

PRIVATIZATION OF MUNICIPAL SERVICES  
IN  
SUB-SAHARAN AFRICA

by

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Submitted to  
USAID/PPC/PDPR/EPD  
under purchase order no. OTR-0092-0-00-5129-00

University Park, Maryland  
October, 1985

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## EXECUTIVE SUMMARY

An extensive search of the literature for materials dealing with the privatization of municipal services in Sub-Saharan Africa was undertaken between August and October, 1985. The services of interest were urban water supplies, urban transportation, electricity supply and communications. With the exception of telecommunication on which AID had commissioned a 1984 report on U.S. policy options in Sub-Saharan Africa and a 1984 workshop, supported by AID and the National Science Foundation, on the subject, there were found no publications dealing specifically with municipal services in the region. A modest body of works on related subjects such as local government and decentralization was located. These contained a patchwork of information, much of it anecdotal, to provide a useful picture of the history, current status and trends relating to the municipal services in question. It was possible also to draw conclusions regarding the potential for privatization of these municipal services and from them to present recommendations for AID policy formulation and implementation should these be desired.

It is recommended that AID take a cautious, go-slow approach to promoting privatization of municipal services in these developing countries. The Agency should select urban transportation as the target of opportunity since anecdotal

accounts in the literature indicate that in this service area there has been successful private sector penetration of the market. While water supply, electricity and telecommunications logically present opportunities for private sector initiatives, those service areas would be more difficult in which to have an initial impact. They are regarded as functions of the highly centralized national governments in most countries for reasons of national security, public health and national pride. They are highly politicized. Attempts to promote their privatization could be regarded as political acts on the part of AID if the way was not prepared carefully by the example of a successful strategy for privatizing the much less political urban transportation sector, in which private experience exists. No examples of private provision of electricity or telecommunications municipal services were found. Only in Ivory Coast is there such an example for water supply, and that entity is regarded as private because the government owns only four percent of it.

To implement a strategy with respect to transportation, it is recommended that the anecdotal reports in the literature about successful private sector provision of urban transportation in developing Sub-Saharan countries be confirmed by field work involving the collection of hard data on efficiency, operating characteristics and competitiveness. For purposes of comparison, similar data should be obtained from other developing regions and the whole should be used to devise hard strategy options for use by mission and host country personnel.

The provision of municipal services throughout Sub-Saharan Africa has become more centralized since independence. The new rulers built on the colonial base of service provision by local urban governments by restricting the operating authority of the local units and centralizing authority in the national governments. The statal and parastatal enterprises thus created are the normal creature of that type, with few exceptions. They are bloated with excess staff, inefficeint and managerial disasters. They are used for the same political purposes as parastatals in the agricultural and industrial sectors: to provide sinecures for family and friends; to reward supporters and punish opponents; and to enrich corrupt politicians and bureaucrats.

The development assistance agencies, including AID, have supported this centralist tendency by providing aid to the responsible governmental unit. That his has occurred in the pasat is not surprising. To find that there is little in the recent literature suggesting concern about continued centralism of municipal services delivery was a surprise. Perhaps AID can take the lead in this area.

## CHAPTER I

### INTRODUCTION

#### FOCUS AND ORGANIZATION OF THE REPORT

This report is on a literature search about the present situation, contemporary trends and policy thinking as to privatization of municipal services in the developing nations of Sub-Saharan Africa. The services examined are water supply, electricity, transportation and communications. As the focus is on municipal services, only those supplied to urban areas are considered, although there are interrelationships between urban and rural services, especially electricity and communications. Issues concerning privatization of services supplied to the estimated two thirds of the region's population living in rural areas await investigation.

This chapter discusses privatization in the context of a hierarchy of decentralization processes and the forms available to government. It describes the genesis of local (municipal) government in Sub-Saharan Africa and, from a historical perspective, the provision of municipal services in the region. Finally, details of the philosophy, strategy and outcomes of the literature search are discussed.

In Chapter II, the characteristics of municipal services as economic goods and the influence of their properties as public or private or merit goods on their provision by the public sector are described. The criteria to evaluate the efficacy of delivery, economic efficiency, x-efficiency and public-choice sufficiency, if data were available, are described. The provision of municipal services by government entities or parastatals, illustrated by examples from Sub-Saharan nations is examined in Chapter III, as is private-sector delivery of services.

Chapter IV is concerned with the socio-political and economic dynamics of privatizing municipal services and considers the opportunities for and barriers to implementation of the various forms of privatization.

The conclusions and recommendations on strategies available to AID for promoting privatization of municipal services, should such a policy be adopted, form the content of Chapter V.

## DECENTRALIZATION AND PRIVATIZATION

### Decentralization

Privatization is classified by Rondinelli et. al., in their 1984 study of recent experiences with decentralization in a large number of developing countries, (1. pp. 9-24) as the ultimate step in decentralization of government involvement in the business of society. They define decentralization as:

the transfer of responsibility for planning, management and resource raising and allocation from the central government and its agencies to: (a) field units of central government ministries or agencies ("deconcentration"); (b) subordinate units or levels of government, and (d) areawide, regional or functional authorities ("devolution"); (c) semiautonomous public authorities or corporations ("delegation"); and (e) nongovernmental private or voluntary organizations ("privatization"). (op. cit., p. 9).

They stress that while governments in developing countries have tried combinations of these approaches to lessen budgetary and administrative burdens:

Privatization has usually evolved from situations in which private sector firms 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. (op. cit., p. 10, emphasis added).

They add that in most countries where governments have tried actively to decentralize (and in some cases presumably to privatize), "...decentralization has seldom, if ever, lived up to expectations" (op. cit., p. 27). Their review indicates that there is no conclusive evidence that decentralization solves the economic and management problems used to justify repeated efforts to accomplish it, and that in fact

...we found little evidence to contest the conclusions of a United Nations assessment\* that the actual impact of decentralization for effective administration has been very limited. (op. cit., p. 4).

This is probably related to the intentions of central governments in promoting decentralization, usually not for economic or managerial efficiency, but for the achievement of social and political objectives. Since, as these authors (op. cit., p. 2) write "...attempts to counter centralization are intensely political activities; they inevitably produce political consequences", it takes a great deal of political will to achieve meaningful decentralization, the greatest to stay the course of privatization, because issues of national pride and accusations of "selling the farm" are likely to arise. The limited impact of decentralization in African nations (op. cit., p. 47), attributed to weak support by political leaders and appointed officials, under pressure from a distrustful populace (op. cit., p. 55), probably is rooted also in the paternalism of African societies, reinforced by former colonial centralism and adapted to the need of the indigenous ruling elites to hold onto power.

\*United Nations. Changes and Trends in Public Administration and Finance for Development--Second Survey, 1977-1979. New York: United Nations Department of Technical Cooperation for Development, ST/ESA/SERE 27, 1982

## Privatization

Despite its limited success, decentralization continues to be promoted and privatization has become the credo of many multilateral and bilateral development agencies. Among the numerous definitions of privatization, that of Elliot Berg is the broadest (2, p. 1)

Privatization...means the mobilization of private resources -- energy, skill, money -- to more effectively serve the needs of economic and social development...it involves many instruments,...macroeconomic policy changes... changes in law and practice...deregulation...user fees...divestiture...(and) wider resort to the private sector for delivery of services.

He regards the four most significant forms of privatization as:\*

- o divestiture -- the selling or closing down of state-owned enterprises;

- o user charges -- raising the fees charged to users of public services;

- o private provision of services -- allowing the private sector to provide services either in place of or in competition with government; and

- o contracting out -- government contracting of service delivery to private firms. Of these, Berg suggests that the most promising approaches for most countries seeking more productive use of resources and faster economic growth are deregulation (reducing barriers to private provision of services) and contracting-out.

\*For a detailed discussion of these four approaches see Berg, op. cit., pp. 9-33.

Roth, (3, p. 2) apparently eschewing the term "privatization", calls the process "private provision of public services" but means the same thing as Berg. He describes five ways the private sector can deliver services through:

- o conventional markets -- wherein buyers and sellers compete for profits;
- o contracts from public agencies -- as defined by Berg;
- o monopoly "franchises" -- through which a private company is appointed to provide services at specified standards and tariffs and usually is required to make the investments;
- o management contracts -- the public agency retains ownership and sets conditions for operations of the service by private contractor(s);
- o consumer cooperatives -- returning benefits to members in proportion to their purchases.

Hanke (4, p. 79) calls privatization "the process whereby public operations are transferred to the private sector", and describes three types:

- o complete privatization -- with public assets, infrastructure and services transferred to private interests responsible for all functions of the enterprise;
- o partial privatization -- whereby a public entity retains ownership of assets or infrastructure while the operation and maintenance are carried out by private interests;

o temporary privatization -- involving the sale of public assets to a private entity which leases them back to the public entity.\*

Boland (5, p. 3.18), writing on water and wastewater service pricing and practices in the U.S. comments on recent proposals for "privatization" of these services. He identifies two forms:

o acquisition by private investors of ownership and operation of government-owned services; and

o the purchase and lease-back arrangement called "temporary privatization", above.

Boland takes issue with the recent Hanke prediction\*\* that "within the next 10 to 15 years many municipal systems will be put up for sale, either in whole or in part". He notes that (op. cit., p. 3.19)

...there appears to be no present evidence in support of Hanke's position. There are no known cases of a government-owned (U.S.) utility being sold to private investors; in fact, the reverse transaction (government purchasing an investor-owned utility) is a common event.

\*This is a possibility peculiar to the U.S., since it involves "creative" use of the recent Tax Acts. Its relevance for developing countries is doubtful.

\*\*"Hanke, S.H., 1983, "Face to Face", Journal of the American Water Works Association, vol. 65, no. 5 (May), pp. 20-30."

Berg (op. cit., p. 9) reports that there is little evidence in the record to justify the view that divestiture "is what privatization is all about." With the exceptions (under exceptional conditions) of Chile, Peru, Brazil, Jamaica and Pakistan, Berg found that

"A search for other divestiture experiences reveals only a scattering of examples. Expressions of intent to divest are widespread, but these are rarely matched by action."

Despite the scarcity of divestiture, other forms of privatization occur, often as the result of private sector firms filling the spaces left by ineffective or nonexistent government services, as described later. While some hold it as an article of faith that private enterprises are always superior to public enterprises, care is needed in promoting privatization. As Clausen (6, p. 6) said recently:

Privatization is, however, a path to be trodden with caution in the developing countries. Not surprisingly, there is little willingness or capacity in the private sector to take over bankrupt public enterprises in need of substantial rehabilitation. And usually, as a result of overregulation of financial markets there is no organized equity market to facilitate the establishment of a fair price.

This caution applies particularly to municipal services which often are merit goods, having perceived social and political values exceeding their economic value.

The World Bank recently reported (7, p. 31), concerning decentralization:

Where communities have been organized to participate in the provision of services...or where private initiatives have been encouraged ... services can often be provided more cheaply and effectively. Decentralization and privatization are not panaceas, however: consistency with national policy, replicability elsewhere, and equality of access must be recognized as issues.

As will be seen below, the genesis of national policies about municipal services in Sub-Saharan Africa lies in the nations' recent colonial past and the attitudes of the ruling elites that have emerged since independence.

### THE GENESIS OF SUB-SAHARAN MUNICIPAL SERVICES

Cochrane (8, p. 51) writes that many developing countries rely heavily on local authorities to deliver basic services. The nature of these local authorities and their relationships to central governments, particularly the degree of autonomy allowed them, naturally influence the delivery of services. These governmental forms and relationships have been modified by newly independent rulers, but still retain characteristics ascribable to their colonial antecedents. With few exceptions, the colonial history of Sub-Saharan Africa is that of British and French domination.

The form of modern local government is still largely shaped by the colonial heritage as well as new patterns of service delivery that have evolved since independence. U.S., British and Spanish traditions treat municipalities as separate political, legal and administrative entities but subject them to varying degrees of external supervision.

French and Ottoman traditions place local government within a vertical hierarchy of governmental institutions; locally elected assemblies have legislative powers, but executive responsibility is often exercised by administrators with a dual responsibility to central and local government (op. cit., p. 52).

### British-Style Local Government

Bonney, in his comparative study of local government development in the former British colonies of Africa and in Papua-New Guinea, says that local government was an institution introduced at a late stage by the British in Africa as a device to educate the people in democratic participation and government and as an institution for promoting economic development (9, p. 113). Ostensibly, the British model for local government in Africa was one of partnership, with functions performed by either central or local government, coordinated, if at all, at the regional level. However, writes Bonney "central control was profound and local government clearly its creation", so that "many councils in African countries...frequently depended upon the day to day advice and control of colonial officials" (op. cit., p. 119).

At independence, the new rulers of former British colonies in Africa inherited a local government system designed as decentralized but in practice highly centralized. It was natural that the new national political elites, seeking to create a sense of unity and to frustrate the creation of power centers of possible opposition to their rule, simply replaced

the centralized colonial guidance by centralized indigenous control. Thus, in Anglophone Africa the post-colonial recognition of local governments as independent legal authorities has served not to unify but to create a gap between them and central governments which tend to cling to their perceived authority while burdening local governments with revenue-raising responsibilities. For example, Bonney (op. cit., p. 119) reports that in Kenya, provincial and district (local government) commissioners are appointed by and responsible to the President, not to the local people.

#### French-Style Local Government

Local government in post-independence Francophone Africa has continued to be deeply rooted in French local government theory and practice...(it is) based on fundamental principles of French administrative law and organization (10, p. 415).

Writing on the weakness of urban government in Francophone Africa, Cohen (op. cit., p. 418) points to the declining quantity and quality of urban services provided by the public sector. He attributes this to the central control over local governments exercised by the national Ministries of Interior operating under the archaic provisions of the French Municipal Law of 1884 which still is basic to municipal government in Francophone Africa. This enables central governments to restrict the revenue-generating powers of the local authorities, since all taxing approvals must be obtained from the Interior Ministry. The bureaucratic tangle thus created enables persons

living outside approved community boundaries to get services for which they don't pay. The fiscal problem is compounded by the inability of governments to effectively administer tax collections because the needed skills and management experience are lacking.

### Common Problems

Although the political, administrative and legal starting points of local government organization and authority to raise revenues and to provide services were substantially different in the French and British colonies, post-independence developments have rendered them similar. They have all tended to become more centralized; the Anglophone nations through administrative fiat as in the case of Kenya cited above, the Francophone nations through continuance of the legislative status quo. As Rondinelli et. al. note (op. cit., p. 1)

Centralization has tended to be both the norm and the ideal that pervades concepts of political, economic and administrative organization in the Third World. In most countries that were formally colonies, centralized political and administrative institutions were a direct legacy of the colonial rulers, and until recently these systems were largely left untouched, or were further centralized.

Berg, et. al. (11, p. 115) explore the implications of this colonial legacy, noting that the colonial municipal institutions were designed to provide services only to the small (and privileged) portion of the population which lived in the city centers. As a result,

Most of these (African) urban populations are deprived of basic services...large numbers have no access to running water...only 10 percent of Abidjan's residents are served by a sewage system and this is much higher than is common throughout the region.

Existing situations with respect to provision of water supplies, transportation, electricity and communications, the prospects for and constraints to change and the options for AID are discussed in later chapters. Much that follows is based on the results of the literature search, the philosophy, strategy and outcomes of which are described below.

## THE LITERATURE SEARCH

### Search Philosophy

The fact that "privatization" is such a new word and its applications so recent suggested that what literature exists on the subject would be scattered, fragmented and therefore difficult to locate. The fact that the search was focussed on municipal services in Sub-Saharan African developing nations made the task potentially more difficult since the likelihood of serious scholars banging their intellects against the notoriously poor data bases in that region was not expected to be great.

Those expectations were reinforced by the author's recent experience in producing a report on agricultural parastatals in Sub-Saharan Africa for U.S. AID (12), and by the findings of Rondinelli et. al. (op. cit., p. 70) that:

The available assessments of decentralization are qualitative and episodic. They deal mainly with the social and political issues, offering little in the way of economic or quantitative analysis or hard policy prescriptions. They indicate that one form of decentralization may have worked well in one country, whereas in others a similar (but never exactly the same) arrangement produced the opposite or drastically different effects.

Given the nature of the problem, the only feasible approach was to cast as wide a net as possible across all possibly relevant data bases, to follow that with a comprehensive library search, to peruse card catalogs and to carry out a secondary search by seeking relevant documents in the bibliographies of literature found in the initial searches.

While the author recognizes that everything written is not a contribution to the scholarly literature, in this case it was necessary to identify whatever there was in writing in recoverable form and to evaluate its usefulness according to these criteria:

1. literature that can be verified and on which inferences can be drawn: very useful;
2. case studies: useful;
3. anecdotes: interesting and perhaps entertaining;
4. unsupported assertions and allegations: useless.

Throughout the discussion in later chapters, information reported is characterized according to these criteria.

## Search Strategy and Results

### A. Computer database searches

With the assistance of the AID Development Information Unit library, a number of searches of databases accessible through the computer system were carried out.

#### 1. The AID publications database -- Search 1

A search was made for all publications, reports and project documents produced by AID/Washington and AID/Missions dealing with the divestment and privatization of industries, government entities and municipal services in LDCs worldwide. The key words used were: "divestment, privatization, parastatals, government-owned organizations, state-owned organizations," linked with the subject descriptors "water supply, communications, transportation, electricity and energy."

Because the key words "divestment, privatization" and "parastatals" were not recognized by the search algorithm (in August-September 1985), a time-consuming text search for those words in recorded titles and abstracts was necessary. To reduce the length of this search and because privatization is a very new subject, only documents dating from 1980 on were requested.

This search yielded 48 documents, only 12 of which appeared from the abstracts to have some relationship to the subject. On reading these 12, only 7 dealt in any way with privatization. Two of these were concerned primarily with the U.S., two more were AID project or policy papers. The remaining three were directly relevant documents.

Of passing interest is the fact that the search failed to turn up references to four recent AID/PPC-sponsored reports, known to the author, dealing with agricultural parastatals in Sub-Saharan Africa (Marceau, et. al. 1984); telecommunications policy in Sub-Saharan Africa (Guttman, 1984); proceedings of a workshop on communications technology and African development (N.S.F. 1984); and case studies of divestment and privatization in five countries (Cowan, 1983).

2. The AID publications database--Search 2

A second search was made of this database using the title "local government"; and the key words "transportation, energy, electricity, communications, telecommunications", and "water supply" in combination with descriptors (such as "electric power"). Geographical descriptors used were "Africa, Africa South of the Sahara" and the names of each country in the region. The time restriction of 1980-on was removed.

This resulted in 4 documents, 2 of them relevant.

3. The AID publications database--Search 3

The third search of this database, using the title "municipal" and variants on that word, but no other key words; and the same geographical descriptors as the second search, yielded 4 documents, none of them relevant.

4. The Dialnet-USA database, various files

This general database was searched, using the key words "municipal" and "local government" with the descriptor "Africa". From this search, 27 documents surfaced, most dealing

with the Republic of South Africa and therefore not germane. Of the total, only 2 articles were relevant.

5. The National Technical Information Service (NTIS) database, general and Dissertation Abstracts files.

The general file search, using the key words "municipal/service" with "Africa" found 10 documents, none relevant to this study. Using "privatization" and no geographic reference, the search yielded 13 documents, none of which dealt with developing countries and none therefore of great use.

A search of the dissertation abstracts file, unconstrained by time period and using "municipal/services" with "Africa" yielded no relevant Ph.D. dissertations from around the world.

A second search of the dissertation file, using "municipal or divestiture or decentralization or privatization" with "Africa" and specifying these universities; Cornell, Michigan State, Illinois, California, California Polytechnic and Southern California yielded no dissertations on these subjects, although unconstrained by time period.

6. International Labor Organization database, LABORDOC

For this search, the key words "municipal" and "urban or town or city or cities" were combined with "Sub-Saharan", "Africa" and the names of each of the countries of the region. These words were further crossed with "service or plan or develop", associated with "water, electric, power, transport, communications, telephone, telegraph, railroad, road, street".

No documents were found under these descriptors.

#### 7. Social Scisearch database

This database, which indexes from more than 1500 worldwide social sciences journals, was searched using "municipal, urban, city, cities" with "Sub-Saharan, Africa," and the names of each country, with functional descriptors "plan, develop, service", and service descriptors "water, electric, power, transport, communications, telephone, telegraph, road, street, bus, truck, railroad, train." No time constraint on publication was imposed.

Seventy four (74) documents were found, dealing with areas of growth and development in various African countries. None of them dealt with the municipal services of interest.

#### B. Libraries and other sources

The data base searches were augmented by extensive hard-copy research, as follows.

##### 1. The AID Library

The card catalog was searched using the various keywords and descriptors to access the index system. A few publications of peripheral interest were found.

##### 2. The World Bank and the IMF

The publications catalogs of both organizations were sifted for pertinent materials. The numerous salient publications found have been relied upon extensively in the discussions in succeeding chapters.

### 3. Other

Extensive use of various university and other libraries was made to search out periodicals which might have published articles on the subject of privatizing municipal services in Sub-Saharan Africa.

During this phase of the search, it was discovered that African Affairs, Journal of the Royal African Society, publishes quarterly a bibliography of books, monographs, articles and other material from around the world, dealing with African subjects. A second quarterly bibliography reviews more than 130 social science, finance, economic and political journals worldwide for articles pertaining to African affairs.

These quarterly bibliographies were examined from the current issue back to 1979. Of the thousands of African-related citations in these bibliographies, none were found from their titles to be relevant to the subject matter of this literature search.

Despite the scarcity of published material on municipal services in Sub-Saharan Africa, especially relating to privatization, enough information was gathered on the present situation, present trends and opportunities to suggest some policy options for AID. All of these are discussed in the chapters that follow.

## CHAPTER II

### THE NATURE OF MUNICIPAL SERVICES

#### MUNICIPAL SERVICES AS ECONOMIC GOODS

Governments commonly justify the provision of municipal services by the public sector on the grounds that: there are significant externalities to the availability of services such as water supply, transportation, communications and electricity; the services "benefit the poor"; the services lend themselves to "natural monopoly" status; or their importance to "national security" requires governmental participation. Such arguments are bolstered often by the support in word and deed of donor agencies. For example, Baum and Tolbert, writing for the World Bank, recently wrote (13, p. 282):

Many services -- such as electricity, water supply, urban road and rail infrastructure, and telecommunications -- cannot readily be provided by private sources... Governments can most usefully concentrate on supplying those services that the private sector cannot provide -- such as neighborhood roads, drains, water supply and sanitation systems,... -- as well as on adopting regulations that permit and encourage private initiatives.

That this statement, which must give aid and succor to the proponents of public provision of municipal services, is not entirely true is shown by the successful provision of services in some countries where it has been allowed. These cases are discussed later in this chapter.

The U.S. Agency for International Development has not been blameless in supporting governmental provision of municipal services and related activities. While a recent (Bremer, 1985) evaluation of AID's experience in private sector development (14, p. 100) asserts without any supporting evidence that "Most (LDC) governments routinely use private sector contractors for construction of infrastructure", others writing on AID's assistance to local government (15, pp. 14-19) provided contrary evidence. Of fourteen local government projects involving infrastructure construction or maintenance and supported by AID in the period from before 1970 to after 1979, only five used private contractors. The three of the 14 undertaken in Sub-Saharan Africa did not use the private sector.

That AID thus supported the public sector comes as no surprise when one reviews the Agency's other recent evaluation documents on the role of the private sector in development. In the Bremer report (produced by Robert Nathan and Associates), there is scant attention to private provision of public services, while a recent (1983) AID evaluation report (16, p. 38) on factors affecting the role of the private sector in economic development sounds a note similar to the World Bank report by Baum and Tolbert. Dunlop writes:

There are economic rationales for governments to own and/or operate certain nonfinancial enterprises. In particular, society may accrue certain positive externalities from the activity, or, where natural monopolies may exist as in the case of certain utilities and possibly some transport sector enterprises...public ownership may be warranted. National defense or security reasons may also dictate public ownership. Public utilities like electric companies, water and sanitation systems, and telephone companies are commonly owned by governments throughout the world, for the reasons enumerated above.

### Merit Goods and Governmental Intervention

Economic goods such as some municipal services having apparent or perceived worth to society additional to their true economic worth, are known as "merit goods". These display the characteristics of both "public goods" and "private goods".

Public goods are so generally available that the benefits of their production and distribution accrue readily to all. An aquifer from which urban water supplies are drawn is an example, even if the water distribution system is private. Similarly, radio broadcasts are public goods since they can be accessed by all with receivers. The presence of public goods features does not preclude charges for their use. In many countries, for example, fees are imposed on the ownership of receivers used to tune in to otherwise free broadcasts.

Private goods are individually consumed subject to competition for access to them between users. Since access can be limited to those who meet the entry criteria (such as pricing mechanisms) these goods are suited to production by the private sector and distribution through competitive markets. Despite

the assertions of the authors cited above, some goods usually provided through publicly operated municipal services can be distributed through the private sector. Examples are urban water supplies and "public" transportation and garbage collection.

Merit goods have the private goods properties of competitive accessibility and marketability, but the public goods aspect of benefitting others regardless of entry barriers. Their real or perceived overriding importance to society leads often to subsidized production and distribution, frequently by the public sector. Obviously, other than purely economic reasons lead governments to provide free or subsidized services. As Berg writes:

Many governments take the position that services such as health care, water supply, education, animal vaccinations, etc. are so important that they should be provided not only without charge but exclusively by the public sector (2, p. 14); and, In most LDCs...in urban areas, services such as garbage collection, street lighting, telephones, mail, piped water and piped sewerage are enjoyed by only a small minority (op. cit., p. 12).

Boland (5, p. x) suggests that in Third World cities where the poor have minimal, income-constrained uses for water, providing lower water prices for these very small users is likely to be desirable on allocational (greater public good production) and distributional (income transfer) grounds.

The World Bank (7, p. 9) painted a more dismal picture in 1984:

In many African countries people are having to do without any public services, as governments concentrate their resources and energies on sheer economic and political survival.

The natural desire for political survival is a key ingredient of an explanation as to why governments regard certain municipal services as merit goods. Just as in the case of cereal grain and other food subsidization in African LDCs -- the "bread and beer syndrome" by which governments buy off the riotous inclinations of vocal urban masses (12, p. A-12) -- governments provide free or subsidized services to vocal urban consumers. In the face of limited and dwindling financial and other resources, governments are caught between the necessity of treating as merit goods services supplied to the privileged and the need, for other socio-political reasons, to extend those services to the deprived. Numerous authors suggest that the way to overcome this dilemma is to establish full cost recovery schemes whereby user fees cover operating costs and amortize capital investments to allow replication of service provision. Berg et. al., writing for the World Bank in 1981 (11, p. 116), asserted that this was a feasible approach because most of the populations of Sub-Saharan African countries were able to afford and ready to pay for basic services. Heggie (17, p. 3), writing on the operations of publicly owned port facilities in developed and developing countries, suggested that pricing policies for goods and services should have the consumer pay the true cost of providing them.

While these authors are probably correct in that full-cost pricing should lead to more efficient operations and provide for expansion of services, a cautionary note with respect to the political consequences of attempts to take away privileges from the few to provide basic services to the many is needed. Just as with the "bread and beer syndrome", adverse reactions to real or perceived loss of privilege and status could be expected. In the context of transportation, Novick writes (18, pp. 25-28) that while many African cities need to provide transportation to the urban poor, attempts to do so by curtailing expenditures of resources on facilities for automobiles (a symbol of success to the privileged) might result in the government not being in power for long.

Governments are therefore limited in the extent to which they can reduce privileges to their vocal constituencies without peril, while being constrained by finances against extension of services to the needy. This double bind has provided opportunities in some African countries for the private sector to fill the niche created by poor or nonexistent provision of municipal services. This is the case for transportation in a number of countries. In some, governments have actively encouraged private sector participation in provision of services by various management-contracting devices. In a few, removal of barriers has assisted the development of a nascent private service sector.

These isolated cases in a sea of governmental and quasi-governmental provision of municipal services are discussed in a later section.

Although the private goods features of merit goods suit them to private-sector production and distribution, their public goods characteristics mitigate against that because as Roth writes, they become politicized and municipalized (op. cit., p. W.48). He contends that because this is especially so in the water sector, the private investor is unlikely to finance infrastructure. It can, he says, provide management, the French water systems (described below) being a model to use.

If the private sector will not finance infrastructure, the public sector must if municipal services are to be provided. Dunlop (op. cit., p. 73), writing for U.S. AID stresses that the provision of market services infrastructure (railroads, roads, transport systems, ports, power and water supplies) is one of the most important roles of government investment. He adds that communications systems (telephone, radio and possibly television and postal services) are appropriate areas for government investment, and that these complement rather than compete with private initiatives. Herman (19, p. 18), writing on parastatals in Ivory Coast, comments that

Infrastructural monopolies...often earn very low or negative rates of profit because they supply infrastructures on the grounds of

social welfare not profit maximization. These monopolies merit subsidies, however, not because they are monopolies but because their output has significant externalities.

The World Bank (7, p. 5), signalling a policy shift, wrote in 1984 with respect to public expenditures on infrastructure that economic policy reform in the developing countries of Sub-Saharan Africa should be supported by greater emphasis on rehabilitation and maintenance of existing infrastructure rather than investment in new capacity. The Bank recommended that donors adopt this approach to assist policy reforms in the region. (This would naturally reduce the provision of merit goods in the municipal service sectors of these countries.)

Regardless of whether the Bank's recommendations are followed, governments are and will continue to be in the business of financing infrastructure for services. The question therefore is one of finding ways to provide these merit goods to satisfy socio-political goals while reducing the strain on the very limited financial resources of these nations.

As noted earlier, numerous authors suggest the imposition of user charges. Cochrane (op. cit., p. 14) states that governments have three options in formulating user charges:

- (a) current cost accounting with income calculated to yield a commercial rate of return on the current replacement costs of capital assets;
- (b) substitution of depreciation for debt servicing in calculating the contribution to capital costs;
- (c) marginal cost pricing, which charges every unit of service provided at the full capital and operational cost of units, in addition to current supply...

He cautions that implementation of these options requires considerable administrative resources that many local governments do not possess.

Adoption of ways to reduce the financial burden on governments could affect the economic efficiency of providing municipal services and could also affect the achievement of governments' socio-political objectives. To evaluate these effects, so as to choose among courses of action, ways to measure economic efficiency and socio-political effectiveness are required and data are needed to support the analyses.

#### ECONOMIC EFFICIENCY, X-EFFICIENCY AND PUBLIC CHOICE SUFFICIENCY

To evaluate the performance of business enterprises (either public or private), economics offers two complementary theories of efficiency:

(a) Allocative Efficiency which is a measure of the ways in which inputs are used to produce a range of outputs. Put simply, economic efficiency is attained when the marginal cost of producing a good is equal to the marginal revenue obtained from it. Welfare economics includes in the marginal costs and benefits not only money or other measurable units of value, but also "social" benefits and costs which are not measurable in concrete ways. The resulting concept of "marginal social opportunity cost (MSOC)", while intellectually interesting is of little use in making the financial choices facing developing countries. The difficulties encountered in dealing with the distributive (social) side of the market and

the derivation of the more useful concept of public choice sufficiency are discussed at length by Marceau et. al. (op. cit., pp. A-Ii - viii).

(b) X-Efficiency, which takes resource allocation as given and determines the degree to which these resources are being used efficiently. Enterprises are X-efficient if they produce the maximum amount of economic goods from a given set of inputs. This concept ignores the Law of Diminishing Returns, since it does not consider marginality. It therefore is of doubtful practicality for evaluating the provision of municipal services, on either the production or distribution sides of the market. For a discussion of x-efficiency, see Hermann (op. cit. p. 24).

(c) Public Choice Sufficiency is the condition attained when a transaction in the public arena does not result in any loss of net societal benefit. Since societal benefits or the "social welfare function" cannot be measured, optimality cannot be defined. It is obvious, however, that the greater the net gain to society, the more public choice sufficient the transaction. Net gains to society can be compared ordinally by evaluating the degree to which transactions result in attainment of announced, adopted, public policy goals. Thus, this concept enables comparison of the degree to which socio-political goals are met. Note that public choice sufficiency and economic efficiency are complementary concepts, the former dealing with the distributive side of the market and the latter with the production side.

## Efficiency and Sufficiency of Municipal Services

The literature is not replete with reports on studies of the efficiency of parastatal enterprises. Hermann (op. cit., p. 2) reported in 1981 that

As recently as 1978, a World Bank research project unearthed only seven papers on parastatal efficiency, of which six were largely anecdotal accounts that could not be generalized into broad patterns of success and failure.

He added that this result was based on a huge literature search carried out by Marris.\*

In this current literature search, as reported in the previous chapter, the yield from a comprehensive search was low with respect to the broad subject of municipal services in Sub-Saharan Africa. With respect to the efficiency of enterprises delivering these services, the yield was zero for studies of the subject and sparse with respect even to anecdotal references to it in more general documents.

This is not surprising, since even those accounts of municipal service delivery in the U.S. are anecdotal, containing assertions as to relative efficiencies of private and public services unsupported by verifiable data. Hanke (op. cit.) devotes many pages to claims of the superiority of the private

\*Marris, Robert. The Comparative Efficiency of Public Enterprises - A Survey of the Literature. The World Bank. Washington, D.C.: February 1978

sector over the public in a large number of services. He provides anecdotal "proofs" of his thesis, unsupported by replicable data. Boland (op. cit., p. xi) takes the opposite tack, albeit more cautiously, stating that "the relative performance of governments vs. investor-owned utilities does not support the premise that government ownership leads necessarily to inefficiency." No verifiable data are supplied to support this assertion either.

The only document found dealing specifically with a municipal service in Sub-Saharan Africa was the report of several months field-work throughout Sub-Saharan Africa by Guttman (20) in 1984 for AID, and as yet unrecorded in literature indexes. It dealt with telecommunications policy in the region. Guttman addressed the question of efficiency only peripherally and in doing so wrote of efficiency as a measure of net income and (telephone) subscriber satisfaction (op. cit., p. 22). In so doing, he mixed the financial and sociological aspects of the market, which would have rendered analysis difficult if there had been adequate data. However, he provided a useful litany of the circumstances contributing to observed but unmeasurable losses in efficiency of operations and efficacy of delivery of telecommunications service (op. cit., p. 48).

To those familiar with the operations of parastatals and state-owned enterprises in Sub-Saharan Africa, the list of deficiencies below characterises the great majority of production and service oriented enterprises in the region. These defects are:

1. Organizational weakness and inadequate management.
2. Oppressive regulation by the central government, including restricted competition, investments and salary levels; insufficient autonomy; disregard for normal business practices; intervention in technical decision-making; and politicizing senior management.
3. Insufficient allocation of financial resources to the sector.\*
4. Lack of scale economies in most individual countries because of small populations and per capita incomes.
5. A serious shortage of planners combined with inadequate record-keeping creating inability to do financial and development planning.
6. Excessive employment of unskilled and insufficiently trained staff and overreliance on consultants and expatriates.
7. Outdated and/or inappropriate equipment, as well as very poor maintenance.

\*Guttman is referring here to public finances, since the telecommunications industry is government owned and operated throughout the region. The statement holds for both public and private resources in other enterprises; in the latter case, due to restrictions and disincentives to invest.

Common sense, let alone economics, suggests that shortcomings such as these will lead to severe economic distortions and resulting economic inefficiency. However, it is difficult to validate this expectation because of the paucity of available data, especially in the literature. Even in the field, in Sub-Saharan countries data are reportedly either unavailable or too unreliable for meaningful analyses. Numerous authors report on this.

Berg, et. al. (op. cit., p. 195) state that in Sub-Saharan Africa, fiscal data for state, provincial and local governments are unavailable, and that this problem is particularly vexing for large countries where lower levels of government are responsible for a large number of social (service) functions. They note further that where public enterprises are operated by the central government, their financial performances are reported only to the extent that they transfer net profits (if any) to the treasury.

Novick (op. cit., p. 10), on energy data, writes that "attempts to conduct research on energy issues in the African context are hampered by the lack of even the most basic data concerning energy needs, uses and resources." On transportation, "Because of the paucity of data from Africa, it is not possible to present specific country examples".\*

\* The data situation with respect to energy has probably improved since Novick wrote in 1980. A 1985 report on the ongoing UNDP-World Bank energy programmes gives details of power loss reduction, energy efficiency, fuel substitution, and solar power studies in a number of Sub-Saharan countries (21, pp. 16-19).

The World Bank, describing in 1984 its ongoing research on the economic role of railways in developing countries, said that although the program has yielded hypotheses, "the data available do not permit these to be rigorously formulated and tested (22, p. 112)".

Since there is a lack of the verifiable, replicable data on which valid quantitative analyses are based, and of sufficient information on which to base judgments about public choice sufficiency, evaluation of the virtues of public versus private provision of municipal services must depend on case-studies and on anecdotes. Unsupported assertions are also mentioned in the chapter that follows. First, the public provision of services is considered.

CHAPTER III  
THE PROVISION OF MUNICIPAL SERVICES

PUBLIC PROVISION

In a 1983 AID evaluation of the private sector and economic development in Malawi (23, P. 11), Wolgin et. al. made a pungent observation which is mostly applicable to the provision of water supplies, electricity, transportation and communication in Sub-Saharan Africa:

The Large- and Medium-Scale Private Enterprise in Malawi -- Alive and Well, and Owned by the Government.

Whether they are well or not is questionable, but these services are in most cases owned by the government where they are alive throughout the region.

The Wolgin evaluation is the only country-specific report in the entire literature searched. Not only is the report unique, but the nation reported on, Malawi, is also unusual. It has a centrally-run economy owned primarily by parastatals, reportedly managed in accord with private-sector principles, to operate at a profit, or more importantly in the case of some services (Air Malawi, for example), not to operate at a loss (op. cit., p. 29). The authors report that the Electricity Supply Commission and Malawi Railways "show acceptable levels of profitability, debt equity profiles and cash flow".

Cohen (10, p. 420) also reports on the application of private-sector operating methods used by public-sector suppliers of services, but provides no details. He says that in Francophone Africa

Water supply has also (in addition to garbage collection, bus transport and sewage processing) increasingly become the responsibility of societes d'Etat, or state-owned corporations, which have developed pricing policies that have kept the corporation financially solvent. Though legally public sector enterprises, these societes d'Etat have used private sector methods to improve service for particular client populations.

He cautions that service by these companies goes only to those able to pay the high costs and that poor people are excluded. They have to pay the private water vendors or, for transportation, the cars rapides or equivalents that fill the service vacuum left by the government. According to Cohen and others, public provision of services is sometimes replaced or augmented by private services, but this is unusual in Sub-Saharan Africa. For the most part, services are provided by the government through directly-owned entities or through parastatals of one form or another. Since in many countries the number of state-owned enterprises and parastatals are in the hundreds, individual evaluations were not feasible here, even if data had been available. General trends with respect to the municipal services of interest were all that could be extracted from the literature surveyed, as follows.

#### Water Supply

As noted earlier, water was supplied by colonial authorities to the urban dwellers in the central cities. This trend appears to have continued since independence in many countries,

with governments attempting to maintain what was, with increasing lack of success, and to provide basic services for the influx of migration from rural areas. This has become a losing battle and, as Cohen and others point out, a self-defeating process with respect to not only water supplies but also to other urban services, which become a magnet to the rural poor. As Cohen says of the Sahelian countries (27, p. 57):

Urban services are generally in poor condition in most cities, if available at all. Their improvement will require policy changes towards a longer-term view of potential demand and realistic pricing if they are to be maintained over time.

He points out that this problem is exacerbated by the expectation of continued urban growth which prompts governments to continue to subsidize services, which will further attract rural-urban migrants (op. cit. p. 60).

Roth (op. cit. pp. W34-35) states that the trend in the Francophone countries of Sub-Saharan Africa since independence has been the nationalization of urban water supplies. Prior to independence, concessionnaires supplied water through government-owned infrastructures in Senegal, Congo, Guinea, Madagascar, Togo and Ivory Coast. Roth reports that by 1980, the only operating private supply system in the region was in Cote d'Ivoire, where a regulated company, SODECI (Societe des Eaux du Cote d'Ivoire) supplies water to most urban areas.

The literature provides no other information on the public provision of urban water supplies in Sub-Saharan Africa.

## Electricity

According to Cochrane (op. cit., p. 19), the provision of electricity is usually a national responsibility in developing countries, although in some places it is distributed by local government. He did not elaborate on where the latter occurs. In his discussion of the provision of public services in developing countries, Roth (op. cit., p. Elec. 28) notes that there are 29 communities in the U.S. where consumers have a choice of electricity supplier (at least one probably private), but that there are no known cases in other countries. Roth's only mention of Sub-Saharan Africa is an anecdotal mention of the use of photovoltaics to power television sets in Niger. Berg, et. al. (op. cit., p. 100) discuss commercial energy consumption in Sub-Saharan Africa, but do not mention electricity specifically.

The 1985 Annual Report of the Joint United Nations Development Programme (UNDP)/World Bank Energy Sector Programmes (21) describes work ongoing in 70 developing countries. The two agencies carry out Energy Assessments, which can then be followed up at the request of the participating nations by more detailed analyses of the priority investment, technical assistance and policy options identified. This Energy Sector Management Assistance Programme (ESMAP) work results in reports circulated to donor agencies and others for use in decisions on funding. The principal focus of these programmes is on the nations of Sub-Saharan Africa where 63 of the 93 ESMAP activities

undertaken so far are located in 20 countries of the region. All of these efforts are apparently in the public sector, with donor agencies' assistance going to power loss reduction studies (Zimbabwe, Malawi, Kenya, Sudan, Seychelles and The Gambia), energy efficiency improvements (Senegal and Zimbabwe), fuel substitution (Kenya, Burundi and Ethiopia) and solar power (The Gambia, Sudan and Senegal) (op. cit., pp. 16-19). In addition to the preparation of individual projects, ESMAP provides assistance to strengthen the capacity of countries to formulate better energy sector strategies and to mobilize resources to implement them. Most ESMAP projects are concerned with technical rather than managerial or economic aspects of electricity generation, and there appears to be scant attention to private sector participation except as possible investors or financiers of public-sector projects. In only one reported ESMAP study, that of power system efficiency in the Seychelles, was there mention of factors relating to economic efficiency. In this case, the development of a cost-related tariff structure is a component of the project for which funding is being sought by the Government of the Seychelles.

Those ESMAP projects that are concerned with the institutional setting of electricity generation and distribution are supportive of centralized governmental organizations. For example, the Power System Loss Reduction Project in Zimbabwe has been structured to be undertaken by a new public institution, the

Zimbabwe Electric Supply Authority. In Uganda, a project on Institutional Strengthening in the Energy Sector focuses on the establishment and operation of the Energy Department within the Ministry of Power, Posts and Telecommunications (op. cit., p. 42). In Sudan, the ESMAP has provided management assistance to the Minister of Energy and Mining.

With the exception of the minimal information discussed above, the literature is devoid of information on electricity in Sub-Saharan Africa.

### Communications

Ownership and operation of telecommunications services in Sub-Saharan Africa are almost exclusively the domain of government ministries or parastatal organizations. Guttman (20, p. 15) reports that the organizations providing services are a legacy of the colonial era and that up to the late 1970's French and British interests still owned large portions of some African communications entities. In most instances the organizations are controlled by Africans who know only the structure inherited at independence. This outmoded system of organization most often includes joint operation with the postal service, fragmented domestic and international operations and domination by the central government. In his 1985 report to the World Bank (24), Guttman writes that the most grievous difficulty faced by these organizations is governmental over-regulation. They

Inhibit the setting of salaries which reflect employee qualifications; change senior management for political purposes; place investment authority with bureaucrats unfamiliar with the needs of the system; dilute autonomy necessary for fast and efficient operations of the system; and prohibit or restrict competition and investment (op. cit., p. 2).

Management problems such as these tend to spill over into financial regulations and planning where such capability exists. Because of their close relationship with the central government, writes Guttman, the telecommunications entities cannot ordinarily attract commercial financing. They are therefore forced to compete for funding, especially for foreign exchange, with stronger opponents such as the defense ministry.

Compounding the management problems and the lack of planning in most countries is the problem of staffing: "The number of staff employed in Sub-Saharan telecommunications entities is uniformly high, and their level of training uniformly low", writes Guttman (op. cit., p. 6). He attributes this condition to several causes:

- The type and age of equipment in the region, and the adequacy of its maintenance.
- Poor infrastructure outside the sector (which) can increase maintenance and logistical problems.
- The size of individual countries in the region, which limits economies of scale.
- Low staff salaries [which] can result in high turnover at middle and upper operational and administrative levels.
- Nepotism and patronage [which] are widespread, resulting in large numbers of unused staff.

In fairness to the telecommunications entities, he points out that these causes are applicable to almost all public enterprises in the region.

In summary, Guttman notes that while the Sub-Saharan African telecommunications sector is by far the weakest in the world, there exist significant inter-African service disparities, as follows.

- o Island nations are consistently better than others because they must have the means to maintain contact with scattered territories and nearby mainland countries.

- o The southern African countries perform better as a group than other areas because of their need to maintain contact with the South African economy and infrastructure.

- o Oil exporting countries experience marginally higher performance than do others.

- o Where telecommunications entities have been reorganized as corporations (such as Kenya, Zambia, Zimbabwe, Botswana and Burundi), performance is superior as a result of increased autonomy and responsibility, leading to more efficient levels of investment, growth, staff, planning, etc.

Despite these apparent bright spots, the status of telecommunications organizations, policies and services is, according to Guttman, "so unsatisfactory as to make it questionable if the situation can be satisfactorily improved (or the deterioration reversed) in anything less than several decades."

## Transportation

The World Bank is currently conducting a study (to be completed by June, 1986), on the demand for personal travel in developing countries. As the Bank states:

The opportunity for personal travel -- whether for work, education or social or private needs -- the fares, and the quality and amount of service are sensitive social and political issues, according to the experience of many developing countries. A deterioration in the opportunity for travel, which need not be reflected in the expenditure on transport, can act like a tax on poor households. (22, pp. 12-13)

The question being addressed by this ongoing study is:

Given various options in transport policy, including the provision of roads, public transport services, prices of vehicles and fuel, taxes and regulations regarding vehicle ownership, how can the impact of these policies be gauged in terms of the welfare and income of socioeconomic groups within the population? (op. cit., p. 13)

Policy-makers in a few Sub-Saharan countries must be aware of the socio-political implications of adequate transportation, since they have permitted private operators to provide public transportation in parallel and in competition with government owned or operated urban bus services, as discussed below. In most of the region, however, the provision of transportation services is the province of government, as is the construction and maintenance of infrastructure.

Dakar, Senegal, for example, is served by a parastatal bus company, SOTRAC (Societe de Transport en Commun), of which the ownership is the national government, 64 percent; Renault-Savieu, 27 percent; others, 9 percent (2, p. 24). SOTRAC has a 15-year monopoly until 1986 to operate its several hundred vehicles (in 1981, 430 buses and 35 minibuses) in the Dakar metropolitan area (Cap Vert). Berg (loc. cit.) says that in 1979, SOTRAC had a 20 percent share of the public ridership and that it operated at a deficit of U.S. \$3.8 million (25 percent of operating costs) in 1978-79. Despite this deficit, in 1982 SOTRAC proposed to increase its fleet by 492 Renault-Savieu buses and to expand its facilities at a cost of about U.S. \$62 million. To accomplish its objective of gaining an effective monopoly of service, SOTRAC requested that the government ban its private sector competitor, Cars Rapides. Cohen (10, p. 419) reports that this request was previously made and denied early in the existence of SOTRAC. Berg, commenting on the relative efficiency of the parastatal and the Cars Rapides operation wrote:

In 1979 [Cars Rapides] carried twice as many passengers as SOTRAC buses, and did so without government subsidy and in the face of government restrictions on fleet expansion or even replacement (loc. cit.).

Roth reports that a similar situation exists in Abidjan, Ivory Coast (op. cit., p. UT9) where the bus system parastatal, SOTRA (Societe de Transport d'Abidjan) faces effective competition from "illegal" common carriers, the Gbakas, carrying from 14 to 22 people. Roth recounts that the Ivory Coast government acceded to a 1974 request from SOTRA, operated by Renault, to ban these carriers. He attributes rapid expansion of the SOTRA service since 1974 and the fact that the parastatal has been in deficit since 1975 to the lack of competition produced by the ban. Yet, he goes on to say that in 1983, the Gbakas were carrying more passengers daily than SOTRA.

Roth also describes in anecdotal form a counterpart situation in Khartoum where, he alleges, private carriers known as Bakassi developed in response to the city bus company's deteriorating service (caused by a lack of spare parts). Without providing any supporting data, Roth states that the publicly-owned Capital Transport Company operates at a huge deficit (op. cit., p. UT27).

The Government of Senegal is reported by Berg et. al. (11, p. 39) to have developed a promising approach to improving the operations of parastatal enterprises in the transportation sector, through the use of performance contracts between the government and the parastatals.

The enterprise contract is a negotiated agreement between government and a parastatal company describing the objectives government assigns to the parastatal as well as the resources it will provide and the degree of control it will exercise. The company, in turn, promises certain results; performance is to be judged by indicators mutually accepted over a given period.

Experience has reportedly produced useful lessons:

1. Effective use of the contracts requires political support at the highest level, because opposition can arise from individual ministers and bureaucrats fearing loss of control.

2. Company managers enthusiastically support the contracts because they allow clear identification of choices and of the effects of political actions imposed from outside the company. While the political elite are unlikely to give enterprise managers complete autonomy over socially and politically important decisions, the use of the contracts at least makes the line of authority clear.

Unfortunately, there is nothing in the literature on the effectiveness to date of the contract system. The concept, however, seems a useful way to apply limited private-sector approaches to the provision of services in countries unwilling to take the perceived risks of a viable private sector itself. As the next section discusses, a few isolated instances of governmental approval of private sector provision of municipal services do exist in Sub-Saharan Africa.

## PRIVATE SECTOR PROVISION

Examples of the private sector providing municipal services in the areas of water supplies, electricity, communications and transportation in the Sub-Sahara are rare.

### Water Supply

As mentioned earlier, most of the concession and contractually-operated urban water supply systems in Francophone Africa south of the Sahara were taken over by local authorities after independence. By 1980, according to Roth (op. cit., pp. Water 38-39) only the water supply (and sewage treatment) systems in Ivory Coast were still operated by the private sector. The management system used is that of affermage, whereby a service is provided by a private entity under a contractual arrangement with the government to use publicly financed infrastructure. The terms and conditions of the service, including the rates to be charged and the standards of operation of the business, are set by the contracts.

The enterprise involved is SODECI (Societe des Eaux du Cote d'Ivoire) of which 47 percent is owned by its former sole proprietor, SAUR, a French company; 49 percent by private Ivory Coast interests, and 4 percent by the state. The company began operations in 1960 under a 30-year concession contract with the government to supply water to Abidjan. Under the concession contract, the company would have been required to construct the infrastructure and to operate the service. The long, 30-year contractual period would enable the company to amortize its

investment, in return for which it would turn the system back to the government at the end of the contract. In 1973, the contract was converted to affermage, apparently resulting in the acquisition of the physical plant by the state in return for a contractual amendment making SODECI the provider of water supply service not only to Abidjan but also to the rest of the country, including 122 towns and hundreds of villages. The Ministry of Public Works is now responsible for planning and building water-supply infrastructure and supervises SODECI's operations and maintenance of the systems. Roth says that the company, receiving as a fee about one-third of the water tariff set by the government, makes a "reasonable profit whereas other (usually public) water supply companies in West Africa mostly operate at a loss" (op. cit., p. 40). As is his custom, Roth offers no comparative data to support this assertion.

Again without benefit of supporting data, Roth states that "water supply in the Ivory Coast offers one of the highest standards in West Africa". He attributes this to these factors:

- o The institutional separation of investment from operations (the former public, the latter "private") makes it easier to evaluate SODECI's performance of the system.
- o By setting water tariffs to reflect total costs fully, the Ivory Coast can finance its existing services. ... consumers, rather than taxpayers, pay for the service they receive. Rates for small quantities are low, which helps the poor to afford the water.
- o ... the government can carefully scrutinize SODECI's costs.

- o ... SODECI is free (within the contracted limits) to hire, fire and compensate its staff. This freedom plus a strong emphasis on training, enables the company to attract, train, and keep qualified people.

As the sole survivor of non-public water supply systems in Francophone Africa south of the Sahara, SODECI is unique. It becomes doubly so when Anglophone Africa is brought into the picture. The literature contains no reference to privately operated water supplies in the English-speaking Sub-Saharan nations. Informed persons consulted had no knowledge of such enterprises.

#### Electricity

The literature contains no references to private provision of municipal electricity service in Sub-Saharan Africa. Officials of the Energy Assessments Division of the World Bank responsible for the joint UNDP/World Bank programme in the region confirmed the lack of such enterprises.

#### Communications

As Guttman mentioned, a few countries in the region have reorganized their telecommunications entities as corporations. Most are reportedly run as parastatals and cannot therefore be regarded as private sector operations. The closest approximation of any to privatization is the Botswana Telecommunications Corporation which is operated through a management agreement with Cables and Wireless Ltd. of the U.K. (25, p. 51). In keeping with Botswana's "pragmatism", this, and the other parastatals forming the nation's industrial base, are

heavily staffed with expatriate skilled employees. Although the authors praise the operations of the parastatals, no data are provided in support of the assertion that "they do not appear to be a drain on the budget".

### Transportation

Urban public transportation is the municipal service area in which the private sector has made the most significant inroads in some countries of Sub-Saharan Africa.

In Nairobi, according to Berg (op. cit., p. 25), two types of private operators supply the public bus service. The Kenya Bus Service Ltd. (KBS) is a privately owned company operating under an exclusive franchise from the Nairobi City Council. Operating a fleet of 320 buses (as reported in 1982), the company provides service on main traffic routes only. An informal network of service is provided by privately-owned minibuses, the "Matutu" which complement the KBS service by plying in the unserved, often poor areas and compete with KBS on the main routes. Approximately 3600 operated around Nairobi in 1979, with about 1000 supplying exclusively urban service. The effectiveness of the private services and of the competition between them is indicated by their continued operations without subsidy. Interestingly, in comparison to the situation in Abidjan, where SOTRA was induced to expand into deficit by governmental restriction of the private sector minibuses, the Gbakas, KBS has not expanded its fleet since the legalization of the Matutus in 1973. Berg states that KBS "covers costs", but provides no details.

The Cars Rapides of Dakar were mentioned above as the private sector competitors of the parastatal, SOTRAC. Cars Rapides was formed as a cooperative venture in 1961, peaked at 700 vehicles in 1974 and in 1982 operated 650 vehicles as a syndicate (Berg, op. cit., p. 24). The reduced fleet is reportedly due to government restrictions on fleet expansion and replacement. Despite the governmental efforts to protect the monopoly franchised SOTRAC, the Cars Rapides apparently prosper.

According to Roth, as discussed above, the Bakassi of Khartoum provide a service similar to the Matutu, but no details are given.

Thus, at least in the transportation sector, there appears to be ample opportunity for private provision of municipal services, provided governmental restrictions on it are reduced or removed. This might be true of some of the other services, as Joseph Ashcroft comments (26, p. 63). In citing the example of Nigerian Airways which reformed itself when faced with competition, he said:

I recognize that it is perhaps asking too much of African governments to surrender the operation of telecommunication systems to the private sector. The lesson of Nigerian Airways suggests that total surrender is not necessary. All that was required was to surrender the monopoly. If government parastatal institutions are established to operate as if they are private businesses, then they also must be expected to compete aggressively with actual private businesses, with all having an equal concern for making a profit. Giving them monopolies and subsidizing their entrepreneurial activities defeats these ends.

The next chapter discusses the above, and related issues.

## CHAPTER IV

### POLITICAL AND ECONOMIC DYNAMICS OF PRIVATIZING MUNICIPAL SERVICES

#### THE DYNAMICS OF PUBLIC PROVISION OF SERVICES

The intellectual case for seeking greater private sector involvement in the provision of municipal services is compelling. It is logical that where the reward is profit and the alternative loss the motivation to the providers of services will be to operate efficiently and prudently with an eye to customer satisfaction lest effective competition reduce sales. On the other hand, where incentives for efficiency and rewards for good service do not exist or are insufficient, as in most bureaucracies, including those of large monopolistic or monopsonistic private enterprises, inefficiency resulting in wasted resources and lost opportunities is the norm.

Allowing private interests to compete with these enterprises, public or private is. Berg writes (op. cit., p. 18), "a major potential source of new resources and improved efficiency in the use of public resources ..." He (op. cit., p. 33) is of the opinion that the most promising avenue of privatization is in the provision of services, either directly or by government contracting.

The World Bank concurs in this (not surprisingly, since Berg was the chief author of the precursor World Bank report on Sub-Saharan Africa (11)). In the successor report, the Bank writes:

In most African countries public sector responsibilities have become unmanageably large. While the public sector's responsibilities for easing Africa's basic constraints are set to grow, some of them can be carried out more efficiently by community efforts and the private sector.

The Bank identifies as the most conducive, marketing of crops and rural products; transportation, especially trucking; aspects of education and health; and subcontracting of infrastructure maintenance work (7, p. 37).

The authors add that although there are some examples of long-standing successful parastatals in the region (TANESCO, the Tanzanian telecommunications entity for example), clear signs of recent progress in reforming parastatals are few.

The reasons for the continued governmental involvement in municipal services either directly or through parastatals are their social and political value to ruling elites. In discussing agricultural parastatals in Sub-Saharan Africa, Marceau et. al. (op. cit., p. i-ii) wrote that since independence the governments of most nations have used them to implement their policies directly, using their regulatory powers to reward political support and to punish opposition. This is true of governmental intrusions in other sectors of the economy. Writing of the dynamics of urban growth and development in the Sahel, Cohen (27, p. 68) said:

... the present urban bias has not come about on its own or randomly. [It] has resulted from an almost systematic skewing of resource allocation towards the population which is politically most vocal and therefore needed by the governing elites.

He noted that governments trying to change the urban bias will encounter opposition from vested interests. These are the same interests as the "development coalition" described by Bates (28, p. 133), comprising the state, the urban workers, the industrialists and their rural allies, the large farmers and the tenants on government development projects. In return for their political support or for withholding opposition, governments pay off these special interests through favors. In the case of municipal services, the industrial interests get low-cost, subsidized provision of services such as water and electricity; unions get wages and employment; workers get subsidized transportation and other services; and all the urban interests gain at the expense of rural dwellers. Perhaps most important of all is that corrupt politicians and bureaucrats obtain wealth from bribery and dispensing privilege.

Writing about telecommunications services in Sub-Saharan Africa, Ashcroft (op. cit., pp. 61-63) makes observations which are, with few exceptions, characteristic of full or quasi-governmental provision of municipal services in the region. He reports that overstaffing is endemic, a post-independence phenomenon resulting from successive waves of elected officials or self-appointed military juntas adding many

of their friends and relatives to the national public payrolls. Excess employees hired to serve the public, he says, begins to prey on it, demanding dash at every turn and creating openly-displayed dash-demanding situations.

The [staffing] obesity and resulting inefficiency and malpractive apply most to government line ministries. They are not geared for profit making, and consequently, are not required to show impressive bottom lines. Losses are often not readily detectable and, when they are, are routinely absorbed without a thorough investigation. Therefore, one can expect to find the most virulent forms of ineptitude and malpractice in ministries of posts and telecommunications (loc. cit.).

Ashcroft points out that while some countries have made attempts to operate telecommunications systems along commercial lines, they have done so through parastatals which are not immune to the excesses of line ministries. Furthermore, as reported by Marceau et. al. (12, p. A-34), a United Nations economist with 30 years African experience stressed that the term "parastatal" is a misnomer since these organizations function as direct extensions of the state. He emphasized that while the perceived failings of the parastatals -- inefficiency, use as labor sinks, high operating costs and the cause of market distortions -- are real, they are the direct results of conscious government policy, not just the outcomes of lack of training or poor management. Therefore, attempts to influence or change the operations of the parastatals or government ministries or to seek their abolition without addressing the underlying government policies will fail because the answer lies in these policies,

not in their implementation by public or quasi-public enterprises. The key to developing a privatization strategy that will:

- o reduce or eliminate consumer subsidies;
- o lead to recovery of investment costs;
- o result in the lowest possible cost of services; and
- o extend services to reach the majority of the urban poor;

is to identify the barriers to privatization and to devise policy options that are politically and economically practicable for developing country governments to overcome them.

#### BARRIERS TO PRIVATIZING

The major barrier to privatizing services is a lack of political will to make and implement the policy changes needed in the face of opposition from the vested interests described above. Proposals to sell to private interests enterprises which are money-makers or which are symbols of national independence (such as airlines) will engender politically dangerous opposition. So too will suggestions that the privileged beneficiaries of free or subsidized services give up their perquisites for the greater good, or that the employment rolls be cut in the interests of economy. As Berg states, in discussing user fees as a way of shrinking the public cost of social services:

... the argument for wider reliance on user fees to finance expanded social services may not persuade many governments to change their ways. Political instincts usually run the other way; political leaders like to make services cheaper, not more expensive (2, p. 14).

The reality of policy-making by politicians is that their instincts for self-preservation always outweigh more distant considerations of the "public good", so they will curry favor with the vocal and ignore the meek. In the nations of Sub-Saharan Africa, the former are the urban interests of the development coalition, the latter, rural interests against whom the subsidization of urban consumers is effected by directing scarce resources away from rural development.

Apart from the political consequences of reducing subsidies (the marginal propensity to riot on the part of the recipients), a second barrier to their abolition arises. As Cohen (27, p. 69) writes of the Sahelian countries:

... subsidies must also be considered from the perspective of the public sector providing services which the impoverished Sahelian populations are unable to afford. ... The dilemma is clear: at certain levels of deprivation, such as is found in the Sahelian countries, some investments in urban services must be subsidized for the poorer groups in the population to permit economic and social self-improvement.

Thus, in impoverished African nations, as in the United States of America, it is necessary to maintain some sort of social safety net.

Recovery of investment costs poses a barrier to private provision of public services in most areas. While a key element in extending services is the recycling of investment capital into new developments by recovering it and replicating the services, the problems of encouraging the private sector to commit the capital to finance service infrastructure loom large. The long-term nature of paybacks on such investments coupled with the political instability of the developing nations of Africa make private investors loath to take on the needed commitments. Therefore, it is left to governments to provide the infrastructure and to try to replicate it to achieve a scale of operation that could attract private sector suppliers of services based on this infrastructure (just as in the U.S. the interstate highway system fostered the present long-haul trucking industry). However, this mode of privatization is hampered by the difficulties of recovering costs through taxes and user fees in developing countries. The situation described by Cohen in the Sahel is typical. Institutional inexperience in collecting taxes and user fees is the norm. This problem is compounded by an attitudinal bent fostered by handouts of services by colonial administrations and continued by the new rulers, which induces municipalities to not organize to recover costs, but to prefer to receive national subsidies to cover deficits.

Related to the problem of collecting taxes and fees is the shortage of trained personnel, which constitutes an added barrier to privatization. While this is not a primary constraint like adverse governmental policies, it is nevertheless a drag on the development of the management capacity to render state enterprises financially attractive to private purchasers or managers and on the subsequent operation of privatized enterprises. It is important to stress here that management skills, while important, are not primary. Policy is the problem. Management training will simply result in better managers doing a better job of managing enterprises implementing the same bad policies unless these policies themselves are changed.

The last but not least important barrier to privatization is that of regulation. Much of the private sector delivery of municipal services that has occurred in Sub-Saharan Africa has been as a result of governmental abdication of the task. Yet even this vacuum-filling, as in the case of the Cars Rapides in Dakar, has occurred in the face of various governmental restrictions designed to place the private interests at a disadvantage compared to money-losing public enterprises. Removal of the regulatory barriers would be a good first step in fostering privatization of some municipal services, as discussed below.

## OPPORTUNITIES FOR PRIVATIZATION

Given the political and other barriers to privatization of municipal services and the roles that these services play in keeping together the socio-political fabric of societies, efforts to privatize must be judicious. It is important to keep in mind the caution raised by Rondinelli, Nellis and Cheema and discussed in Chapter I, that centralism is a feature of the political environment of developing countries and that attempts to counter it are intensely political activities producing political consequences.

Keeping in mind this caveat, we now examine the options facing Sub-Saharan African governments which might wish to privatize municipal services.

1. Divestiture appeals to some proponents of privatization as the way to go. Total divestiture involves the sale (or abandonment) of state enterprises. Partial divestiture by leasing or contractual arrangements is also an option worth evaluating.

Total divestiture poses some problems. As Cowan observes (29, p. 11):

Some argue that divestiture is not a practical method to reduce budgetary losses because the major money-losers in the public sectors such as railroads or electric-power generating systems, are not likely candidates for disposal.

(To this should be added water supply and telecommunication systems, as seen earlier.) The unlikelihood of divestiture results from the political and security importance to governments of these services, the unattractiveness of losing propositions to the private sector, and the disapproval facing authorities who divest the nation of profitable ventures.

For these reasons, total divestiture is neither politically nor economically attractive and is unlikely to occur. As Berg says (op. cit., p. 11), "... from the local perspective, the benefits of divestiture are small and uncertain, the costs potentially great."

Partial divestiture through the use of the French concession or affermage systems or by various processes for contracting-out of service provision offer viable opportunities for governments. To foster implementation of these will require extensive policy dialogue because many governments are insufficiently skilled to manage such operations and are reluctant also to dispense of their hands-on control. For example, in Ivory Coast where SODECI holds a monopoly franchise (affermage) to supply urban water throughout the country, the government still controls the costs to consumers. For obvious political reasons, SODECJ is required to charge all consumers the same unit price for water, regardless of the economics of supplying the good.

2. User Fees, while not strictly privatization, can be used at least to simulate the profit motive of public interests and thereby to recover the costs of the investment by the public sector. While this is an economically sound halfway-house approach to privatization, its implementation is likely to be strongly opposed by the vested interests receiving subsidized services. The political risks are the same as for divestiture.

3. Deregulation is an approach which could be used to minimize the political fallout and to create the environment in which the nascent private sector could flourish in some facets of municipal services provision. The existence of the private minibuses in a number of Sub-Saharan countries indicates that where opportunity and permission coincide, the private sector will occupy a vacuum left by government. However, the likelihood of private investment in fixed infrastructure with long pay-back periods such as water lines, highways and telecommunication equipment in these politically unstable countries is slim. Buses are moveable, fixed infrastructure is not.

As limited as are the options open to Sub-Saharan governments, those available to government-to-government donor agencies are even more so. In the next chapter, these options are examined and recommendations for an AID strategy to promote privatization of municipal services are made.

## CHAPTER V

### CONCLUSIONS AND RECOMMENDATIONS

The extensive literature search carried out provided only "snapshots" of the provision of municipal services in Sub-Saharan Africa. With the exception of telecommunications, the subject of municipal services has not been studied seriously. Relatively few salient publications were identified relating to other services and those were either anecdotal or touched the specific issues of these municipal services only tangentially. However, by piecing together fragments of information, a picture of the whole was constructed and the following conclusions reached.

#### CONCLUSIONS

1. With very few exceptions, municipal services in Sub-Saharan African nations are supplied by the government, either directly or through parastatal entities.

2. The provision of the services is politically and socially sensitive and is used by governments to consolidate their power and to retain it by rewarding supporters, buying-off opposition, and withholding from the politically impotent -- the rural dwellers.

3. Piped water supplies, electricity and telecommunications are almost exclusively the domain of government, the only exception being the "private" provision of water in Ivory Coast by a regulated company in which the government owns only four percent.

4. There is little likelihood of governmental divestment, either actively or by abandonment, of their interests in provision of water, electricity or telecommunications. With respect to water, as in the U.S., private operations tend to revert to the public sector.

5. Of the four services considered, only urban transportation is provided to any significant degree by the private sector, usually in competition with the public sector and heavily regulated by the government.

6. The survival of private bus services in urban centers suggests that if restrictions on operations and fleet maintenance and replacement are relaxed, the private operators can provide satisfactory service with no drain on public finances.

7. Urban public transportation is an area of considerable promise for demonstrating to developing countries in the region the benefits of allowing the private provision of some municipal services.

8. Multilateral and bilateral assistance agencies have historically supported public agencies supplying services. Because the donors operate only in a government-to-government role, their impact on privatization of publicly run services can be only through promoting policy reform. This is, however, the key factor in the whole process.

#### RECOMMENDATIONS FOR AID

If AID wishes to develop and implement a policy approach to foster the privatization of municipal services in Sub-Saharan African nations, the Agency should:

1. Concentrate on policy dialogues with host nations aimed at reduction of barriers to private sector provision of municipal services.

2. Target these barriers, such as regulations and requirements that hinder entry to markets for services and that restrict maintenance, expansion of services and replacement of equipment. Included here, of course, are discriminatory tariffs and taxes and overvalued currencies which hinder access to needed imported materials and products.

3. Select initially for reform those services most readily provided by the private sector, the urban road transportation services.

4. Confirm the anecdotal reports of private sector penetration of urban transportation markets in African nations and in other parts of the world, especially Asia, by field work and the gathering of hard data on performance, efficiency, operating characteristics and competitiveness.

5. Based on the comparative data on private sector performance in the transportation sectors of developing countries, produce hard, documented guidelines for success in promoting privatization in this service industry for use by AID missions and host country officials.

Initially, AID should not:

1. Before demonstrated success with the "easy" one, urban transportation, try to promote privatization of those services which, for various reasons are regarded as politically sensitive and sacrosanct by host governments.

2. Attempt to promote the privatization of services which are unattractive to the private sector because they are money-losers or because they entail long pay-off periods.

This slow, cautious approach should be followed because time will be needed to lay to rest fears of political fallout from the intensely political act of attempting to counter the centralism that is at the core of government philosophies throughout the Sub-Saharan region.

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