

PRIVATE SECTOR PARTICIPATION IN MUNICIPAL SERVICES
DELIVERY IN THIRD WORLD CITIES

A Select Annotated Bibliography

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April 1986

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

INTRODUCTION

In the cities of the Third World, populations have, on the average, doubled over the last twenty years. Some major cities can expect to quadruple their population base between 1980 and the year 2000. Mushrooming growth accompanied by inadequate access to investment capital, mismanaged public delivery systems, and grossly inadequate maintenance programs for existing infrastructure has many cities confronting a major crisis in public services delivery. These grim circumstances are forcing Third World governments at all levels to search for alternatives to what has generally been strictly public financing, delivery and management of public services. A range of choices from degrees of linkage with the private sector through contract or lease arrangements to full government load-shedding of specified burdensome public services responsibilities to private enterprises are emerging.

The experience of Third World cities with modern and traditional private sector participation in public services is considerable but as yet not well documented in the literature on the subject. Two computer searches, one at the MIT Rotch Library, essentially covering the NTIS database and one done by the AID Reference Library in Washington D.C. turned up very little computerized documentation. The most useful index source was the F.A.I.S. yet even here most of the documentation referred to state-enterprise divestiture and denationalization in developing countries rather than to the issue of private sector participation in the delivery of municipal services. The formal

literature on this subject has only recently begun to appear. Many of the references I was able to identify are papers or manuscripts, some still in draft, that have been produced for or by the international development agencies such as the IMF, World Bank and the U.S. Agency For International Development. I used the libraries of Boston University, Harvard and M.I.T. in the literature search as well as spending a day at the World Bank to review as yet unpublished materials.

BIBLIOGRAPHY

1 Armstrong-Wright, A.T.
Urban Transport Sector Policy Paper. Water Supply and Urban Development Department, World Bank: Washington D.C., April 1986.
(Draft Policy Paper)

Most of the cities in the developing countries face severe transport problems. Road congestion is spreading, the movement of people and goods is slowing to a crawl and transport costs are escalating. The result has been a serious decline in productivity and city efficiency. The major cause has been a dramatic increase in urban populations in developing countries over the last two decades. This policy statement of the World Bank is meant to guide the development of urban transport policies in most cities of the Third World in order to cope with rapidly increasing demands for transport which have reached crisis proportions. It advocates guiding principles of economic viability, financial viability and efficiency in establishing transport policies. It discourages capital intensive solutions in favor of improved management of existing resources. The document acknowledges that with few exceptions, publicly-owned transport systems cost government more to run with a less satisfactory service level than comparable transport systems managed and owned by the private sector. Government provision and control of urban transport should be kept to a minimum. However, other areas remain clearly government responsibility: 1) improving and extending the road network, 2) traffic regulation and management, 3) licensing of public transport drivers and vehicles, 4) setting of safety and environmental standards.

2 Berg Elliot

The Potentials of Privatization in the Development Strategies of the 1980's (Paper presented at the Development Policy Seminar for Senior UNDP Executives, The Institute of Social Studies, The Hague: November 15-26, 1982.

'Privatisation' is broadly defined as the mobilization of private resources...energy, skill, money...to more effectively serve the needs of economic and social development. Many LDC governments hold that services such as health care, water supply, and education are merit goods and therefore should be provided not only without charge but exclusively by the public sector yet many of such services are enjoyed only by a small minority while paradoxically the poor majority are served if at all by 'informal' private services delivery. The author favors wider resort to the private sector to expand urban services delivery. Three areas recommended for prompt action by Third World cities include: 1) privatization of management (e.g. contract and lease mechanisms), 2) contracting-out of maintenance and services (e.g. load-shedding), 3) deregulation to encourage greater and more efficient private sector participation.

3 Berg, Elliot

Changing The Public-Private Mix, IMF Document DM/83/10 February 1983.

This paper identifies privatisation of services as the policy area with the greatest potential in terms of lightening the public sector burden, increasing the efficiency of resource use, and stimulating growth. Private provision of services presents less explosive political issues than divestiture and is therefore more amenable to reasoned policy dialogue. It mobilizes new resources, mainly increased individual effort, greater intensity of work, and the commitment of skills useful in the marketplace. The author discusses examples of private provision of services as well as government contracting of services in numerous countries in the Third world. Ultimately the larger role for the private sector is seen as a vehicle for dispersion of economic authority and thus contributing to more decentralized and more democratic societies.

4 Bremer, Jennifer et al.

A Review of AID's Experience in Private Sector Development. AID Program Evaluation Report No. 14. Robert Nathan Associates Inc., Washington D.C.: April 1985.

This study provides a synthesis of the experience since 1981 of the U.S. Agency For International Development in implementing the Agency's Private Sector Development Initiative. It draws on the findings of numerous AID project studies, special private sector case studies in Costa Rica, Cameroun, Malawi and the Dominican Republic as well as a wide variety of sources from other donor agencies. A bibliographic

guide to relevant documentation is part of the document. The document outlines both the advantages and disadvantages of private delivery mechanisms. It recommends that each case be evaluated on its own terms when considering whether provision of a particular product or service belongs in the private sector. Hard and fast rules should be avoided. The fundamental conclusion of the study is that AID continue to develop an approach that balances public and private initiatives appropriately, and to increase awareness of the possibilities for private sector development in all of [its] activities.

5 Cochrane, Glynn.

Policies For Strengthening Local Government in Developing Countries.
World Bank Staff Working Papers No. 582, July 1983.

This paper acknowledges that most developing countries operate under a highly centralized form of government when development depends on integrating the efforts of all government levels. In particular, effective public sector management depends on the ability of the central government to harness the resources of lower levels of government. Cochrane states that many developing countries depend heavily on local government to deliver basic services but do not accord local government the authority or administrative capacity sufficient to generate local revenues to support the cost of such services. The cost of services can be recovered from the consumer a) through user charges; b) the local government revenue base; or c) the central government, either through revenue sharing or the grant system. The author advocates greater use of user charges by local authorities since those who consume services and who have the necessary resources are in principle those who should pay. Refuse collection, electricity, telephones, public housing and recreation are areas in which cost recovery is recommended. A proliferation of local public enterprises or branches of national corporations such as a national water and sewerage authorities, while providing or financing certain services, are frequently poorly managed and regulated resulting in serious waste of local resources and functional fragmentation. Publicly-structured service delivery approaches have turned out to be static rather than dynamic with little improvement in performance over time.

6 Cohen, Michael.

"Francophone Africa" in International Handbook on Local Government Reorganization ed. Donald Rowat. Westport, CONN: Greenwood Press, 1980. pp 415-422.

The author identifies four processes which have reshaped urban local government in francophone West Africa: 1) spatial growth of urban areas beyond previous jurisdictional boundaries; 2) growth of overlapping forms of area administration over urban affairs; 3) transfer of public sector responsibilities to the private sector, particularly in the provision of urban services; 4) continued adoption of urban administrative innovations developed in France. Restricted revenue-generating powers are alleged to be at the root of declining

quantity and quality of urban services provided by the public sector. Financial constraints and growing demand for services are the principal reasons hastening the trend for municipalities to turn urban public services over to private companies.

7 Cointreau, Sandra J.

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

The author quantifies the costs of solid waste management in developing countries which, on the basis of field observations, can consume 20 to 40% of a municipal budget. The article underlines the importance of maintaining municipal or metropolitan control of the service even if some operations are delegated to the private sector. The experience of developing countries with contracting out for this service is that mostly international waste management service firms are retained because local private enterprises, if they exist at all, are not equipped to meet the demand. The author calls for joint-venturing of international firms with local firms to promote and develop the private sector capacity in solid waste management in developing countries.

7 Coyaud, Daniel P.

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

The paper identifies and discusses institutional alternatives for public or private delivery of water and sanitation services which models might be used for other urban services as well. The French experience in water supply is used as the framework for discussion as the French have tried or tested most of the institutional alternatives both at home and in former francophone colonies. Alternatives discussed include government-owned institutions, privately-owned institutions, contract for specific operating services, management contract (gerance), management contract with profit sharing arrangements (regie interessee), leasing (affermage), concession. A table comparing management options of the various alternatives is incorporated into the paper.

9 Cowan, L. Gray.

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

This paper emphasizes the fact that in most developing countries state-owned and controlled enterprises have been, with rare exceptions, a continuing drain on national treasuries for the subsidies necessary to offset losses. They have been inefficiently managed and have increased unnecessarily the cost of the goods and services they provide. As a result, the concept of divesting these

enterprises to the private sector or facilitating a greater role for the private sector in the provision of public enterprise goods and services has been gaining popularity among developing countries. To illustrate, the author summarizes the experiences of five countries: Jamaica, Kenya, Indonesia, Bangladesh, and Malaysia with respect to state-owned enterprises and efforts to privatize through divestiture. In each case he specifies the potential or actual role of AID in private sector promotion.

10 Dei, Carlene.

The Role of The Formal And Informal Sectors in the Provision of Urban Services and Housing For Lower Income Groups in Abidjan(Cote d'Ivoire). Paper prepared for AID 10th Conference on Housing and Urban Development, February 26-28, 1986. Harare, Zimbabwe.

This paper describes the success of public/private sector collaboration in the provision of urban services in Cote d'Ivoire. It discusses in some detail the structure and operations of SODECI (Societe de Distribution d'Eau de la Cote d'Ivoire), a private monopoly contracted by government to produce and distribute water nation-wide; SITAF (Societe Industrielle de Transports Automobiles Africains), a private monopoly contracted to provide waste removal services for Abidjan, the capital city; SOTRA (Societe de Transports), a public/private corporation (societe d'economie mixte) created to supply public transportation in Abidjan; and EECI (L'Electricite et l'Energie de la Cote d'Ivoire), a public/private enterprise created to provide electricity nationally. This paper concludes that, as in the case of Cote d'Ivoire, if the primary objective of providing public services is efficiency and profitability, then private companies seem best suited for performing the task provided they are closely followed by government agencies with the power and expertise to evaluate performance and enforce corrective measures. If socio-political objectives are primary, then the public/private enterprise is recommended, provided it is not so over-regulated that the private element's vitality and efficiency is submerged.

11 Halmoe, Terje M.

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

This paper discusses the quantity and content of solid waste in developing countries, the health dangers of inadequate collection and generally the extent of collection coverage which declines by income class. The lower income groups peak at 30% coverage. The author asserts the necessity of maintaining close cooperation between private and public sectors in solid waste collection and disposal because of the public sector's overall responsibility for public health and sanitation which responsibility is non-transferable.

12 Hanke, Steve H.

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

This report investigates the desirability of substituting private supply for public supply of goods and services that are typically thought of as being the sole responsibility of the public sector. The report is divided into three sections discussing: 1) theoretical support for privatization; 2) comparative cost studies presenting positive empirical evidence for the proposition, mostly from developed countries (34 service sectors are covered); and 3) types of privatization: complete, partial, temporary. The report concludes that privatization of public infrastructure and services is a desirable policy that should be encouraged by AID in developing countries because it allows for more economically efficient output or increased quality and/or quantity of output for the same resources.

13 Lewis, Maureen A. and Ted Miller.

Public-Private Partnership In African Urban Development. The Urban Institute: Washington D.C. January 1986. Paper prepared for USAID 10th Conference on Housing and Urban Development in Africa, 26-28 February 1986. Harare, Zimbabwe.

This paper proposes an expanded role in Africa for the private sector, particularly forms of public-private partnership, to help fill the growing gap in public services delivery. Causes of the gap are attributed to rapid urban growth and insufficient capital investment and skilled management in the public sector. Four areas of urban services delivery are discussed with respect to Third World experiences with private sector services delivery and opportunities to structure greater private sector participation within these service areas. The four areas are: 1) urban infrastructure expansion; 2) water and sanitation (waste water); 3) public transport 4) solid waste removal (garbage). The conclusion is that public-private partnerships in urban services delivery can increase coverage and cut delivery costs while also leveraging new private investment in economic growth.

14 Marceau, Ian W.

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

The paper describes the nature of municipal services in developing countries and the genesis of sub-saharan municipal services under various colonial models. It indicates the limited literature available on the actual efficiency of public or

private enterprises delivering services in Africa such that accurate efficiency measurement is difficult. The author describes individually the African experience with public provision of services and private provision of services. He emphasizes the difficulties of promoting privatization of services such as water supply, electricity and telecommunications in Africa because for many national governments they are regarded as national functions for reasons of national security, public health and national pride. Only urban transport is proposed for greater private sector participation. The author undertook an extensive literature search on private sector provision of municipal services in sub-saharan Africa which uncovered a very limited number of "publications" on the subject. A description of the search strategy is included in chapter I of the document.

15 Nellis, John.

Public Enterprises in Sub-Saharan Africa. World Bank: Washington, D.C. June 1985. draft working paper.

This document provides a detailed and quantified overview of the role of public enterprises in the economies of sub-saharan nations in Africa. The discussion is primarily concerned with commerce-related public enterprises. The analysis concentrates in three areas: 1) presentation of available figures on public enterprises and public enterprise sectors in sub-saharan Africa; 2) examination of the reasons why African governments have relied so fully on public enterprises to achieve development; and 3) arguments for restructuring public enterprises and their regulatory environment so as to increase efficiency and competition and to improve management of public enterprises rather than to indiscriminately divest or privatize.

16 Rondinelli, Dennis et al.

Decentralization in Developing Countries: A Review of Recent Experience. World Bank Staff Working Paper No. 581, January 1984.

A large number of governments in developing countries have attempted to decentralize development planning and management responsibilities during the past decade. The author categorizes decentralization in developing countries into four types: decentralization, delegation, devolution and privatization. In most cases, privatization has not been a deliberate policy of governments but 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. The document lists a number of private sector organizational arrangements used by developing countries for project implementation. Among these, the role of non-governmental parallel organizations such as charities, religious organizations, community development associations in the delivery of services to meet human needs is discussed.

16 Roth, Gabriel.

Private Provision of Public Services in Developing Countries.
Economic Development Institute Studies Unit. May 1985.

(Manuscript in draft)

This book challenges the notion that public services in the Third World can only be supplied by the public sector. The author presents and analyzes examples of private sector provision of public services in the Third World in six areas: 1) education, 2) electricity 3) health, 4) telecommunications 5) urban transport, 6) water and sewerage. The author argues that the experiences of one country, however, do not necessarily imply suitability for another country. Each situation has to be examined on its merits, viewed in light of the traditions of the society concerned and of the resources, both public and private, available to it. Major conclusions are that the role of the private sector is pervasive[though often undocumented] in the provision of services in developing countries; and that obstacles to private involvement in public services are social and political rather than technical and financial.

18 Roth, Gabriel and George G. Wynne

Free Enterprise Urban Transportation. Council for International Urban Liason, London: Transaction Books, 1982.

In Africa, Asia and parts of Latin America, flourishing, privately-owned and profitable modes of public transportation exist which provide city residents with quality transport services at affordable prices. These private modes of transport generate substantial employment and often run parallel to heavily subsidized and often debt-ridden public transport systems yet are still highly profitable to their owners. In addition to major routes, private transports typically service outlying areas and poor inner city neighborhoods whose bad road infrastructure defies the large vehicles that are the standard of public transport systems in most developing countries. The expansion flexibility of both legal and unregistered private transport alternatives has been the only means by which escalating urban demand for transport services has been tracked in many developing countries. The private transport services of the numerous developing countries are held up as models of success which could be helpful to the U.S., Europe and other developing countries in evolving urban public transportation systems more responsive to user needs and economic efficiency criteria.

19 U.S. Agency For International Development
A.I.D. Policy Paper: Private Enterprise Development Washington
D.C.: USAID, March 1985 (revised)

An official guidance document to help AID strengthen and more fully integrate private enterprise development into the mainstream of Agency activity. The document discusses the problem of many developing countries maintaining policies that discourage the efficient provision and maintenance of infrastructure, both in rural and urban areas. Private road maintenance, urban public transit, water supply and sanitation are cited as examples of areas where enhanced private participation in the provision of both services and infrastructure can produce significant efficiencies. It is noted that sole public provision of infrastructure and services often has been based on theoretical justifications such as natural monopoly, externalities, merit goods; yet these justifications have often proved erroneous. The realities of government operations in public services provision have been severe undercoverage even in critical areas such as basic health services, large operating deficits yet an insistence on service provision free of charge when willingness to pay has been evidenced, poor quality of services as well as resistance to extending services to low income areas. The realities of public services management and delivery rarely justify a policy of both public finance and supply. The focus of the AID policy for urban services delivery as well as for other areas is to build up and rely on the indigenous private sector for the long run economic development of Third World countries.

20 Urban Edge
"Getting Full Benefits From Costly Investments: Maintenance-A Development Priority" Urban Edge Volume 10 No 3 March 1986.

Maintenance is considered a governmental function in most developing countries yet certain activities may be performed more efficiently by contractors hired to work for the government. Most periodic maintenance activities lend themselves to contracting because they can be planned in advance and are well-defined. IBRD study of private road maintenance through contracting out in developing countries shows an average 37 percent cost reduction in comparison to public provision of like services.

21 Willoughby, Christopher R.
"Infrastructure: Doing More with Less" in Finance and Development Vol 18 December 1981. pp. 30-32.

The article asserts that the private sector can play an important role in reducing the costs of creating and maintaining infrastructure services in the developing countries.

Deregulation, particularly of price controls, is expected to stimulate imaginative and economical private initiative in many areas including transport, solid waste collection, disposal of liquid wastes or treatment for reuse in agriculture. In his conclusion, the author calls among other things for more assistance for training programs in ministries of public works which are the main source of future contractors and contractor staffs and for the development of these ministries' regional services to support community initiatives at the local government level.

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

Much of the population in developing countries is without access to an adequate supply of safe water. Financial resources are limited and the installation of planned infrastructure is slow. Many communities are served by an informal system of private water vendors who deliver often contaminated water at prices as much as 700% above piped water costs. This situation exists because of the inability of developing countries to finance the infrastructure necessary to keep up with the expanding populations and increasing demand for water in the cities. The article describes water supply problems in developing countries and current water vending practices. It recommends and costs out as more than competitive an "improved vending system" as an economic interim solution for sanitary and affordable water supply to populations, both urban and rural, who have no other safe water access.