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PRIVATIZATION IN DEVELOPING COUNTRIES: IDEAL AND REALITY

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ABSTRACT

In both developed and developing countries, governments finance, produce, and distribute various goods and services. In recent years, the range of goods provided by government has extended widely, covering many goods which do not meet the purist's definition of "public" goods. As the size of the public sector has increased steadily there has been a growing concern about the effectiveness of the public sector's performance as producer. Critics of this rapid growth argue that the public provision of certain goods is inefficient and have proposed that the private sector replace many current public sector activities, that is, that services be privatized. Since Ronald Reagan took office greater privatization efforts have been pursued in the United States. Paralleling this trend has been a strong endorsement by international and bilateral donor agencies for heavier reliance on the private sector in developing countries.

However, the political, institutional, and economic environments of developing nations are markedly different from those of developed countries. It isn't clear that the theories and empirical evidence purported to justify privatization in developed countries are applicable to developing countries.

In this paper we present a study of privatization using the case of Honduras. We examine the policy shift from "direct administration" to "contracting out" for three construction activities: urban upgrading for housing projects, rural primary schools, and rural roads. The purpose of our study is threefold. First, we test key hypotheses pertaining to the effectiveness of privatization, focusing on three aspects: cost, time, and quality. Second, we identify major factors which affect the performance of this privatization approach. Third, we document the impact of privatization as it influences the political and institutional settings of Honduras. Our main finding is that contracting out in Honduras has not led to the common expectations of its proponents because of institutional barriers and limited competitiveness in the market. These findings suggest that privatization can not produce goods and services efficiently without substantial reform in the market and regulatory procedures. Policy makers also need to consider carefully multiple objectives at the national level in making decisions about privatization.

INTRODUCTION

In both developed and developing countries, governments finance, produce, and distribute various goods and services. The provision of these goods and services is usually justified by the concept of public or collective goods: markets can not provide an optimum amount of necessary goods when the goods can be jointly consumed or when it is difficult to exclude a particular member of a society from consuming the goods. However, the range of goods provided by the government has extended widely in recent years, covering many goods which do not meet the purist's definition of public goods. As the size of the public sector has increased steadily there has been a growing concern about the effectiveness of the public sector's performance as a producer.

Critics have argued that the provision of certain goods by the public sector is inefficient and have proposed that the private sector replace many of the current public sector activities. This idea of shifting responsibility of providing public services from the public to private sector is commonly called privatization.(1) The term, however, is quite inclusive and refers to activities ranging from divestiture of state-owned enterprises (SOEs) to voluntarism to self-help activities at the local level. In the case of service provision, many municipalities in the U.S. have contracted private agents for garbage collection, police, fire, and other services since the 1960s.(2) The ascensions of Ronald Reagan and conservatism has led to a more active pursuit of privatization efforts in the United States.(3) Similar policy shifts are evident in Europe, particularly during Margaret Thatcher's tenure in England. Paralleling this trend has been a strong endorsement by international donor agencies for heavier reliance on the private sector to provide public goods in developing countries. For example, the World Bank has supported the idea of increasing the private sector's role in economic development for a number of years.(4) The United States Agency for International Development has also recommended privatization as a key programmatic component to deal with economic problems facing developing countries.(5) The underlying claim is that the private sector can improve the quality of outputs and deliver goods faster and less costly than the public sector in developing countries.

However, the claim has mixed theoretical support and little empirical verification in the Third World. The political, institutional, and economic environments of developing nations are markedly different from those of developed countries. It is not clear that the theories and empirical evidence that purport to justify privatization in developed countries are applicable to developing countries. Often, policy makers in developing nations do not have sufficient information to design effective policy shifts to increase efficiency of providing goods through private initiatives. In addition, there is a lack of basic understanding about what policy variables need to be altered to attain desired outcomes of privatization in developing countries.

In this paper we present a study of a privatization effort using a case study in Honduras. We examine the policy shift from "direct administration" to "contracting out" for three construction activities; urban upgrading for housing projects, rural primary schools, and rural roads. The purpose of our study is threefold. First, we test some of the key hypotheses pertaining to the effectiveness of privatization. We focus mainly on three aspects: cost, time, and quality. Second, we seek to identify major factors which affect the performance of this privatization approach. Third, we also document the impact of privatization as it influences the political and institutional settings of a country.

Our main finding is that contracting out in Honduras has not led to the common expectations of its proponents. The private contractors have faced several institutional barriers which have prevented them from improving the quality, reducing the cost and time of construction. There is also evidence which makes us question the competitiveness of the market. We also find that contracting out generates various economic and political impacts. These findings imply that privatization can not produce goods and services efficiently without substantial reform in the market and regulatory procedures. Policy makers also need to consider carefully the multiple objectives which exist at the national level in making decisions about privatization.

The organization of this paper is as follows. We first describe the historical background and policy setting for privatization. The description is intended to set out how the concept has evolved, the international context of policy reform, and how it has been recommended for policy implementation. Then, we present our case study. Finally, we summarize our findings, draw policy implications, and propose an agenda for further research.

HISTORICAL BACKGROUND AND POLICY SETTING

The roots of the current efforts to encourage privatization in developing countries are multiple. Approaches to alternative institutional arrangements for the delivery of collective or public goods and services began to emerge in the contract state of the post-war period in the United States. The argument for contracting out for publicly-financed goods and services was not based on a critique of governments. Rather, it was seen simply as pragmatic to use the private sector for certain activities in a country which had faith in markets and technology.(6) At the national level, this approach was most widely adopted in the area of high-technology, particularly in the defense industry.

At the local level, contracting out for services gained popularity with the growth of suburban jurisdictions which favored spatial and fiscal separation from central cities. These suburban units were usually too small in most cases to produce efficiently an acceptable array of municipal services themselves, but were able to consume these services cost-effectively by contracting with producers elsewhere.(7)

Since the 1960s, theoretical meat was added to this skeletal political pragmatism. Borrowing from neo-classical assumptions about self-interested individual behavior, public choice theorists argued that competitive markets are an efficient substitute for the public production of services; in fact, markets are an effective antidote to the bureaucratic monopoly and self-interest of the public sector which ensures inefficiency.(8) Others argued that non-market failures resulting from government intervention may be more distorting than market failures.(9)

To these voices of political pragmatism and theory the 1970s added new tones of domestic politics. The dissatisfaction of the general public with the growing fiscal burden of the public sector became a political reality. The political mood inclined to reduce the fiscal burdens of the public sector that had assumed heavy social responsibilities and to liberate the entrepreneurial spirit. The tax revolt, Proposition 13, and Proposition 2 and 1/2 were the responses to the demand for "decongestion of an overloaded intergovernmental system."(10) This political mood provided the political basis for the domestic policy changes of the Reagan Administration.

The strongly ideological focus on the individual as entrepreneur and fiscal conservatism did neither end at the borders of Reagan's United States nor even of Thatcher's Great Britain. As international economic crises became serious, international concern emerged to address the problems of the stagnant private sector and the bloated public sector in less developed countries.

The economic crises of the late 1970s and 1980s in developing countries have led to a crisis of confidence in the capacity of governments to manage development. As a result, the proper role of government has become a common issue for debate in developing countries as well. The most visible and political manifestation of the crisis is the international debt crisis. While many countries in the advanced industrial world and the newly industrializing countries have turned it around in response to the recession of the early 1980s, most developing nations have not. Long-term deterioration in their relative economic position has continued. As Table 1 shows, total debt for the nations of Latin America for 1984-1985 approached $400 billion. While a few countries account for much of this debt, no country is immune from the impact of debt burdens.(11) Two-thirds of the debt was owed to commercial banks, even though they attempted to limit their exposure. External publicly guaranteed debt represents over two-thirds of the entire debt. This public debt in several countries--in Bolivia, Nicaragua, and Costa Rica in 1984--was almost equal to, or surpassed, the total gross national product (GNP). More significantly on a current account basis, from one-third to one-half of total export earning is devoted to debt service. In 1982, most countries talked about their inability to pay debt when the ratio stood at approximately 30%.

The growth of the size of the external debt for all developing countries, particularly in Latin America in the 1970s, was mainly due to the pervasive and expanding role of the state as consumer, employer, investor, regulator, and service provider. The growth

TABLE 1

External Public Debt and Debt Service Ratios

Country	External public debt: Millions	External public debt: % of GNP	Debt Service as % of: GNP	Debt Service as % of: Exports of G&S
Haiti	494	27.3	1.0	7.2
Bolivia	3,204	98.3	9.8	38.3
Honduras	1,841	60.8	4.4	15.2
El Salvador	1,388	35.1	4.2	17.2
Nicaragua	3,835	141.8	2.2	17.5
Dom. Rep.	2,388	50.3	3.1	18.0
Peru	9,825	59.4	3.7	15.3
Ecuador	6,630	73.1	10.9	33.4
Costa Rica	3,380	104.2	9.9	25.3
Paraguay	1,287	33.3	3.0	13.0
Colombia	7,980	21.8	3.0	20.6
Chile	10,839	62.9	7.3	26.2
Brazil	66,502	33.6	4.1	26.6
Panama	3,091	73.3	12.3	7.9
Uruguay	2,545	51.9	8.4	29.3
Mexico	69,007	42.8	6.9	34.3
Argentina	28,571	35.1	3.5	29.1
Venezuela	17,247	38.3	5.6	13.4

Source: World Bank, _World Development Report, 1986_, IBRD, Washington, D.C., 1986.

of the public sector in selected countries is presented in Table 2. International Labor Organization (ILO) data suggest that the rates of growth of the public sector in developing countries are three to four times those of more developed countries in the 1970s. For Latin America, for example, the central government share of non-agricultural employment was equal to 15.8% in 1983. Local government accounted for another 4.2%. Thirty eight out of every 1,000 inhabitants in Latin America were employed by the public sector.(12)

During the last several years the international lending community and a number of governments have struggled to stem the tide of decline and potential default. Various policy measures have been suggested for reform:

-lower exchange rates;
-greater export incentives;
-less industrial protection;
-tighter monetary policy and higher real interest rates;
-less direction of credit;
-higher energy prices;
-smaller consumer subsidies;
-administrative and budgetary reform;
-restrained public spending and a reduction of public sector employment;
-divestiture of state-owned enterprises; and
-an increased scope for and participation of the private sector.

Under these circumstances, the United States Agency for International Development proposed new approaches to deal with the economic crises in developing countries. The four major pragmatic components consisted of technology transfer, institution building,

TABLE 2

Growth of the Public Sector, 1970-1982

Country	Public Sector Expenditures as % of GDP		Of Which, State Enterprises		Proportion of GDP of SOEs	Deficit of Public Sector as % of GDP	
	1970	1982	1970	1982	(1978-80)	1970	1982
Argentina	33	35	11	12	20	1	14
Brazil	28	32	6	11	39	2	17
Chile	41	36	5	10	13	5	2
Colombia	26	30	6	10	9	4	2
Mexico	21	48	10	26	24	2	17
Peru	25	57	4	32	15	1	9
Venezuela	32	66	17	45	45	3	4
Weighted average	28	42	9	19	29	2	9
Malaysia	36	53	4	34	33	12	19
Korea	20	28	7	4	23	4	3
France	38	48	6	7	13	0.5	3
Sweden	52	66	4	6	11	2	10
Great Britain	43	49	10	11	17	3	6
USA	22	21	10	9	4	1	2

Source: Balassa, Bela, Bueno, Geraldo, Kuczynski, Pedro-Pablo, and Simonsen, Maria Henrique, Toward Renewed Economic Growth in Latin America, Institute for International Economics, Washington, D.C., 1986, 126.

policy dialogue, and, most importantly for our interests here, private sector initiatives. Most recently, the United States Agency for International Development has made it clear that it will encourage developing countries to shift toward privatization to enhance the efficiency of public service provision.(13)

To summarize, the privatization effort in developing countries has its origin in diverse historical and political backgrounds. The theory of privatization has not been developed in the unique context of developing nations, and its viability has not been tested empirically.

A CASE STUDY: CONTRACTING OUT IN HONDURAS

Research Design

To compare the relative levels of performance by the public and private sectors in construction activities, we looked at two different methods of construction in three functional activities in Honduras. The two methods are direct administration and contracting out. Under direct administration the government assumes the responsibility for all phases of construction, while under contracting out private contractors are paid by the government to construct public facilities. Three types of facilities were studied; urban upgrading for housing projects, rural primary school buildings, and rural roads. The two methods and three facilities generate six categories of programs. We examined altogether twelve programs. The twelve programs classified by the six categories are presented in Table 3. These programs were not chosen as samples of privatization programs. They were the only facilities for which a reasonably clear policy

TABLE 3

Classification of Programs Studied

Sectors	Direct Administration	Contracting-Out
Housing	Urban Upgrading by DIMA and CMDC (AID funded)	Urban Upgrading by CMDC (AID funded) Low-income Housing Construction by INVA (AID funded)
Rural Primary Schools	Rural Classrooms by MOE (AID funded) Rural Classrooms by MOE (GOH funded)	Rural Classrooms by MOE (AID funded)
Rural Roads	Road Rehabilitation (Manual labor) by SECOPT Road Construction (Manual labor) by SECOPT	Road Rehabilitation by SECOPT (AID funded) Road Construction by SECOPT (AID funded) Road Construction by SECOPT (IDB funded) Road Construction by SECOPT (World Bank funded)

shift was made recently--a shift which allows us to compare essential elements of the relative performance of the two methods. An ideal research design for this type of study would be a test of causal models explaining what factors affect the cost, time, and quality of output and how privatization affects various economic, institutional, political, and technological variables. We may construct the following key theoretical relationships which can be translated into specific causal models:

Cost of production = f(degree of
privatization, economic, institutional,
political, and technological variables)

Time of production = f(degree of
privatization, economic, institutional,
political, and technological variables)

Quality of production = f(degree of
privatization, economic, institutional,
political, and technological variables)

Economic variables = f(degree of privatization,
institutional, political, and technological
variables)

Institutional variables = f(degree of
privatization, economic, political, and
technological variables)

Political variables = f(degree of privatization,
economic, institutional, and technological
variables)

Technological variables = f(degree of
privatization. economic, political, and
institutional variables)

A test of these relationships requires a sufficient number of samples. Because of the limited number of programs and quantitative data we took a different approach. First, we made a comparison of cost, time and quality of direct administration and contracting out. We used actual data from various documents to compose a detailed table of costs. We also measured average time from real construction records. And we finally conducted field inspections to evaluate the quality of finished facilities.

Then, we examined legal and administrative documents relevant to privatization and interviewed key people in the Honduran government, the private sector, and donor agencies. Altogether we interviewed forty three individuals. The documentation and interview research was intended to identify the major factors affecting cost, time, and quality of facilities, and impacts of privatization on economic, institutional, political, and technological variables.

Comparison of Cost, Time, and Quality

As our background analysis indicates, the most important argument for privatization is that the private sector is more efficient than the public sector. In order to probe the validity of this argument, we compared cost, time, and quality of construction for three facilities between direct administration and contracting out.

First, we compared the unit cost of constructing each facility. The calculation of cost includes all land, labor, capital, design and managerial inputs. For most items of inputs we used the real costs paid by the project proponents. In case where some items were not purchased in the market--for example, voluntary labor contribution--we used the implicit cost concept. We assumed the opportunity costs of these items to the nation were not zero.

For urban upgrading programs, we compared unit cost of installing sewage system in two housing projects in Tegucigalpa, the capital city. The result is presented in Table 4. The average cost for meter of sewage by contracting out was 17 percent lower than that by direct administration. For rural primary schools, we estimated construction costs of classrooms of comparable capacity built by the two methods. As Table 5 shows, the cost per classroom by contracting out was higher than that by direct administration by narrow difference--about 5 percent. For rural roads, we examined two different types of construction activities; road reconstruction and new construction. We present the cost comparison for reconstructing kilometer of rural road in Table 6. It shows that contracting out is slightly more costly--by 13 percent. Overall, except for the programs in urban upgrading, the evidence is contrary to the thesis that the private construction is less costly.

We compared the time of construction for school buildings and rural roads. We have looked at overall trends of construction during the years of policy shifts and found that contracting out does lead to faster completion in some cases. However, some other projects experienced significant delays for completion.

Our evaluation of the quality of facilities were made by field inspections. An interdisciplinary team of an engineer, an economist, and a public administration specialist conducted a series of inspections to compare the quality. The observation is that although contracting out resulted in some improvements in quality, the differences in most facilities constructed

TABLE 5

Costs per Classroom
(Unit: LM)

	1982 (DIRECT ADMINISTRATION)	1986 (CONTRACTING-OUT)
Direct Costs		
Material tools & equip.	6,400	6,103
Transportation	900	1,315
Labor	1,900	2,773
Other	800*	335
Sub-Total I	10,000	10,526
Less: Community contribution equal to 24% of direct cost	2,400	0
Sub-Total II	7,600	10,526
Indirect Costs		
Administration (Finance)	1,000**	3,563***
Total	8,600	14,089
Plus: Community contribution	4,800	0
Overall Total	13,400	14,089

Notes:

* Other direct costs include costs of assistant supervisors, mechanics, drivers, warehouseman, watchmen, swappers, warehouse rental, contingencies, social security, and fringe benefits.

** Imputed costs to the Ministry of Education are equivalent to financial operating costs with external funds. Estimated to be 1% of direct costs.

*** Costs to the private construction firm such as administration overhead, legal, bank finance charges (4 months), and a "reasonable profit". These costs are estimated at 35% of direct costs.

Sources: See Table 4.

TABLE 4

Global Cost Comparison of Two Urban Upgrading Projects:

Contracting-Out vs. Direct Administration

	OSCAR A. FLORES (AID CONTRACTING-OUT)		SAN JOSE (DIRECT ADMINISTRATION)	
	LM	% TOTAL COST	LM	% TOTAL COST
1. Cost of construction	431,277	65	92,867	80
2. Materials-AID		6		2
3. Materials-CMDC		-		-
4. Cost of supervision		5		-
5. Cost of design - AID		-		-
6. Cost of design - AMDC		-		-
7. Project registration		*		-
8. Administrative expenditures **		8		8
9. General expend.		*		*
10. Finance		6		3
11. Fee for connection to city system		10		6
12. Deed transfer SANAA		*		1
13. Unforseen Expenses		-		-
14. Total cost of project	662,783	100	117,813	100
No. family connections	361		67	
Linear meters	2,870		513	
15. Average cost per family (not counting interest charges)	1,195		1,386	
16. Average cost per meter	150		181	

Notes:

* Less than 1/2 of 1% of project costs.

** Estimated at 10% of the combined costs of construction, supervision, and design

Source: Moore, Richard J., Swanson, Donald, Chin-Lim, Gill, Burke, Melvin, Greenstein, Jacob, and Fehnel, Richard, Contracting Out: A Study of the Honduran Experience, U.S. Agency for International Development, Washington, D.C., 1986.

by the two methods were not highly noticeable.

In summary, evidence we obtained does not support the claim that contracting out--a form of privatization--necessarily leads to efficiency in terms of costs, time, and quality of construction.

What Affects Cost, Time, and Quality?

The theoretical relationship described earlier in this section associates cost, time and quality with the degree of privatization, and variables representing economic, institutional, political, and technological characteristics of the policy making environment. In a competitive market private contractors would make the lowest bid possible to earn a contract and carry out construction in a manner which reduces cost and minimizes time delay.

We detected several problems in the policy making environment which prevented contractors from becoming more efficient in this regard. First, there were questions about the competitiveness. An examination of bids for six blocks of rural roads by ten firms revealed the following fact. Not a single firm made a lowest bid for more than one block. A lowest bidder for one block was always a second or higher bidder for all other blocks. The six contracts were distributed evenly among six different bidders by a single set of bidding--an outcome which raises questions about competitive markets and collusion.

Second, in many programs the government used a reference unit price system as a guideline for selecting bidders. Bidders, therefore, did not have strong incentives to make a bid which used prices lower than the reference prices. Third, the government inspected facilities according to specification codes

TABLE 6

Reconstruction Costs per Kilometer of Rural Roads:
SECOPT Direct Administration and A.I.D. Contracting Out, 1982-1985

	SECOPT(BID) DIRECT ADMINISTRATION		AID LIMITED CONTRACTING OUT	
	LM	Percentage	LM	Percentage
<u>Direct Costs</u>				
Labor	17,381	73	5,109	19
Material	714	3	1,345	5
Equipment	1,190	5	-----	-
Other	714	3	16,942	63
Sub-Total	19,999	84	23,396	87
<u>Indirect Costs</u>				
Supervision, Evaluation, and Administration	3,095	13	1,614	6
Other	714	3	1,882	7
Sub-Total	3,809	16	3,496	13
TOTAL	23,808	100	26,892	100

Source: See Table 4.

rather than performance codes. In this context, private companies did not have incentives to introduce new techniques of construction or innovative managerial processes to cut down costs. Fourth, the private contractors had to conform to the same rules about compensation for their employees as the government. For example, they were required to pay the thirteenth month salary, a form of bonus, as did the public sector.

We identified two major bureaucratic barriers to the timely completion of construction by private companies. One is that the procedure for awarding a contract involved an abundance of bureaucratic rules which caused a delay in construction. According to the current contract law, it takes at least six months to go through the formality of awarding a contract. In some cases it took as long as one year. The other is a considerable delay in making payments to contractors which affected construction adversely.

It is usually presumed that government monopoly lacks a concern for quality of outputs and that the competing private agents strive for better quality to gain more work. However, in the Honduran case, direct administration has certain institutional advantages which helped to attain a level of quality almost comparable to private construction. In Honduras, direct administration often incorporates substantial self-help inputs from the community. In building rural classrooms, a large number of community members join construction of the classrooms which their children will use. Their desire to build the best facilities for their children as possible acts as an important determinant of the quality of output.

What Are the Impacts of Contracting Out?

The earlier discussion of theoretical relationships also postulates that privatizing service delivery may create impacts on economic, institutional, political, and technological characteristics of the policy making environment. In our case study, one of the most crucial impacts appears to be substantial changes in the magnitude and nature of community participation in construction processes. This phenomenon was observed in both rural school and roads projects. In Honduras, direct administration tries to maximize community labor inputs through self-help strategies. In the case of school building programs, the government relies on ayuda mutua--a kind of self-help--system. Ayuda mutua requires a local community to provide land, local material such as sand and gravel, and labor of community members. The Ministry of Education provides necessary skilled technicians such as masons, and non-local materials such as steel, bricks, and cement. The Ministry of Education also appoints a "social promoter" whose role is to encourage maximum community involvement in classroom construction. The shift to private contracting removes ayuda mutua, since private construction companies provide all labor inputs and organize construction processes.

This circumstance curtailed the community's interest in the maintenance of facilities. Community members became less involved in upkeeping the quality of facilities which they did not construct. In addition, there was no contractual agreement for private companies to assume maintenance responsibilities after the completion of projects. As a result, there is no incentive for the long term maintenance of facilities.

Although the overall costs of construction are similar for the two methods, the direct cost to the government increased substantially by contracting out where the self-help efforts were removed. In the case of school building the government can save at least 50 percent of the overall cost by using the community's self-help input.

We also gathered some evidence which suggests that contracting out for specific projects may reduce the level of coordination among different projects. Under direct administration, the government had better opportunities to coordinate among projects. When different projects were undertaken by different private agents, coordination became more difficult. This may mean that there is a loss of scale economy by shifting to the privatization method.

It was observed that contracting out did not reduce the size of public sector employment. Despite the fact that a large part of the construction process was conducted by the private contractors, the number of government employees dealing with construction did not decrease. There are powerful incentives to maintain the current size of public employees at various ranks for reasons of political stability.

Data were not sufficient for us to make any useful observation about the macro economic impact of contracting out.

SUMMARY AND IMPLICATIONS

To summarize, contracting out in Honduras did not lead to the outcome commonly predicted by the proponents of privatization. Contracting out did not reduce the overall cost of construction in most cases. It actually increased the direct cost to the government in cases where community self-help was part of direct administration programs. The private contractors appear to be slightly faster and can produce a slightly higher quality than the public sector, but overall the differences were rather insignificant.

The major reasons for this outcome include a lack of competition in the market and several institutional barriers such as government regulations of contract period, the reference price system, employee compensation rules, and specification codes.

A shift from direct administration to contracting out altered the nature of community participation substantially. We note that ayuda mutua--community involvement through self-help inputs in construction--was removed by contracting out. Contracting out also increased the direct cost to the government in some projects. Contrary to a common thesis about privatization, contracting out did not reduce the size of the employment in the public sector.

Two important policy implications emerge from these findings. First, if policy makers are indeed interested in advancing efficiency in the provision of public services through privatization, substantial institutional reform in markets and government regulations is necessary,. Second, policy makers need to consider the multiple objectives at the national level carefully. Policy makers are cautioned that there exist trade-offs among various political and economic objectives. While privatization with appropriate reform in markets and government may help achieve the objective of efficiency, it may not be desirable for other purposes such as maintaining political stability. Therefore, the choice of privatization as a policy measure should be made in a careful consideration of the overall setting of national objectives of development.

The limited amount of data available from this single case study impedes our ability to make broad generalizations. Rather, the evidence here is suggestive of potential nuances and caveats to the common assumption of private sector efficiency. The theoretical relationships among efficiency, cost, time, and quality, and the institutional form of service delivery need to be examined in a larger sample of empirical cases. International and comparative studies of privatization measures will be extremely valuable to evaluate the key findings of this study.

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(10) President's Commission for an Urban Agenda for the 1980s, Urban Agenda for the Eighties, National Academy Press, 1980, 87.

(11) Feinberg, Richard E., "International Finance and Investment: A Surging Public Sector," in Feinberg, Richard E., Kallab, Valeriana, and Sewell, John W., U.S. Foreign Policy and the Third World: Agenda 1985-86, Overseas Development Council, Washington, D.C., 1985.

(12) One of the most important statements on managing the public sector in Third World countries comes from The World Bank, "Management in Development," in World Bank, World Development Report, 1983, IBRD, Washington, D.C., 1983.

(13) As one major policy statement suggests, "...the promotion of competitive markets and private enterprise in LDCs is not a sector or an add-on to the project. Rather, it is a fundamental objective of A.I.D.'s assistance to LDCs." USAID, "Policy Paper: Private Enterprise Development," USAID, Washington, D.C., March, 1985, 16.

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