tariff collections. The concession contract is generally for about 30 years

to permit recovery of capital investments. At the end of the concession period, the system(all fixed assets) is turned back to the public authority.

This last form is the institutional type frequently found in formerly colonized countries of the Third World and has commonly been used for utilities. In many developing countries, concessions are being renegotiated and converted to leasing arrangements to permit greater government control. The concession contract is no longer used in France which now favors leasing contracts. For further detail, Coyaud's article provides an interesting comparison of the management structure of these institutional options which is included below. (See Table I)

Alternative Service Delivery Strategies

Apart from contracting or purchase of services from the private sector just described above, there are alternative service delivery strategies, some of which, because of non-existent or inadequate public services, are operating by default to fill the gap. In the developing countries, these delivery systems are not infrequently operating extralegally. The list includes: 1) grants and vouchers, 2) free-market, 3) voluntary services, 4) self-help. (Marlin,3;Berg 1983,26;Savas 57) Very briefly, these strategies may be understood as follows:

grants and vouchers- Forms of government subsidies to stimulate production or consumption of goods and services. Subsidies to private producers are traditionally grants.(e.g. interest rate subsidies on privately developed low income housing) Subsidies to consumers in recent years have increasingly come in the form of vouchers to permit individual choice and access to specific goods and services in the marketplace, In developing countries, subsidies typically benefit the middle class through allowances tacked on to salary base(housing and transport) or, in the case of services, through subsidized rate structures. Voucher systems are often recommended as a solution to the perceived equity problem created by privatization when market prices are too high to be affordable to low income people.

COMPARISON OF MANAGEMENT OPTIONS

Institutional Alternatives	Government-Owned (Régie directe)		Private, or Mixed Government-Private, Company				
	Govt. Dept. (Régie simple)	Autonomous Board (Régie Autonome)	Service Contract	Management Contract (Gérance)	Management Contract Shared Profit (Régie intéressée)	Leasing Contract (Affermage)	Concession Contract (Concession)
Legal Autonomy	No	Yes	Yes	Yes	Yes	Yes	Yes
Responsibility for Setting Tariffs	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Publicity Authority	Public Authority
Financing of Fixed Assets	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Publicity Authority	Private Company
Ownership of Fixed Assets	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Publicity Authority	Private until Expiration of Contracts
Operation and Maintenance of System	Public Authority	Public Authority	Public Authority Except Specific Services	Private without Commercial Risk	Private with Little Commercial Risk	Private with Full Commercial Risk	Private with Full Commercial Risk
Financing of Working Capital for O&M	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Private Company	Private Company
Destination of Revenues from Tariffs	Public Authority	Public Authority	Public Authority	Public Authority	Public Authority	Part to Leasee Part to Public Authority	Part to Concessionnaire Part to Public Authority
Compensation to Private Company			Similar to Contract for Consulting Services	Proportional to Physical Parameters (volume sold, number of connections etc...)	Proportional to Physical Parameters with Productivity Bonus or Shared Profits	Through Part of Tariffs Reserved to Leasee	Through Part of Tariff Reserved to Concessionnaire
Contract Validity Period			Less Than 5 Years	About 5 Years	About 5 Years	6 to 10 Years (possibility renewing Contract)	About 30 Years

Source: Coyaud, Daniel P. Private and Public Alternatives For Providing Water Supply, Sewerage and Other Municipal Services. Paper prepared for World Bank Seminar on Management Options for Urban Services, Cesme, Turkey. 1985 free market - Private provision of goods and services in response to market demand where the government is not involved in the transactions at all (e.g. private informal sector water vendors in Third World countries), or only minimally involved through some regulation (e.g. privately-owned public transport vehicles such as jeepneys in Manila.) The major inhibiting factor to free market growth of private sector services is inappropriate government regulation.

voluntary service and self-help - When individuals or voluntary associations organize to meet the gap in services such as voluntary fire departments in small towns. Such associations, despite their lack of government authority, can contract for services with private firms. An increasingly popular form of voluntary organization in the Third World is the consumer cooperative, particularly in monopoly conditions where nothing is served by competition.(e.g. small town electicity service) In squatter settlements and slums of the Third World where municipal services are typically below 30 percent coverage(Halmoe,7) if they exist at all, it is not uncommon for community organizations to arrange services such as garbage collection through volunteers or contracts to private entities paid for through an informal neighborhood levy. In the U.S. neighborhood crime watches supplementing public police protection services is an increasingly common neighborhood voluntary service.

These arrangements are most suited to smaller demands (small towns, villages, neighborhoods) for collective goods and services where there can be a strong community spirit and peer pressures to spur the effort. As Savas points out, "when the number of affected individuals becomes large and interests are diverse and conflicting, pure voluntary action no longer is adequate to provide collective goods. In such circumstances, organizations are needed with authority to exercise force in obtaining money or property needed to assure the supply of collective goods."(Savas 1982,p.55)

Why Privatise?

Developed Countries

Severe public debt crises in a number of the developed countries created by steadily growing gross public spending has spurred the advent of national and municipal privatization strategies. Such strategies are seen as a way to cut costs through reduction in state provision of public goods and services, reduction of state subsidies and reduction of state regulations hampering the growth of private sector competition. Great Britain is far in the lead with a comprehensive national privatization strategy brought in with the conservative Thatcher government. The strategy has three main components to stimulate market forces: contracting out, deregulation, and denationalization; and is well along in implementation.(Butler,36;LeGrand,1)

While Britain's privatization experience is coming from the top down, that of the United States has a bottom-up history. Municipal governments over the last 25 years have increasingly contracted out for services, primarily to save money. The Adam Smith Institute, which specializes in privatization research and development, has done analyses which indicate that most U.S. cities could cut their budgets in half by taking full advantage of privatization. (Young, Wall St. J.) A 1982 federal survey showed one-third of all U.S. cities with populations above 2500 contracted out at least one service(Butler, 53) and reported significant savings in costs. Contracting attuned to delivery of public services is becoming big business. The Reason Foundation of California has a data base of over 300 private companies that contract to perform services traditionally performed by government. This example set at the local government level has been taken up by the Reagan government as a policy of its current administration for both improved federal level management as well as a new direction for disposition of foreign aid funds in developing countries. Unlike the British case, so far, there has been more rhetoric than action at the federal level in the United States.

The phenomenon of privatization is not restricted ideologically to capitalist and parliamentary systems when one realizes that Spain, Sweden, Hungary and China have recently reoriented national policies so as to permit if not encourage the growth of the private sector. Before 1981, organization of private enterprises was illegal in these latter two countries. (Hungary-NYT Dec.3 1981,p.D-5;China-Wash Post, Feb 5 1982,p.A-23)

Developing Countries

In the developing world, the increasing attraction of privatization has been created by several factors beyond ~~shear~~ sheer cost consideration but nonetheless closely related:

1. Performance Failure of Public Enterprises- Public enterprises in most developing countries have been entrusted with the responsibility for achieving national development goals including virtually exclusive rights to develop and operate public services: electricity, water, gas, transport, communications. They have been permitted through state guarantees to borrow heavily both domestically and especially internationally to support their operations. Yet the general conclusion is that for the most part public enterprises have been social and economic failures in their development missions and in many cases have generated huge and growing debt-financed losses which heavily indebted governments can no longer afford to underwrite. (Nellis,6) The 1983 World Development Report cites a survey of 27 countries showing that non-financial, state-owned enterprises(those involved in public services delivery) on the average received more than 3% of Gross Domestic Product in net budgetary payments. (WDR,74-75) Countries hope that with expansion of private sector competition, selective closings of some public enterprises and some revision of unfair tax advantages of public versus private

enterprise, management of the remaining public enterprises may improve.

2. Urban Growth and Escalating Demand for Public Goods and Services- Over the last three decades, all regions of the Third World have experienced unprecedented urban growth and multiplication of cities. Between 1950 and 1975, urban areas of developing countries received some 400 million new residents. World Bank projections estimate an additional one billion urban dwellers to be added to Third World cities between 1975 and 2000, bringing the developing countries urban population as a percentage of total population to 45.8%. (1979 WDR, 190-191, 184-185) Cities with populations greater than 4 million are expected to triple in number from 22 in 1980 to 60 in the year 2000. (Armstrong-Wright, 1) Predominantly rural countries are urbanizing the most rapidly such that Africa's urban population is expected to quadruple by 2000.

Such rapid growth has serious implications for the demand on public services. Not only is there escalating unmet demand but the overloading of already poorly maintained service infrastructure has reduced the efficacy of existing publicly-provided services. (e.g. In Monrovia, Liberia an estimated 50% of piped public water is lost due to poor maintenance or leaks in the system.) In the area of water and sanitary facilities, Roth estimates that "as a consequence of poor maintenance of water facilities and rapid population growth, about 100 million more people drank unsafe water in 1980 than in 1975 and about 400 million more relied on unsafe sanitary facilities in 1984 than in 1977. (Roth, W-5) Public resources are not available to meet the rising demand. The unregulated private sector has already begun to generate service alternatives and the belief is that with encouragement and regulatory reform more and better services can be provided.

3. Encouraging Popular or Individual Participation in Economic Development- There has been much speculation in the Third World that national and regional development strategies have failed due to lack of popular involvement. Responsibility for losses (or gains) has been fully lodged with the public sector or the state. In the area of services provision, much wastage of resources, vandalism of equipment and infrastructure and non-payment of fees or tariffs where they exist is attributed to the 'free-ride' attitude of the public. This is the belief that services are a public right and the state will continue to provide services regardless of the amount of individual use or abuse.

Privatizing provision of public services, whether through contract or actual ownership transfer, is a vehicle to change attitudes and public behavior toward public services, breaking down the assumption of the state as sole benevolent provider and facilitating more effective application of user charges tied to consumption.

4. Donor Reorientation to Private Sector- The heavy commitment of donor funding during the 1960's and 1970's to public institutional development as a means to achieving national development has had costly and inefficient results as evidenced by the considerable losses and low level of accomplishments of public or state-owned enterprises. As a result, the Western donor community, particularly some of its more influential members such as the World Bank, the U.S. Agency for International Development and the United Nations have, in the early 1980's, begun to affect a major shift in their strategies for achieving Third World development. This reorientation is reinforced by IMF stabilization lending policies which, through conditionality, are

forcing a reduction in public spending and policy changes to foster a more efficient use of public resources in developing countries and privatization is a logical response.(Hanke,3)

Collectively donors are moving away from the focus on government or the state as producer and operator of development activities with public enterprises as implementing institutions. Donor policies now reflect an increasing emphasis on private sector growth within a competitive market framework to achieve development while limiting the role of the state to that of a regulator.(Bremer,vii; WDR 1979-1983) Since many developing countries depend on the donor community for a sizeable percentage of their development or capital investment budgets, they are forced to reallign national policies in the direction of privatization to ensure continued donor support.

In summary, the movement toward privatization in the Third World is a global phenomena. While the history of informal private sector involvement in public services delivery is long-lived, until recently, government policy either ignored or harassed private providers for interferring with the role of what Hanke has termed "the entrepreneurial state." (Hanke,1) Of late, for reasons cited above, many Third World governments are altering national policy and approaches to public services delivery to encourage a significantly expanded private sector role. The objectives of this reorientation are: 1)to make more efficient use of existing public resources by paring back the state's role; 2) to stimulate generation of new resources to meet rising demand through deregulation and regulatory reform to encourage greater private entrepreneurship; and 3) to bring about quality improvement in public services so vital to the economic efficiency of cities by opening up the market to competition.

Part III
Classical Categorization of Goods and Services

Societal conventions in the Western world, transferred through colonial institutional structures to much of the Third World, have established the theory of classical categorization of goods and services based on their properties of exclusion and joint-consumption. Tied to this classification, by customary practice, the State or government, known as the public sector, has become the principal provider and distributor of joint-consumption type goods and services, commonly called public goods while the entrepreneur, the private firm, the non-governmental organization, defined as the private sector has provided exclusion type goods and services, typically called private goods, distributed using the market mechanism. In the definitions and discussion which follow, I will often use the term "goods" to mean both goods and services, though occasionally some distinction is made.

Exclusion means that the potential user can be denied use of the good or service if conditions of the supplier are not met. The main condition is usually ability to pay the supplier's price or fee for the good or service. Exclusion is generally tied to individual consumption of goods and services e.g. housing, food.

Joint-consumption refers to goods and services which theoretically can be consumed 'jointly' by many people without diminishing the quantity or quality to the individual e.g. street lighting. Joint-consumption type goods can be exclusive or not as one realizes incomparing access to a public toll road versus police protection. Generally one is not required to pay directly to obtain police protection whereas access is denied to toll roads if the fee is not paid.

Savas offers a useful theoretical framework for categorizing goods and services even though it must be recognized that pure goods are rare and that usually goods and services share characteristics of several categories. Also, as will be discussed later, goods and services over time have tended to migrate between categories. The Savas categorization divides goods and services into four types as follows (Savas, Butler):

1. private goods/services- exclusion and individual consumption-type goods which are mostly supplied by the private marketplace and once paid for become 'owned' by the consumer to the extent of the quantity and quality of goods and services purchased. Examples of services include laundering, shoe repair, taxi service.

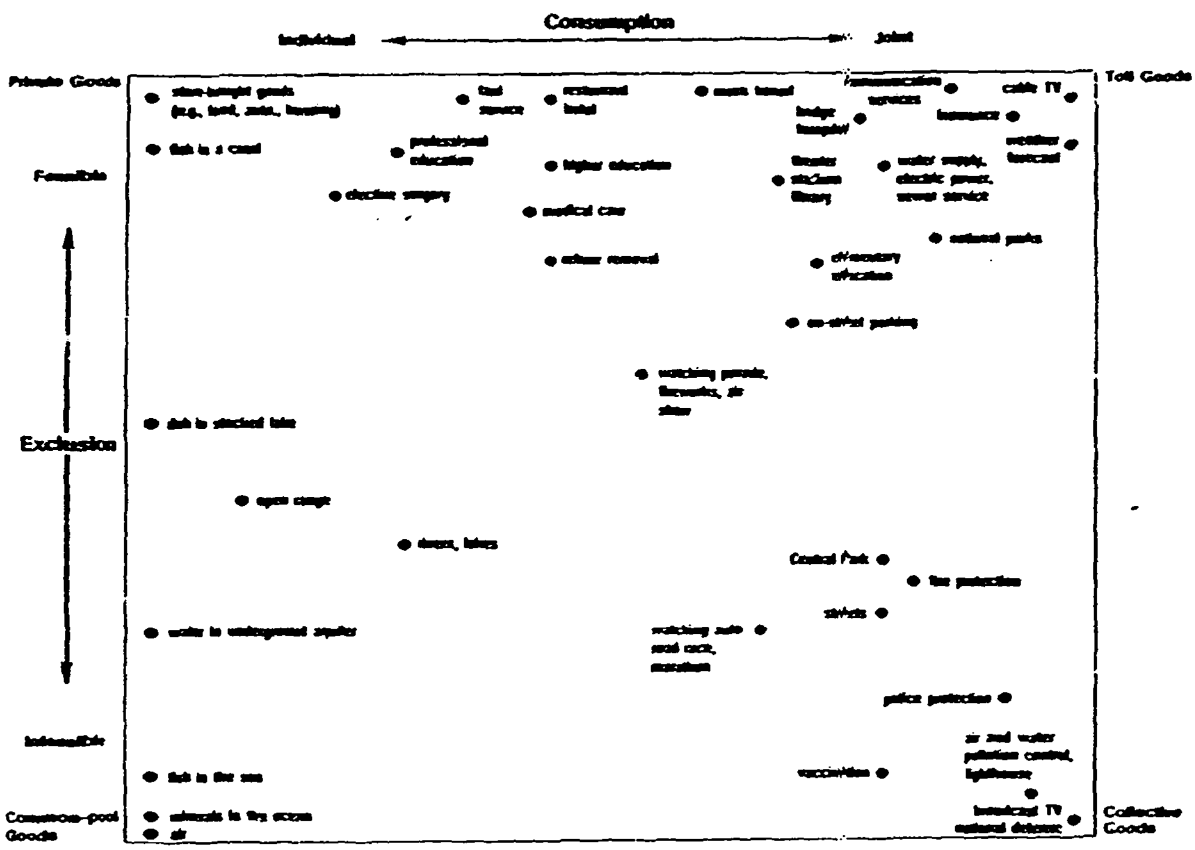
2. toll goods/services- exclusion and group or joint consumation-type goods, access to which is limited by charges levied. Examples of such services include mass transit, electrical services, water and sewer services.

3. common-pool goods/services- characteristized by non-exclusion and individual consumption. Supply can not be assured by the market and depletion without government regulation may be threatened. Examples suggest more goods than services in this category such as natural waterways, air, underground water aquifers.

4. collective goods/services- characterized by non-exclusion and joint-consumption. They are difficult to measure, offer the consumer no choice and are almost impossible to charge directly for their use. Examples of such goods and services are police and fire protection, national defense, public parks. Because of their non-market, non-charge status, consumers may use them indiscriminately beyond real needs without contributing to the costs of their consumption.

The diagram below, though a U.S. example, shows the distribution of types of goods and services based on degrees of exclusion and joint-consumption. Of the four categories, government is heavily involved in the regulation and provision of goods and services of all but private goods:

Figure I
Diagram showing the exclusion and joint-consumption properties of various goods and services. Pure goods shown at four corner points.



Source: Savas E.S. Privatising The Public Sector, p.34.

Governments worldwide have eschewed the advocations of Adam Smith that government supply only certain goods and services advantageous to a great society that would not be supplied by private enterprises because of lack of profitability in their provision. Instead, they have followed a pattern of expansion which more embraces the boundless John Stuart Mill philosophy that "the ends of government are as comprehensive as those of the social union. They consist of all the good and all the immunity from evil, which the existence of government can be made either directly or indirectly to bestow."(Goode,p.45) Public goods, which for the most part are services, have expanded enormously in number and magnitude as political decision and popular disposition have liberally interpreted the 'collective goods' definition.

In this theoretical discussion, there are several reasons attributed in the literature to this expansion of the public sector responsibilities.(Butler,p.50; Savas,p.44) First there is no consensus on what should be classified as collective goods or services or the appropriate degree of government involvement in their supply or allocation. Because of this vagueness, more and more services have been migrating into the category of collective goods/services from private and toll-good categories. Some of this migration is the result of changes in societal values or just political decisions that certain services, beyond those classified as basic needs such as education, health services, and housing, should be consumed regardless of ability and willingness to pay. An example is fire protection. Secondly, individuals within society decline to assume responsibility for their consumption and through individual action in the aggregate gradually shift the responsibility to the public sector. An example is garbage or refuse which individuals throw in street gutters or public areas thus shifting the financial responsibility of securing private sector services for its collection to the government or public sector which creates the need for a new or expanded collective service. Thirdly, the failure to charge the full cost of toll goods such as electricity, water and sewer, telephone and introducing increasingly government subsidy for their delivery, transforms such services to collective goods and services.

The fact must also be recognized that the populus has come to assume that goods and services which 'society' has decided should be provided, generally free of charge or heavily subsidized, are almost a right of citizenship and must only be supplied by government(Butler, 44) in spite of the fact that there exist many other alternatives to government provision of services. This attitude is an interesting counter pressure against non-government provision of public services.

Ambiguities of Distinguishing Public Sector From Private Sector

Many authors have used the traditional economic classification of goods and services discussed above to establish an almost physical distinction between public sector goods and services and private sector goods and services. The classical distinction in the characteristics of public versus private goods and services is clearly enumerated by Ostrom in Table II below. Authors making this distinction often use the imagery of a pendulum swing in political dynamics overtime between government support of public sector welfare and support of the private sector with the most recent swing toward the private sector more extreme than at any time in the past.

Table II
Classical Characteristics of Public and Private Goods

Private Goods	Public Goods
Relatively easy to measure quantity and quality	Relatively difficult to measure quantity and quality
Can be consumed by only a single person	Consumed jointly and simultaneously by many people
Easy to exclude someone who doesn't pay	Difficult to exclude someone who doesn't pay
Individual generally has a choice of consuming or not	Individual generally has no choice as to consuming or not
Individual generally has a choice as to kind and quality of goods	Individual generally has little or no choice as to kind and quality of goods
Payment for goods is closely related to demand and consumption	Payment for goods is not closely related to demand or consumption
Allocation decisions are made primarily by market mechanism	Allocation decisions are made primarily by political process

Source: Ostrom and Ostrom. "Public Goods and Public Choices" in Savas, Alternatives For Delivering Public Services, p.16.

In the real world, however, there is no such thing as 'pure' public or 'pure' private goods and services. Rather one is confronted with a "public/private mix" in each good or service with popular perception as perhaps the most weighty influence establishing identification of goods and services as either one or the other. Berg emphasizes this notion of a mix of public and private rather than separate entities with the example of education provided by non-governmental organizations but financed from tax revenues. In his imagery, privatization should be understood as "a process that alters the blend,with the public sector playing a different role and the private sector a larger role."(Berg 1983,p.2)

The idea of a changing role for government within a public/private context is reinforced by Butler who says that a critical assumption to make in proceeding with privatization is that government does not have to be the provider. The strategy of privatization does not eliminate government's role. Rather it changes the role to that of facilitator rather than provider of services.

<u>Third World Perspective on Public Goods Formed By Colonial Experience</u>

The history of sizeable government-financed and operated public services in the developed world is a recent one. Traditionally, most services were privately provided and remunerative or they were small-scale, community-organized self-help efforts. The steady growth in collectively provided public (and social) services, at least in the United States, has occurred principally over the last forty years under the political and administrative framework of the 'welfare state,'a notion exported to the U.S. from Europe. The decline of the welfare state in the U.S. and Europe since the late seventies and the movement toward privatization as a means of rolling back the obligations of the state has been forced by severe public debt crises created by steadily growing gross public spending. There has been such an enormous growth in public sector expenditure requirements that, in the United States, public expenditures have mounted to two-thirds of local government budget and as much as half of federal spending or two thirds of non-defense spending. Fiscal contraints have necessitated a search for means to cut back public spending and the popular solution is transferring the load to the private sector.

The experience in the developing countries during the modern era is dissimilar to the extent that countries did not start with a tradition of private sector and toll-goods provision which gradually went public over time as was the experience of the United States and Europe. Instead, many developing countries were dominated for years by Western European nations; and most colonial regimes, as a matter of control, set up government functions and institutions covering most socio-economic spheres of life, a far more thorough network of intervention and control than existed in Europe at the time. So in most cases, particularly in Africa and Southeast Asia, countries "inherited the notion that extensive government involvement in the economy and society was the natural order of affairs." (Nellis,p. 3) National elites who took control at independence had frequently been trained as bureaucrats in the former colonial system and went on to use the public sector as a vehicle through which to promote national unity, national identity and modernization.

Consequently, public sectors in many developing countries have grown at an extraordinary pace. A large proportion of this growth has been registered in the enormous expansion of public or state-owned enterprises whose numbers were further augmented by nationalizations and socialist models of development as means of regaining control of national affairs from foreign dominance. With petrodollars inflating the world economy in the late 1960's and 1970's, public enterprise creation facilitated access to capital by developing countries. This ballooned the size of the public sector during this period as countries, seeking sources of development capital, created public institutions through which foreign capital could flow into development programs. Examples of the magnitude of this growth are seen in Algeria where the share of public enterprises in gross fixed capital formation increased from 20 per cent to 59 percent; in Peru from 11 per cent to 23 per cent; in Turkey from 17 percent to 30 percent and in Ivory Coast from 15 per cent to 24 per cent.(Berg 1983, p.4)

In summary the point to be made is that history in many developing countries may not provide examples of once private goods and services gone public or of the possibility of large-scale formal private sector delivery alternatives. Furthermore, as Nellis suggests, in the absence of a substantial private sector, Third World countries may have "no role model to follow other than government."(Nellis,13)

Part IV

Third World Private Sector Experience in Public Service Delivery

There are really two indigenous private sectors operating in most Third World countries, medium to large-scale(heavy foreign investment) modern sector entrepreneurs and companies and small-scale informal or marginally-formal sector operators, traders and enterprise. When allusion is made to a thin, little developed private sector in the Third World, the reference is usually meant to describe the former because the latter is generally large and thriving in spite of government regulatory discrimination, market barriers, undercapitalization and elementary management structure. One of the goals of privatization is to aid the development transition from informal sector peddling of limited-scale goods and services to modern sector business management and capacity. This transition is essential to longer term economic development of countries and can only be affected by expanding the business opportunities and technical-financial-administrative support available to the private sector.

In the area of public services delivery, the indigenous private sector has broad experience from the earliest of times. The centuries-old rickshaw in China as a form of public transport is one example. The two-bucket water collar used in Paris at the time of the French Revolution by an estimated 20,000 water carriers and in China today is an ancient form of public water service.(Roth,W-20)

Despite the enormous expansion of public sector expenditures for public services provision during the last tri-decade, because populations have been growing at an even more rapid pace, generating new demand, the private sector has in most countries evolved a flourishing parallel services business. The success of private sector entrepreneurs can be attributed to four things: a) using alternative (often more practical) and less costly modes of delivery; b) covering typically a broader service area (including underserviced low-income neighborhoods and peripheral areas); c) maintaining a low overhead through the use of family members, home-base of operations and self-help maintenance of equipment; and d)maintaining longer operating hours.

This section will present some examples of the experience of the private sector in the Third World in the delivery of public services. This experience has not tended to receive must publicity because much of it remains in the informal private sector. Only four services have been chosen to be highlighted, though many more could be added and many others have yet to be recorded. (In the United States as many as 66 different areas of public services available by contract from private firms have been recorded.) Roth's recent book on the subject of private service delivery referred to examples given as "but a small part of the tip of a very big iceberg."(Roth,C-1) The four services to be discussed include: a)water supply, b) transport, c) solid waste management and d) maintenance.

Water Supply

Water supply is the service in which the private sector is most involved and least involved, depending on the method of delivery in the Third World. The practice of water-vending has an extensive informal and formal private sector network, using relatively inexpensive distribution methods; while piped water systems are frequently legacies of former colonial regimes, characterized by high-standards and low-coverage and, to the extent privatized, are more often managed by large foreign firms.

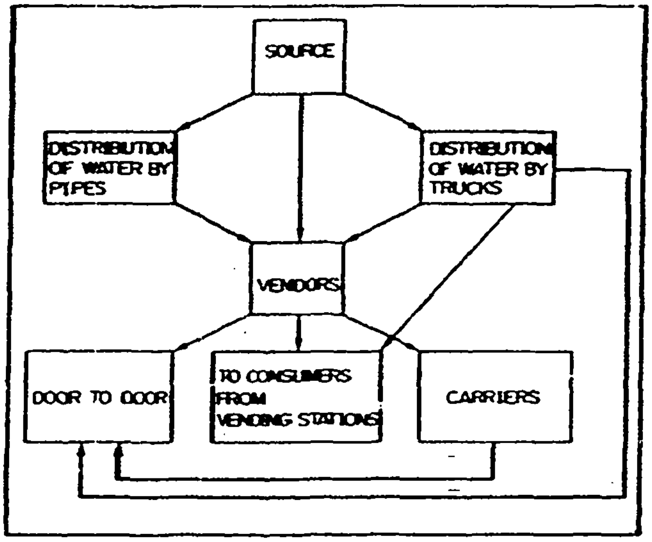
~~high-standards and low-coverage and, to the extent privatized, are more often managed by large foreign firms.~~

<u>Water-Vending</u>

The sale and distribution of water by container known as water-vending is the most common private form of water distribution in Third World cities, supplementing regular piped public service. It most often takes the form of vendors buying water from a source such as the public water works (or fetching it from natural sources such as rivers) and carrying it in containers as varied as recycled oil tins, barrel carts, and tank trucks to consumers in widely dispersed neighborhoods. Another version on this theme is where a few household connections in a neighborhood are used as water-selling points to serve a whole neighborhood. In this case, the consumer brings her own container to the source, thus eliminating vendor distribution costs. In low income neighborhoods and squatter settlements of large cities and in small cities and towns, water-vending may serve more than 90 percent of water supply needs.

Zaroff and Okun, in writing on this subject, constructed a distribution diagram of private water-vending practices (see Figure II below) which shows the possibility of some marketing complexity with an intermediate purchase/sale level between the initial purchase at the source and the sale to the consumer.

Figure II
Possible Distribution Systems For Water Vending in Developing Countries



Source: Zaroff and Okun. "Water Vending in Developing Countries," in <u>Aqua</u> Vol 5 (1984), p.290.

Water-vending is found in most Third World cities but is seldom regulated by government policy. The advantage is that many entrepreneuring individuals have found employment within the water-vendor ranks and, with a minimum of investment in mobile (recyclable) equipment, are providing good coverage to fill the widening gap between public demand and public piped water distribution systems. The disadvantages are that vendors charge scarcity prices which are conservatively ten times higher than the subsidized rates of public water service; frequently the water is contaminated either from the source or from the containers used; and the self-employed suppliers are not always dependable in terms of keeping a regular schedule of deliveries.

In Nairobi, Kenya, an interesting public/private partnership is in experimental stages to attempt to regulate the quality of water vended, to establish a user charge for water consumption at public standposts as well as to reduce vandalism against public infrastructure. The partnership is between government and members of the informal private sector. The government is, in effect, leasing metered public standposts to private vendors who pay a subsidized rate for the water drawn and sell it by the container at a marginal profit to consumers. Vandalism is much reduced and collections by vendors are being made effectively without objection from consumers.

At the other end of the spectrum, water-vending has been carried to a sophisticated level in the formal private sector by 10 private companies serving Santo Domingo, the capital of the Domincan Republic. The companies are collecting and bottling purified water which they distribute by truck. Competition is keen but the companies are profitable because of the diversity in the packaging and delivery terms of their product. The Ministry of Health inspects and regulate the companies and government sets a maximum price for their products. Despite the government price-ceiling, the companies are profitable.

With scarce resources available to many countries and their municipalities to extend piped water systems, the water-vending method seems to be a viable interim if not permanent solution to meeting rising demands for water in cities. As shown above, great opportunity exists to use government incentives and health regulations to promote the expansion of safe, more reasonably priced private vending systems. Zaroff and Okun suggested water-vending to be an ideal area for development of appropriate technology in terms of sanitary-safe, inexpensive transport containers and equipment and mobilizing small-scale enterprise.

Piped-Water Systems

The other basic method of water supply delivery in which the private sector is least involved is in piped water systems. Roth reasons that this is because of "the riskiness of investing in fixed capital for which it would be impossible to [recoup] over a short period of time."(Roth C-3) Private sector initiative in this area does exist; however, and one of the best examples is in Abidjan, Ivory Coast.

SODECI of Abidjan was created in 1960 by SAUR(Societe d'Amenagement Urbain et Rural), a French firm, in response to winning a highly competed concession contract to supply the municipal water for the city of Abidjan. SODECI was made fully responsible for the construction, maintenance, production nad distribution of the water supply system for Abidjan which it did successfully and profitably as a private monopoly for twelve years. This included the management of astronomical growth in piped water demand where the number of clients rose from 3947 in 1960 to 29,907 in 1972 and the level of consumption from 6.3 million cubic meters in 1960 to 27,338 million cubic meters in 1972.(Dei.3) In 1972, SODECI's contract was renegotiated as a contrat d'affermage or leasing contract with the substantially increased responsibility of managing water supply facilities for the whole country. By this contract conversion, government withdrew the SODECI's unilateral decision-making authority and assumed ownership responsibility for all major new facilities. The Ministry of Economy and Finance and the Ministry of Public Works, which created a new Department of Water, were charged with financial and technical monitoring responsibilities of all SODECI activities which they have conscientiously exercised over the years.

The Government of the Ivory Coast has established a model partnership with this large private company, SODECI, which has enabled the company to maintain its high calibre operation and profitability(including capital costs) over the years. This model is characterized by low interference and careful monitoring by government. Only the recent economic recession in Ivory Coast has forced a decline in SODECI's previous profit margin high of 15%, now reduced to between 5 and 9%.(Dei,7)

A major element in SODECI's success has been its ability to minimize water loss from its systems and to bill successfully an estimated 90% of all the water it supplies, up from 55% when it started operations in 1960. Secondly, while government monitors operations closely and retains decision-authority in all development planning and investments, it does not interfere in the internal operations of the company. In fact the Board of Directors has no government representation and government holds only 3.25% of SODECI's stock.

Today, in the city of Abidjan, SODECI serves 91,000 direct purchasers plus many more direct and indirect(via water-vendors selling SODECI water) purchasers from 40 coin-operated public fountains.(Lewis,10) Despite SODCEI's impressive growth, it has not kept up with the expansion of ABidjan whose population has mushroomed tenfold in the last 25 years from 177,000 in 1960 to an estimated 1.7 million residents by 1985. (Dei,1) As a consequence, water-vending has become a highly competitive business to address this enormous growth in service demand. SODECI is planning a major increase in the number of public fountains it maintains in order to tap into this increasingly lucrative and growing part of the water sales market. With limited access to capital expansion funds to permit more piped water connections, SODECI views the water-vendor market to be a principle sales point for the future.

Urban Transportation

Private sector urban trnsport, whether leagal or illegal, is pervasive in the Third world. In most major cities, parallel systems exist: the govenment-owned or privately franchised monopoly which is typically highly regulated, heavily subsidized and capital-intensive in its equipment and facilities; and the private sector networks which include a variety of smaller-scale more versatile transport modes, unsubsidized yet profitable, and generally internally organized and regulated in response to keen competition.

Features of Private Transport Systems

Transportation appears an ideal service area for private operation because it can be entered with a fairly low level of investment, the fee collection is efficiently accomplished at the time of service delivery and the market is so large that profitability is all but assured if a reasonable overhead for operation is maintained. For this reason, many different types of private transporters have been attracted voluntarily into the marketplace. In many cities, unsubsidized private transport fleets are now carrying from half to two-thirds of the daily ridership with the balance split between private cars and public transport. (Lewis 16; Roth 1982,p.13)

Equipment used in the private sector is smaller-scale (1 to 25 places) than standard-size public system buses (58 seats), and it offers considerable choice. Vehicles can range from the simplicity of the bicycle rickshaws in Chinese cities; to the 3-wheel motorized pedicab that plies the streets of Bangkok(Thailand) and Colombo(Sri Lanka); to the globally familiar shared intra-city and inter-city taxis called Por Puesto("by-the-seat") in Caracas and "black taxis" in Belfast; to the variety of modified, often jerry-built pick-up vehicles(12-25 seat) serving the cities of Africa including matatu in Kenya, bakassi in Sudan, gbakas in Ivory Coast; to the sophisticated systems of modern minibuses in Kuala Lumpar, public light buses in Hong Kong and micro-buses in Buenos Aires. Most cities have a number of private transport modes to chose from that differ in capacity, speed, cost, comfort and safety. All have emerged unaided by government in response to varied market demand. The ability of private systems to be responsive to consumer preferences and to offer vehicles more suited to local conditions (e.g. adapted to narrow, winding streets in central cities and often unpaved, rutted roads in low income neighborhoods) have been important features in their success.

Studies of small-scale private transport systems in different cities of the Third World have ~~consistently~~ constantly revealed private urban transport systems to be more solvent, more efficient and more responsive to the diverse needs of large urban populations than publicly-produced systems.(Roth, 1982;Hanke,1985;Hatry,1983) While the cost to the customer may not vary much from public subsidized rates and may even be alittle higher, the difference in operating costs between public and private systems is significant, allowing a wide margin of profit. Table III below comparing of costs between public and private transport systems in Manila vividly shows why personal investment in private transport fleets is becoming an increasingly popular business venture in the Third World.

Table III
Manila Bus and Jeepney Costs
(1976 U.S. cents)

	Cost/Mile		Cost/Seat Mile	
Cost Item	Bus*	Jeepney*	Bus*	Jeepney*
Depreciation	7.4[a]	0.75	0.128	0.054[a]
Interest	4.9	0.55	0.084	0.039
Maintenance	6.7[b]	0.85	0.116	0.061
Tires	2.16	0.476	0.037	0.034
Fuel	5.5	4.48	0.095	0.32
Oil	0.384	0.17	0.007	0.012
Wages	9.6[c]	3.4	0.166	0.243
Management	0.44[d]	—	0.008	—
Total	37.08	10.68	.641	0.763
Total excluding wages	27.48	7.27	0.475	0.519
Total Operating Costs	24.34	9.376	0.420	0.67
(fuel tax)	(0.55)	(1.70)	(0.01)	(0.12)
Adjustments: (factor cost of fuel)	(4.95)	(2.78)	(0.086)	(0.20)
Total Excluding Wages (after adjustment to exclude fuel tax)	26.93	5.58	0.465	0.40

Notes:
* Bus: 58 seats; Jeepney: 14 seats.

a. Depreciation estimates are based on a capital cost of US$30,666 for a 55-seat stage bus with an expected 10-year life. The Jeepney costs US$2,972 for a 14-seat vehicle lasting on average 7.5 years. Buses average 46,500 miles/year; Jeepneys 50,000 miles. It is worth noting that the capital cost per seat mile of a bus is about 2½ times that of a Jeepney. 75% of depreciation cost is treated as dependent on the distance traveled, with the remaining 25% determined by time in use.

b. Maintenance costs for the two vehicle types are proportionate: 300 hours of labor time, and parts cost estimated at 10% of vehicle cost.

c. Wage costs of Jeepneys and bus differ in wage rates paid and size of crew employed. A bus operates with a driver (@P 5/hr.) and conductor (@P 4/hr.) Jeepneys employ only a driver @P 2.5/hr.

d. License and insurance costs are not provided.

Source: A.A. Walters, "Costs and Scale of Bus Services." World Bank Staff Working Paper No. 325, World Bank, Washington D.C. 1979.

Transport demand is so acute in most cities that capital investment in a 5-7 year life vehicle can be recouped in one to two years. Using 1978 figures, Roth estimated a 37% annual return on $36,000 minibuses operating in Kuala Lumpur. (Roth 1982, p.11) Furthermore, he found that in Kenya, "most successful operators own over 15 minibuses plying in Nairobi and on several inter-city routes" (Roth 1982,p.22); while in Cairo, many investors own over 4 vehicles which they lease to drivers for 25% of fare collections. Even though the market is attracting these larger investors, the smallest-scale one-man, one-taxi business operations are still profitable.

Two other features need be mentioned as figuring in the successful operation of private transport systems. First, considerable employment for low-skilled, uneducated workers is generated by the private urban transport sector not only in terms of direct employment of drivers and dispatchers but also through the many small local businesses that have sprung up to service the transport industry including mechanics, body shops, seat upholsterers, tire vendors, auto parts and accessories vendors, most of whom to some extent may be dealing in lower cost black market merchandise. In contrast, the public systems typically manage most of the servicing of vehicles in-house through public works garages (or sometimes through large foreign-owned private garages) and buy spare parts and vehicule supplies through cumbersome official import channels.

Secondly, in many countries, both where private transport vehicles are regulated by government and where they remain ignored and run illegally, the vehicle owners have voluntarily grouped together into unions or route associations. The principal objectives of these associations are to establish some structure for their operation in the marketplace which mutually benefits operators and consumers; and to create a political vehicle by which en mass they can protect or at least represent their interests visavis the public sector or government. These associations have functioned almost as consumer cooperatives facilitating credit for purchase of vehicles, collective purchase of parts and supplies, shared financing of road signage and parking facilities, and road maintenance for breakdowns. More importantly, they have established operating rules which encourage equitable sharing of the market among participants, schedule adherance, proper vehicle maintenance, coverage of low volume routes, fare collection rules and in some instances, fare setting. Though often associated with one route, they can also represent a section of a city. Generally, there is more than one route association per route, creating sharp competition and further encouragement to maintain standards.

Impact of European and U.S. Public Transport Models and Codes

It appears that public transport models and regulatory codes of Western nations may have had a detrimental impact on the development of efficient public transportation systems in the Third World and, in particular, on the evolution of private sector public transport alternatives. The regulatory structure of European and American public transit sytems were transferred with little apparent modificiation to Third World countries under their control or influence during the early to mid 1900's. Among other things, these codes promulgated very high standards; large (expensive) imported equipment ill-suited to the smaller-scale, often poorly developed and maintained roadbeds of developing countries; and a bias toward public transport monopolies protected from private competition. This bias is exemplified in the development of public transportation systems in francophone West Africa.

Renault of France was contracted by the municipal government of Abidjan, Ivory Coast (1960) and Dakar, Senegal (1971) to establish modern public transportation systems for their capital cities. As a condition of their contract acceptance, Renault convinced these governments to ban highly active private sector transport operations which had well established transport networks in Dakar and Abidjan at the time of contract negotiations. As a result, the operations of Dakar's private cooperative, Car Rapides, were seriously cut-back (though not banned because of the public uproar against this proposed action) so that today they operate with fewer transport vehicles than they did in 1960; in Abidjan, private sector operators driving common carriers called 'gbakas' were banned from operating within city limits, forcing them to continue operation illegally, if at all. Renault called these private operators "unfair competition" to its regulated private monopolies, SOTRA(Ivory Coast) and SOTRAC(Senegal). Besides undermining the continued expansion of what were (and still are) viable, unsubsidized private sector transport alternatives, these actions also removed any serious competitive incentive for the government public transport systems to operate efficiently. (Cohen,1980;Berg,1983;Lewis,1985;Roth,1982)

In Bangkok, Thailand in the early 1970's, European consultants convinced government authorities to take over the profitable operations of 24 franchised bus companies and combine then into a Western model metropolitan transport authority under municipal government management. Within five years, even with a 20% hike in fares, the whole system was running at a $25 million annual deficit while 7000 private minibuses in the city were running at a profit.(Roth,UT-41)

In several Third World countries, capital cities have chosen to undertake, at enormous capital expense (US$10,000 per cm.), the construction of underground public metro systems. These countries were encouraged by the image of modern transport technology and attractive finance and equipment packages offered by high-powered international mass transportion firms (often aided by international donor financing). Significantly less costly and more efficient alternatives for upgrading existing public and private transport services through regulatory reform and minimum-cost surface infrastructure modifications such as exclusive bus lanes were either ignored or not even considered in the decision-making process. (Armstrong-Wright, 49) Besides the enormous infrastructure debt generated by these underground rail systems, requiring heavy subsidies to be affordable to the public, governments have frequently resorted to curtailment of more accessible and flexible private and public bus transport systems in order to increase ridership on the rail systems. Table IV which follows gives some idea of the operating deficit of various metro systems burdened with huge capital costs.

In spite of all the official efforts to discourage or even eliminate private urban transport providers, some of which have been discussed above, the operations have continued to grow and to absorb an ever increasing percentage of the new urban tranport demand for which public-provided systems have neither the capacity nor equipment to reach. In the current Third World economic environment, governments are under severe internal and international pressure to cut back heavy public expenditures. Since most publicly-owned and operated transport systems are operating in serious deficit in spite of government subsidies, governments are beginning to recognize the advantages of a competitive market for services and the substantial transport services

Table IV

Rail Services - City Comparisons (1983)

CITY	TYPE OF SYSTEM	LENGTH OF LINE (km)	PERCENT BELOW GROUND	TOTAL NUMBER OF STATIONS	CAPACITY PER TRAIN: SEATED	CAPACITY PER TRAIN: SEATED PLUS STANDING	CAPACITY PER TRAIN: CRUSH (1)	NO. OF TRAINS OPERATED	TOTAL ANNUAL PASSENGERS (mill)	MAX. PASSENGER FLOW ONE DIR ON BUSIEST. LINE.PEAK HOUR	ANNUAL OPERATING COSTS (US $ 1983) (mill) (2)	TOTAL ANNUAL COSTS (incl. cap. costs) (US $ 1983) (mill) (3)	ANNUAL OPERATING REVENUES (US $ 1983) (mill) (4)	FARE (5 km) (US $)	RATIO: OPERATING REVENUE/ TOTAL COSTS (INC. ANN. CAP. COSTS) (3)	TOTAL COSTS PER PASS-ENGER-km (1983 US $) (3) (5)
1 CARACAS	METRO	12.3	90	14	408	1265	1668	14	80.6	28700	33.34	120.28	42.16	0.47	0.35	0.332
2 SANTIAGO	METRO	25.6	81	35	193	844	1000	49	109.0	14295	15.32	76.89	20.31	0.18	0.26	0.136
3 SAO PAULO	METRO	25	70	2[illegible]	198	666	-	52	347.0	58000	67.15	210.54	40.68	0.07	0.19	0.081
4 TUNIS	SUBURBAN RAIL	26	0	20	500	1300	-	9	24.0	8000	7.55	11.41	4.05	0.02	0.36	0.044
5 ADELAIDE	SUBURBAN RAIL	152.1	0	93	556	665	840	76	12.9	[illegible]500	31.70	51.08	4.29	0.54	0.08	0.528
6 BALTIMORE	METRO	12.8	56	9	456	540	996	12	7.8	-	99.20	147.33	48.10	0.75	0.33	2.518
7 BERLIN	METRO	100.8	100	114	228	1182	1182	172	346.2	40000	126.44	498.15	104.05	0.78	0.21	0.228
8 CALGARY	LIGHT RAIL	12.5	10	8	128	324	440	20	11.9	4650	5.44	15.43	-	0.81	-	0.144
9 CHICAGO	METRO	395.8	9	143	200	1340	-	300	149.7	12395	101.50	388.79	61.30	0.90	0.16	0.221
10 HONG KONG	METRO	26.1	77	25	288	2250	2250	92	412.0	60000	60.96	152.06	132.27	0.06	0.87	0.049
11 LONDON	METRO	388	42	247	290	750	814	449	563.0	23000	440.08	1094.58	440.99	0.51	0.40	0.259
12 MONTREAL	METRO	50.3	100	57	360	1440	1440	84	199.9	20000	92.53	180.58	31.68	0.69	0.18	0.141
13 NAGOYA	SUBURBAN RAIL	544.5	0	369	184	520	920	210	379.8	37000	189.34	224.78	261.43	0.00	1.16	0.032
14 NAGOYA CITY	METRO	57.5	96	59	211	603	1508	93	330.0	43697	127.09	326.43	158.73	0.72	0.49	0.432
15 NEW YORK	METRO	370	0	465	600	1760	2200	564	952.6	68000	1100.00	4750.99	955.34	0.90	0.20	0.480
16 OSAKA	METRO	90.9	100	88	370	1100	2750	115	856.6	62696	414.37	780.32	416.49	0.72	0.53	0.182
17 SAN DIEGO	LIGHT RAIL	25.6	0	18	[illegible]	376	800	24	4.7	1267	5.30	14.86	4.34	0.50	0.29	0.324
18 SAN FRANCISCO	METRO	113.6	28	34	540	810	1080	43	55.5	15086	128.20	401.66	69.80	0.60	0.17	0.341

(1) Crush capacity represents the maximum passengers that can be safely carried in very crowded conditions but without causing serious discomfort.
(2) Operating costs excluding depreciation and interest charges.
(3) Total costs including operating costs, depreciation, and interest charges. For comparative purposes a uniform method to determine depreciation and interest charges has been used to obtain total costs.
(4) Operating revenue including fare box and advertising revenue but excluding subsidies.
(5) Passenger kilometers where not specified in the survey response are imputed using an average trip length of 7.5 kilometers.

Source: Armstrong-Wright, Alan T. Urban Transport Policy Paper, Water Supply and Urban Development Department Washington D.C. World Bank, April 1986, Annex 4.

contribution that the private sector is already making without government assistance. Policy reforms are under discussion which may lead to privatization (divestiture) of major elements of existing public transport systems in some countries as well as new regulations to encourage expansion of private sector providers and the adaptation of public sector providers to the requirements of a competitive market.

Solid Waste Disposal

Solid waste disposal is a public service which is dangerously underdeveloped in the Third World, both because of its cost and a bias toward meeting other public service needs first. Cointreau has estimated solid waste management costs in the Third World to average between 0.5% and 1% of GNP and , at the municipal level, to consume from 20% to 40% of the municipal budget. (Cointreau,1) Dei's research confirmed these estimates in the Ivory Coast where as recently as 1983 the capital city of Abidjan was spending 50% of its budget on garbage collection. Because of the services bias and lack of sufficient budget to address collection needs, many cities only cursorily address the service requirement for major thoroughfares, while almost completely ignoring dense and often low-income neighborhoods. The danger to public health of uncollected garbage is real in the Third World because of the high organic content in solid waste and the tropical climate of many countries, both of which characteristics are highly condusive to the development and spread of disease vectors. (Halmoe,1985)

Most solid waste collection in the Third World is done either by public works departments or by large international solid waste management firms contracted by the larger municipalities. Since there is no local competition in the solid waste field, there is no incentive to manage operations efficiently. Equipment is typically the large imported compactor trucks used in the U.S. and Europe which are too big to access the narrow street networks of many urban neighborhoods, causing limited coverage in whole sections of cities. Squatter areas are generally not covered at all and mountains of rotting garbage in streets and open areas are a common sight. Because of poor maintenance and lack of easy access to imported spare parts, collection vehicles may spend from 30% to 50% of the time out of service. (Dei,1985;Cointreau,1985)

There are few recorded examples of local private sector firms involved in general municipal solid waste collection though some local private collection services do exist for institutions like hospitals and large commercial enterprises. Brief accounts by Lewis and Cointreau describe some informal sector and experimental operations which are outlined below. Cointreau highlights the importance of informal sector recycling of wastes which provide employment and livelihood for considerable numbers of people involved in recovering and recycling materials. In Cairo, until a recent ban on donkeys in the city, the Zabbaleen have undertaken a traditional mode of scavenging where they would pick up refuse for free from wealthy neighborhoods using donkey-drawn carts. In Surabaya, Indonesia, local scavengers assist local refuse workers shovel waste in return for the right to pick through the trash for recyclable materials.(Cointreau,5) Finally, Lewis describes a 2-year pilot project initiated in 1983 in Sudan where private sweepers with donkey-drawn carts have been organized to do house to house collections in Wad Medani city at 10 percent the cost of the standard public truck service. (Lewis,22)

The role of the private sector is scarcely developed in the solid waste collection area in large part because of the unwillingness of individual consumers to pay for garbage collection as they would pay for water or transport. There is a great need, however, to develop, locally, more technologically-appropriate and cost effective solid waste collection alternatives in most Third World cities. The mounting of small local enterprise in this service area could be encouraged by municipalities or public enterprises (managing solid waste disposal) through contracting out the percentage of collection responsibilities which cannot be adequately served by the existing systems.

As Cointreau has noted, "collection service to be most effective [in Third World cities] can not rely on one method or type of equipment for the many varieties of neighborhoods." (Cointreau,2) Current Public Works Department and foreign-contracted solid waste disposal operations are generally mono-systems using heavy imported equipment with low labor performance ratios. By bidding contracts for different types of services in various sections of cities illserved by present systems, municipalities might expect to generate some healthy competition as well as new methods of collection. For the longer-term, since neither the firms nor the expertise exists in many Third World countries in solid waste management, countries might consider promoting joint-ventures between large international firms and fledgling local enterprise. Minimally, contracts with eager international solid waste management firms should condition the award on training and development of local public and private sector management capacity in this vital municipal service area.

area.

Maintenance Services

Maintenance in all public service areas in the Third World is an activity which is poorly planned, underbudgetted and irregularly undertaken. As a result, the benefits from public services infrastructure and equipment are seriously limited. Rehabilitation and proper maintenance of existing service systems can be as effective in expanding capacity and quality of service as new investment facilities. Michael Cohen, Division Chief in the World Bank's Water Supply and Urban Development Department recently stated: "Maintenance itself must be considered a development priority. The creation of assets that are allowed to deteriorate represents a serious undermining of the development process."(Urban Edge,1)

Maintenance is still recognized in most Third World countries as a government responsibility and function; yet, it is an ideal area in which the private sector can be contracted to provide the services required. It is ideal because the tasks are so often routine and can be specifically defined and quantified (e.g. patching street potholes, changing bulbs in streetlights and traffic signals, checking and repairing water leaks. storm water or drainage channel cleaning. public vehicle maintenance).

Proponents of maintenance contracting point to a number of advantages listed below: 1) incentives to reduce costs; 2) more flexibility to alter resources to meet changing needs; 3) relieving public sector of the direct producer/management burden which requires maintaining large fleets of heavy equipment and laborer rolls; 4) protecting of budgetted funds for maintenance by tying them into legally-binding maintenance contracts; 5) broadening the political constituency for maintenance by spreading the employment benefits through the private sector. (Berg 1983,p.32) While a controversial benefit, contracting-out can become a useful tool of governments seeking to reduce large, unproductive public work forces while fostering alternative employment in the private sector where accountability for worker performance is in some good measure built into management operations.

Contracting-out for road maintenance, a large national budget burden, has been successfully experimented with in a number of Third World countries. In Argentina, a new law enacted in 1979 forced the Argentine Highway Directorate to turn over a major percentage of its routine maintenance responsibilities to contractors in order to meet a severe cut in work force requirement. Today, two-thirds of its 47,000 kilometers of national roads are maintained by private contractors. At the other end of the scale, the Roads Department in Kenya, because of personnel, equipment and administrative limitations, has been helping develop the capac ty of small private African contractors to undertake full regraveling contracts for national roads. Since 1981, private local contractors have accounted for two thirds of this work. Nigeria and Columbia have also had experience in this contracting area. Problems were encountered in Columbia because of poorly specified work programs in the contract requirements and absence of penalties for non-performance.

If, as Berg claims, "all maintenance activity lends itself to subcontracting," and most public services could be measurably improved by regular maintenance, then the maintenance problems of Third World cities might be more effectively addressed by: 1) designing contracts that conform to the needs and constraints of each city; and, as importantly, 2) by developing within municipal departments and public enterprise the necessary skills to effectively manage contracts to private enterprise including contract negotiating, performance monitoring and evaluation as well as cost accounting skills where force account maintenance operations are used. (Berg,1983,p.35)

Part V

Expanding The Private Sector Role: Issues and Opportunities

While much of the glamour and visability of privatization is recorded in national enterprise divestiture, the more practical, broader-based impact of privatization in the Third World promises to be in the contracting-out of services and in regulatory reform to stimulate formal and informal private sector enterprise. The major reasons for this are that these types of privatization are less political and stand to benefit a greater majority of the populations of these countries.

In a review of the subject of private sector participation in public services delivery, several themes have emerged which will largely determine whether or not privatization will have a significant role in the future development of Third World countries. Each theme is an aggregate of several issues. Four general themes will be discussed including some of their major issues and recommendations for improving the opportunities to establish a greater private sector role in public management.

1) Urban Services and The Equity Issue

The rapid growth of Third World cities has resulted in the majority of urban populations living with generally low levels of services. Low income neighborhoods, often the dense original core of cities, and new settlement areas, frequently peripherally located, tend to be the most underserviced or not served at all by formal public services; yet increasingly, they represent the urban majority in Third World cities and may constitute as high as 60% of a city's population. Table V below shows an example of the distribution and urban services levels for Bamako, the capital city of Mali. Those who

Table V

1976 Inventory Of Urban Services By Zone - Bamako, Mali

	Population 1976	Housing	Water		Liquid Wastes		Solid Wastes	Electricity	Roads
		% in Durable Materials	% with Private Tap	% with Public Fountain	% of Streets with Drainage Channel a/	% of Homes with Septic Tanks	% with Daily Collection	% with Supply	% Bitumen
Income Residential	13,000	95	95	100	40 b/	95	10	95	10
Quartiers	126,000	20	20	100	70	10	0	30	10
Quartiers	88,000	60-80 a/	30 b/	30	20 b/	95 d/	0	30 b/	3
Settlements	57,000	5	0	0	0	5	0	0	0

Estimates based on information provided by the Municipality of Bamako and Energie du Mali.

Excluding Djikoroni where only about 20% are of durable materials.

Varies widely between quartiers.

Including only those built in durable materials--not earth ditches.

Includes "fosses fixed"--a simple type of septic tank.

and 4 low income neighborhoods

high income neighborhood

moderate to high income neighborhood

urce: Cohen, Michael A. Urban Growth and Economic Development in The Sahel, p.58
from report by Desmond McNeill "Bamako The Provision of Urban Services, June 1976.

are served reasonably well are the moderate to high income residential areas and the modern sector commercial and government administration building blocks of cities.

There are many issues at the base of urban servicing inequalities. As Roth has said, "some might consider it a paradox that in numerous countries, the rich are supplied by the public sector [at subsidized rates] and the poor have to rely on the private sector for their necessities." (Roth F-3) Yet this does not seem so unusual when one realizes that the public infrastructure patterns of many Third World cities were laid out during the colonial epoch and were strongly biased in their design by class and anti-native attitudes.

In the present day, such prejudices have taken on a new life with the heavy influx of foreign immigrants and political or environmental refugees to cities. These populations most often represent the poorest of the poor and have few if any legal rights. Their plurality in low income urban neighborhoods and squatter settlement areas presents a perceived economic burden and political threat to Third World governments. Whether or not these populations should be serviced has become a prejudicial political issue in many countries, resulting in some cases in highly controversial expulsion orders (e.g. Nigeria 1984). In spite of official harassment, these populations have integrated themselves into the urban economy at the lowest levels and most often through activities in the informal sector. Expulsions have resulted in short-lived reductions in resident foreign populations. Within a few months, vacated spaces are filled either with the same people or those of similar foreign, poverty status. Thus, by ignoring their services needs, municipal governments have only pushed their demand over to unregulated private sector vendors.

As another issue, Cohen complains of "the pricing policies of private sector firms [which] have tended to neglect the needs of low-income groups. The result, [he says] is that service through these firms is concentrated in areas of effective demand, that is, where households anre willing to pay high prices for high quality service." (Cohen 1980, p.420) The reason for this, I would conjecture, is not because of private provision but because many Third World countries have insisted that companies adhere to the highest standards of public infrastructure which, because of excessive cost and high import components, have severely limited the coverage possible. Even with heavily subsidized public service rate structures, private firms (typically large foreign concessions) have been obliged to service areas where maximum recovery of high standard capital outlay might be expected.

By moderating standards, Third World countries and cities can make room for lower cost, less sophisticated service alternatives applicable to a broader base, including phased or incremental-standard improvement systems. This change might also permit competitive competition from local firms entering what has been almost exclusively a foreign firm market.

A third equity issue is in the area of pricing. Roth argues that the equity argument is highly politicized and is detrimental to production and to itself by insisting on price equality. "One of the major obstacles to the involvement of the private sector," he writes, "is the notion that services have to be priced at the same rate for different people even when circumstances differ widely." (Roth,C-4) For example, a national price for water in Ivory Coast or for telephone service in Dominican Republic results in low-cost customers subsidizing high-cost customers. This problem is further excerbated by deeply subsidized unprogressive rate structures under which governments do not insist on effective collection policy even in cases of willingness and ability to pay; and by prices that are held artificially low. The consequences are insufficient revenues to maintain or extend systems. It is the well-to-do who benefit from the subsidies of public services systems as the poor are often excluded access due to prohibitive connection charges (e.g. water and sewer, electrical, telephone) or lack of infrastructure to connect into.

The industrialized countries may have some useful experience to bring to Third World services equity issues. For instance, various Western nations have had positive experience with progressive rate structures for public services which effectively create a cross-subsidy from wealthier clients to poorer clients. For example, the U.S. telephone rate systems have subsidized local network costs through long distance calling charges. Also, industrialized countries have in recent years reduced their interference with the market price structure for privately-provided public services and increased the equity of access of the poor to such services through the use of voucher systems. Voucher systems have not only stimulated competition among private providers but have also afforded choice to poor consumers. Removing general subsidy from public services, a subsidy which has benefited all income groups regardless of need, and redistributing that subsidy in voucher form to 'needy' consumers to find suitable goods and services in the private sector may have some useful application in developing countries. Vouchers are already being used in Chile for education. The one major drawback may be the administrative burden created by such programs.

2) <u>Changing the Role of Government</u>

Many governments feel that a number of public services should be supplied exclusively by government and oftentimes without charge or at highly subsidized rates. These collective-type goods or services are often defined as 'necessary goods' such as housing and water; 'strategic goods' such as telecommunications, electricity and defense; and 'public welfare goods' such as health care, education, agricultural extension and marketing. The problem noted by Savas is that more and more private and toll-goods have been redefined as collective goods, resulting in enormous growth in the public sector burden. (Savas, 51) Berg estimated from the IMF Government Handbook Statistics Yearbooks that the share of government expenditures in gross domestic product rose 2-3 percent per year during the 1970's with the number of countries committing a third or more of their GDP to government expenditures rising from 13 to 38 out of 90 countries surveyed. (Berg 1983, p.3).

The decision to add services or goods to the public sector is essentially a political one and in highly-centralized administrations of Third World countries is exacerbated by the desire to maintain power and control at the center. But the issue of loss of control or shrinking of social responsibility is not necessarily at issue with privatization. As Roth indicates, "the crucial question is not whether there should be government activity in service provision but what form such activity should take. Private provision does not mean no role for government but a different role." (Roth, I-7) In the case of real public goods and services, a distinction needs to be made between the public role of financing and regulating versus a private role of supply and management of the goods or services. Under a privatization strategy, the government would elaborate its role as facilitator rather than as provider of services, and would confine its activities to performance monitoring, policy incentives(tax reform) and regulatory reform so as to encourage private provision that is in the best interest of public welfare.(Butler,45;Savas,58;Berg,26;Hanke,15) By establishing a public/private mix of public finance and private supply, the cost benefits of private supply are obtained while the social welfare in terms of optimal supply is monitored.

In the case of artificial(public by practice) public goods, serious consideration needs to be given to transferring these activities from the public back to the private economy. An example is 'public' housing in developing countries where large amounts of government revenues have financed or subsidized relatively few units of high standard housing which have benefited more often the well-to-do than the targetted low income populations; simultaneously, an unorganized private sector without public subsidy stimulation has produced 90 percent of the low-income housing realized and at varying standards in response to the growing demand. Other examples are toll goods such as telecommunications and electricity which in many countries could be operated on a successful commercial basis. In fact these utilities are frequently the target of divestiture programs.

What is at issue here is not just a redefinition of government activities to permit greater economic efficiency in the deployment of resources, but also the paring back of administrative burdens so that government can focus on uniquely government activities. Some authors where the use of alternative private sector arrangements for the delivery of services reduces or at least stabilizes the outlays to entrenched underproductive civil service systems and public employee unions as activities are transferred to the private sector.

3) Deregulation, Competition and Macro-Policy Reform

Private sector development potential varies from country to country and continent to continent. There is some concern that the indigenous private sector may lack the breadth and depth to take on activities which would be transfered to it. An example of this is solid waste disposal which requires a high level of investment in capital equipment and is therefore dependent on large foreign providers. Also, some governments worry that the expansion of the private sector will result in an expanded implantation of non-indigenous entrepreneurs whose presence in many countries already overshadows indigenously-owned and operated enterprise.

The response of privatizers to these concerns focuses on the issue of 'deregulation'. In a 1985 speech on the subject of the private sector in developing countries, former World Bank President A.W. Clausen stated, "In countries where indigenous private sector performance is weak, we might ask whether this is not perhaps in large part the result of barriers and distortions consciously or unconsciously created by policymakers." (Clausen speeches 1985) Roth found the current role of the private sector in the provision of services to be pervasive and substantially under-recorded. The major obstacles to expanding private sector participation in the arena of public services were in his view not technical or financial but rather political and social.

Administrative Irregularities in Private Sector Regulation

A significant barrier to expansion of the indigenous private sector and formalization of its underground extensions has been cumbersome government administrative red tape and irregular imposition of regulations. In Peru, it can take two years to complete the registration process for a new business. In many countries, private sector transport operators have to pay political officials many times the value of the official licensing fee to make their vehicles legal. Official vehicle inspection is extremely intermittent and fraught with corruption. Some private sector operators are banned from marketing their services such as donkey cart garbage collectors in Cairo and certain forms of small private transport in various parts of the world which results in whole classes of service providers operating unregulated but subject to constant official harassment. Others, such as water-vendors, are indirectly encouraged by governments but remain unregulated so that they often are selling a contaminated product to the public. For private sector enterprises working on official contract to government there is the problem of extreme administrative delays in processing government payment for goods and services delivered. Cumbersome procedures can bankrupt small scale operators in a few months, particularly if they have had to borrow working capital. In recent years with fiscally contrained public expenditure budgets, payment delays may stretch from months to years in arrears.

Regulation requires a delicate balance as overregulation may stifle production, running private sector operators out of business yet underregulation may be dangerous for public welfare. Part of the resolution to problems noted above may be to alter the type of regulatory and administrative procedures which now exist so that rather than discourage production, they provide some regulatory protection with legal authority for private operators as well as their clients.

Price Controls versus Competition

The political imposition of price controls on services supplied for the public sector by the private sector has been identified by many authors as having the singular most detrimental effect on the ability of the private sector to perform or expand its activities. Artificial price ceilings force private firms to make quality cuts in service in order to maintain minimal profit margins. Price-fixing is a highly visable and popular political activity in many developing countries and is one of the root causes of many of the public enterprise failures.

An alternative to price-fixing is having adequate competition to keep prices low. According to Savas, "private enterprises as producers of public goods and services can significantly improve the efficiency of the public sector so long as competitive pressures can be openly and publicly maintained." (Savas 1977,p.43)

In the U.S. experience, keen competition has been a critical requirement for efficient contracting-out of services(Butler, 55); whereas insufficient competition can lead to monopolistic-type pricing and monolithic private sector interest groups replacing powerful public sector lobbies. In his analysis of public enterprise performance in Sub-Saharan Africa, Nellis recommended maximum competition between private firms and public enterprise as the key to internal reform of African public enterprises, provided private firms and public enterprises were placed on the same regulatory and financial footing. (Nellis,p.19)

Competition is a key element cited by most authors to successful private and public sector management of a greater private sector role in public services delivery. The focus of their advice is that governments must assume the role of ensuring competition in markets instead of displacing private sector operators by continuing inefficient public production and regulatory market barriers to private provision.

Easier said than done

Macro-Policy Reform

Government macro-policy reform can provide the incentives to draw more of the irregular private sector into the public services production economy. Tax policy reform in developing countries as called for by Jenkins can eliminate the unfair advantage of public enterprise over private enterprise by ensuring payment of similar effective tax rates and thus allowing for a more equitable base of competition.(Jenkins,p.18)

Governments might consider a selective reduction of tariff duties on imports vital to mounting and maintaining privately provided public services such as multi-person transport vehicles and associated spare parts imports. Not only could such a reform encourage more suppliers of transport services but also vehicles would probably be better maintained because of access to spare parts.

Reduction in excessive standards for public services, often geared to large foreign firms, and constructing contract bidding documents for public services such that tasks are disaggregated into smaller lots would permit small and medium-size firms from the indigenous private sector to bid competitively.

Building up of indigenous capital markets is essential to sustaining long-term growth of the private sector. Lack of equity markets is a major barrier to launching new private enterprise, particularly larger-scale ventures. International finance agencies of donor countries and international banks should be just an interim solution for financing but often , because of lack of local altenatives,must be permanently retained in the business equation to ensure access to capital essential throughout the lifetime of an enterprise. Policy changes to promote mobilization of domestic savings and development of internal capital markets may permit the private sector to venture into some of the higher risk, higher cost, and longer term activities such as infrastructure expansion. In Indonesia and Malaysia, pension savings schemes tied to tax incentives on income held as savings have been highly successful in mobilizing capital within these countries which has been used in part to finance national infrastructure.

Source, Endnotes

Finally, educational reform may be necessary. Many countries have educational systems which are geared to producing bureaucrats and technocrats for the public sector and professionals who are public sector oriented. Often, little training may be available in commerce or business to form more sophisticated entrepreneurs, business managers, business support professionals(accountants) and investors essential to the development of the indigenous private sector. "Lack of indigenous entrepreneurs," says Berg , "is frequently identified as a basic constraint to the economic growth of many developing countries. It is in fact difficult to envisage more rapid long-term development in the developing countries without more encouragement of entrepreneurship."(Berg 1983,p.37) Governments are beginning to acknowledge the importance of introducing private sector business management skills and acumen into the public arena. Evidence of this is found in Togo where a successful businessman and President of the Chamber of Commerce was appointed in 1984 as new Minister of State Enterprises. (Nellis, p. 14)

5. The Role of Donors

Donor development assistance policies for the Third World can be a significant determinant in the success or failure of privatization of public infrastructure and services. Traditionally, aid has been channelled through the public sector to public enterprise. Because of the historic predispositon of international donor organizations toward the public sector for both institution-building and development project implementation, Third World governments have largely ignored the resources of the private sector as a vehicle for national development.

Complex foreign aid bilateral and multilateral negotiations registered in lengthy project documentation processes have led to inflexible commitments in project implementation to specific public institutional development. Because project alteration requires renewed negotiation and approvals, donors may go on for years propping up static, non-viable public institutions when energetic private sector substitutes may exist.

In practice, international donor organizations deal almost exclusively with governments and consequently have a poor concept of the private sector that exists in the Third World and few contacts within it. It has also been the practice of Third World countries to keep the donors isolated from the private sector for better control. Where large scale private sector participation has been integrated into international aid programs, it has typically been in the form of large international firms from the donors' countries contracted to deliver goods or services as part of the foreign aid package. Not infrequently, bilateral aid is tied to procurement of goods and services in the donor country. Joint ventures with indigenous private sector enterprises have been rare.

Donors need to rethink their assistance strategies not only to incorporate the indigenous private sector but also to alter aid activities which have adverse affects on the expansion and strengthening of the private sector. Some of the new policy guidelines advocated by the World Bank and the U.S. Foreign AID Program are moving in this direction:

a) eliminating aid projects to expand public sector activities where private provision of the goods and services can be (or already is) profitable;

b)assisting governments to identify and eliminate barriers to private sector exoansion, particularly in service areas where government otherwise would be the provider;

c) assisting governments through information-exchange, training, technical and financial support to better utilize their private sectors;

d) support to develop a multiplicity of channels for services delivery such as public/private partnerships under contract or lease arrangement, joint venturing internally or with foreign firms, consumer cooperatives;

e) continued assistance to governments to improve services that must be supplied at least in part by government such as primary education; and, those which ara essential to efficient private sector development and for which the private sector is not yet geared up to undertake, such as large transport infrastructure like ports, roads and airports.

Part VI
Conclusion

Over a tri-decade of increasing centralization and expansion of public expenditures (or deficits), governments in much of the Third World have focussed more on the consolidation and protection of their powers than on policy and institutional reform to promote efficient use of national resources. Officially, the private individual, or collectively the private sector, in most countries has been left out of the development equation. The individual's or private sector's energies, skills, resources and public or civic responsibilities have not been systematically integrated into the process of national development and maintenance of public well-being.

The public citizen, conditioned to be passively expectant of and dependent on heavily subsidized government services and development initiatives, often remains ignorant of and isolated from the tasks of their provision. Governments have reinforced public attitudes through failure to levy and enforce tax and user charge provisions directly linked to services and benefits received.

With increasing urban population pressures, individuals and particularly low income groups have become not only isolated but also alienated from government activities because of lack of access to a modicum of well-being, leading in some cases to public unrest. Private sector intiatives, often informal or illegal, have emerged in most large cities of the Third World to help the public satisfy basic public goods and services requirements that are not provided by government in sufficient quantity or quality. Historically, such private initiatives have been discouraged through regulation and even of activity reserved to government. Government attitudes have thus traditionally reinforced what Hirschman terms "the public-private split."

Hirschman wrote in Shifting Involvements, (p.133):

"The divorce of the private and the public [is] a characteristic feature and a problem, even an affliction, of modern society...As with all such basic polarities, it is easier to identify and criticize them than to come up with 'constructive' proposals how to overcome them. Certainly, we can see elements that will be part of any such reconciliation. For example, a greater amount of workplace participation could contribute to healing the public-private split. Such participation would introduce an element of publicness into private work effort."

Fortunately, Third World governments, strapped by public debt, failed development plans and rising unmet public demand for goods and services, have recently begun to see the importance of private participation in urban development and services. A growing number of Third World cities now not only tolerate but also encourage parallel private urban services systems to government-provided services. 'Privatization' in the form of public-private partnership for the delivery of public goods and services is one further step toward closing the chasm between private and public participation in pursuit of the public weal.

The public sector's transition from provider to facilitator of urban services delivery demands that highly centralized national governments muster the political will to shift some power of authority from national to sub-national units of government; and, at the local government level, from the municipality to private, public-private or community organizations committed to improving public service delivery. In particular, some financial authority must be devolved to the local government level to allow local mobilization and management the local government or municipal government level, authorities must be willing to devolve to contracted private entities the authority to manage the provision and maintenance of public services within self-enforcing regulatory structures where possible. The authority to hire and fire personnel based on performance and to levy and collect user charges commensurate with the costs of providing services are essential elements to the success of public/private partnerships.

At the other end of this power-sharing partnership, government must adapt to its new role as facilitator. This includes developing its capacity to guide, to regulate, to monitor and to evaluate private provision of public services but without detrimental interference in their operations. This does not mean 'laissez-faire' because if government does not ensure healthy competition among private providers and hold the providers accountable for maintaining a basic coverage and quality of service, the public interest could be compromised by a stronger incentive to private gain.

The process of greater private participation in public sector service delivery and management has begun well in Third World cities. The opportunities it offers for expanding public services capacity as well as productive employment is significant. The potential of using the 'privatization' process to increase public citizen awareness of and participation in municipal and national development and management activities is important. The real challenge remains to steady and sustain a gradual growth of public-private cooperation and integration to more fully serve public services needs of today and to make better use of limited resources in preparation for the greater

Bibliography

Armstrong-Wright, Alan T. Urban Transport Policy Paper Water Supply and Urban Development Department. Washington D.C.: World Bank, April 1986(Manuscript in draft)

Berg, Elliot. Changing The Public-Private Mix: A Survey of Some Recent Experiences in LDCs. Washington D.C.: International Monetary Fund, Doc No. DM/83/10 Feb. 1983. pp.73-83.

Berg Elliot. "The Potentials of the Private Sector in Africa," The Washington Quarterly, Vol. 8 No. 4 Fall 1985.

Bremer, Jennifer et al. A Review of AID's Experience in Private Sector Development, AID Program Evaluation Report No. 14. Washington D.C. Robert Nathan Associates Inc.,Doc No. PN-AAL-026.

Butler, Stuart M. Privatizing Federal Spending: A Strategy to Eliminate the Deficit. New York: Universe Books, 1985.

Cochrane, Glynn. Policies for Strengthening Local Government in Developing Countries. Washington D.C.:World Bank Staff Working Papers No. 582.,1983.

Cohen Michael A. "Francophone Africa" in International Handbook on Local Government Reorganization. ed. Donald Rowat, Westport, Conn: Greenwood Press 1980.

Cohen, Michael A. Urban Growth and Economic Development in The Sahel. Washington D.C.: World Bank Staff Working Papers No. 315, 1979.

Cointreau, Sandra J. How To Do More With Less: Reducing Solid Waste Services Costs. Paper prepared for World Bank Seminar on Management Options for Urban Services. Cesme, Turkey. November 11-20, 1985.

Cowan, L. Gray. Divestment and Privatization of the Public Sector: Case Studies of Five Countries. Economic Development Division, Bureau of Planning and Program Coordination. Washington D.C.: USAID, December, 1983.

Coyaud, Daniel P. Private and Public Alternatives For Providing Water Supply, Sewerage and Other Municipal Services. Paper Prepared for World Bank Seminar on Management Options for Urban Services, Cesme, Turkey. November 11-20, 1985.

Davey, Kenneth. Financing Regional Government International Practices and Their Relevance to the Third World. New York: John Wiley and Sons, 1983.

Dei Carlene. The Role of the Formal and Informal Sectors in the Provision of Urban Services and Housing For Low Income Groups in Abidjan(Cote d'Ivoire). Paper prepared for USAID 10th Conference on Housing and Urban Development: Harare, Zimbabwe, Feb. 26-28, 1986.

De Hoog, Ruth Hoogland. Contracting Out For Human Services. Albany: State University of New York Press, 1984.

Dolive, Henry C. ed."Privatization and Alternative Service Delivery" in Urban Resources Vol. 2 No. 4 Summer 1985 (special issue)

Fisk, Donald et al. Private Provision of Public Services An Overview. Washington D.C.: The Urban Institute, 1978.

Goode, Richard. Government Finance in Developing Countries. Washington D.C.: The Brookings Institution,1984.

Halmoe, Terje M. Introduction To Solid Waste Management in Developing Countries. Trondheim, Norway: Norwegian Institute of Technology. Paper prepared for World Bank Seminar on Management Options for Urban Services, Cesme, Turkey. November 11-20,1985.

Hanke, Steve H. The Private Provision of Public Services and Infrastructure. Report prepared for USAID, Bureau of Private Enterprise. Baltimore, Md.: John Hopkins University, May 1984.

Hatry, Harry P. A Review of Private Approaches for Delivery of Public Services Washington D.C.: The Urban Institute Press, 1983.

Hirschman, Albert O. Shifting Involvements: Private Interest and Public Action. Princeton, N.J.: Princeton University Press, 1982.

Institute of Government Affairs, Public-Private Collaboration in The Delivery of Local Public Services. California Government Series II, No. 16. September 1980.

Jenkins, Glenn P. Taxation And State-Owned Enterprises. Harvard Institute For International Development. Cambridge, MA: Harvard University, February 1986.

La Nier, Royce et al. Public and Private Sector Partnerships in Housing: A Background Paper. Washington D.C.: Technical Support Services Inc., 1986. Paper prepared for 10the Conference on Housing and Urban Development in Africa. Harare, Zimbabwe, 26-28 February 1986.

Lewis, Maureen A., and Ted R. Miller. Public-Private Partnership in African Urban Development Washington D.C.: The Urban Institute, 1986.

Marceau, Ian W. Privatization of Municipal Services in Sub-Saharan Africa. University Park, MD: University of Maryland, October 1985. Paper prepared for USAID, Office of Program Policy Coordination.

Marlin, John Tepper. Contracting Municipal Services: A Guide For Purchase From The Private Sector. New York: John Wiley and Sons, 1984.

Minoque, Martin and Jeremy O'Grady. "Contracting Out Local Authority Services in Britain," Planning and Administration Vol 12. No. 1, Spring 1985, pp.82-90.

Nellis, John. Public Enterprises in Sub-Saharan Africa. Washington, D.C.: World Bank, June 1985.(Draft Working Paper)

Nimrod et al. Public Sector Management in Botswana: Lessons in Pragmatism. World Bank Staff Working Paper No. 709. Washington D.C.: World Bank, 1980.

Ostrom and Ostrom. "Public Goods and Public Choices," in Alternatives For Delivering Public Services ed. E.S. Savas. The Diebold Institute for Public Policy Studies Inc. Boulder, CO: Westview Press, 1977.

Ramanadham, V.V. ed. Public Enterprise and The Developing World. London: Croom Helm, 1984.

Rondinelli et al.Decentralization in Developing Countries: A Review of Recent Experience. World Bank Staff Working Paper No. 581, Washington D.C.: World Bank, 1984.

Rondinelli et al. Decentralization and Development Beverly Hills: Sage Publications, 1983.

Roth, Gabriel. Private Provision of Public Services in Developing Countries. Economic Development Institute. Washington D.C.: World Bank, May 1985 (Manuscript in draft)

Roth, Gabriel and George G. Wynne. Free Enterprise Urban Transportation. London: Transaction Books 1982.

Rowat Donald C. ed. International Handbook on Local Government Reorganization: Contemporary Development. Westport, Conn : Greenwood Press, 1980. Part IV Basic Units in Developing Countries.

Samuel, Paul. Choosing Between Private and Public Alternatives in Development: Criteria, Constraints and Challenges. Washington D.C.: World Bank, Paper prepared for Annual Staff Seminar on Water and Urban Development Sector, Jan. 1985

Savas, E. S. Alternatives for Delivering Public Services: Toward Improved Performance. Boulder, Co.: Westview Press 1977.

Savas, E. S. Privatizing the Public Sector. Chatman, N.J.: Chatham Publishers, 1982.

Silverman, Jerry et al. AID Assistance To Local Government: Experience and Issues. AID Program Evaluation Discussion Paper, No. 17 November 1983.

Urban Edge, "Maintenance: A Development Priority," Vol. 10, No. 3, March 1986.

U.S. Agency For International Development. AID Policy Paper Private Enterprise Development(Revised) Washington D.C.: USAID, March 1985.

Walker, "The Political Economy of Privatization" in Julian Le Grand and Ray Robinson ed. Privatization and the Welfare State. 1984.

Walters, A.A. Costs and Scale of Bus Services. World Bank Staff Working Paper No. 325, World Bank, Washington D.C. 1979.

Willoughby, Christopher R. "Infrastructure: Doing More With Less." Finance and Development Vol 18 Dec. 1981, pp 30-32.

World Bank, Water and Sewerage Sector Working Paper. Washington D.C.: World Bank, 1971.

World Bank. World Development Report 1979. Washington D.C.: The World Bank, 1979.

World Bank, World Development Report 1983. Washington D.C.:The World Bank, 1983.

Wynne, George G. Cutback Mangement: A Trinational Perspective. New Brunswick, USA: Transaction Books, 1983.

Young, Peter and John C. Goodman. "U.S. Lags Behind in Going Private'" in Wall Street Journal, February 20, 1986.

Zaroff, Barbara and Daniel A. Okun. "Water Vending in Developing Countries," in Aqua Vol 5. (1984). pp. 289-295.