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Changing the Public-Private Mix: A Survey of Some Recent Experiences in LDCs

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Contents

		Page
I.	Introduction	1
II.	Ambiguities in the Public-Private Sector Dichotomy	2
III.	The Sources of New Interest in Privatization	3
IV.	Divestiture	7
V.	Private Provision of Services	17
	1. Education	17
	2. Health care	17
	3. Marketing	18
	4. Drainage and salinity control	19
	5. Agricultural extension	20
	6. Transportation	22
VI.	Government Contracting of Services	25
	1. Private road construction	30
	2. Road maintenance: an example of contracting	32
VII.	Conclusions	35
	References	38

Tables

1.	Public Enterprises in Chile	8
2.	United States: Number of Cities Using Private Firms to Supply Municipal Services Under Contract	28

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I. Introduction

The private sector is the focus of new attention in industrial as well as developing countries and in centrally planned as well as market economies. Advocates of a larger scope for the private sector claim that greater reliance on nongovernmental economic agents and broader appeal to private incentives can lead to better utilization of resources, faster economic growth, and increased economic welfare. For the poorest and least developed countries in particular, many recent analyses stress the need to mobilize individual energy, skill, and savings more effectively if present trends toward economic stagnation or decline are to be reversed. 1/

Although "privatization"--defined as a greater role for the private sector--in developing countries is being widely discussed, it is not clear how much of it is taking place. What is actually being done, especially in the developing countries, to alter the public-private economic mix? The question is not an easy one to answer, and relevant data are not readily available. Nevertheless, research for this study has uncovered some informative experiences, which are described in this paper.

Section I discusses the distinction between public and private sectors. Section II surveys some of the main factors that have led to the worldwide surge of interest in an enlarged role in the economy for the private sector. Section III analyzes experiences with respect to three of the main instruments of privatization: (1) "divestiture"--selling (or closing down) state-owned enterprises; (2) allowing private sector agents to provide services either in place of or in competition with the government; and (3) government contracting of service delivery to private firms. Many other instruments are available to increase private sector involvement in the economy, such as macroeconomic policy changes--for example, allocating more foreign exchange to private sector agents, improvements in the general investment climate through changes in law and practice (incentive legislation, labor regulations, etc.), deregulation, and imposition of more and/or higher fees for the use of government services. But for lack of space and information, these are not discussed here.

Divestiture was selected for study because it is highly attractive to economic reformers concerned with increasing the efficiency of resource use in the public sector. Nevertheless, despite its appeal, divestiture is not a common phenomenon, nor is it likely to become common very soon. On the other hand, deregulation, which allows private agents to compete with state monopolies, and government contracting of the delivery or "production" of services have clear potential. These

1/ Cf. World Bank (1981) and CILSS/Club du Sahel (1980).

measures can generate substantial new resources, significantly raise the general efficiency of resource use, improve services, and bring about faster economic growth. Of course, they are not foolproof. They entail problems of their own and may involve some new or different risks. But experience indicates that because of their inherent advantages and their promise, they merit serious consideration by governments and international agencies concerned with economic development.

II. Ambiguities in the Public-Private Sector Dichotomy

Usually, "private" and "public" sectors are referred to as though they are well-defined entities with an unambiguous frontier between them. The "privatization" process is then conceived of as a shifting of the frontier in favor of the private sector. But this is not entirely accurate. Most activities in the real world are, in fact, public-private blends. Therefore, it is more appropriate to see privatization as a process that alters the blend, with the public sector playing a different role and the private sector a larger role.

All organized activity has many dimensions: conception, determination of scale and technology, financing, management of production (of goods), or delivery (of services). Economic activities commonly described as "public" or "private" are rarely entirely one or the other. This is obvious in such a common case as that of publicly financed manufacturing enterprises that are managed by private agents. Education and health care activities are also frequently financed by tax revenues but "produced" or provided by individuals and nongovernmental organizations. 1/

Not only is the notion of a strict separation of public and private activity rendered ambiguous by distinguishing between dimensions such as financing and management or production, but even within each of these elements, 100 per cent "publicness" or "privateness" is extremely rare. Thus, a "private" enterprise often enjoys fiscal privileges--subsidized credit, tax rebates on imports, tax holidays on profits, etc.--that blur the concept of private financing. This same "private" enterprise may depend on government-determined tariffs or quotas for protection of its market and its earnings, on government wage leadership to determine its wage policies, and on government price controls to determine the prices of its outputs. This is "private" management, but under such pervasive public constraints or incentives that its "privateness" is reduced.

The complexity of public-private blends is even more evident in the case of loan guarantees. As is seen below, substantial "private" financing is being made available in Argentina for the purpose of road construction but with revenue guarantees provided by the Government. The

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1/ A similar distinction between "arranging" services and "producing" or "delivering" them is made in Savas (1981).

extent to which this kind of transaction is public or private depends on whether those guarantees have to be activated, which in turn depends on future traffic flows, exchange rate changes, and rates of domestic inflation, among other unknowns.

If the distinction between public and private activity is hazy in these cases, it is even more so in the area of public sector contracting to private agencies. At issue here is an extremely large set of activities. In the U.S. Government, for example, more people are employed by the Government as contractors than as direct employees--and in some sectors, vastly more. 1/ Contracting for public services, such as garbage collection, road maintenance, even fire protection, is widespread, as can be seen in Table 2 and Section VI.

All of this illustrates why the image of a public-private blend with altered inputs is more apt than that of a shifting distinction. When governments contract activities, they do less direct management or production but more contract preparation, specification of performance criteria, and monitoring. The public sector is not removed from the activity; only its role is altered.

III. The Sources of New Interest in Privatization

The interest in privatization is part of a newly intense and very general preoccupation with the effectiveness and efficiency of resource use; governments everywhere are searching for ways to mobilize new resources and to use better those they now have. These new concerns are not difficult to explain.

First of all, public sectors have grown extraordinarily fast in recent years. During the 1970s, the share of government expenditures in gross domestic product (GDP) grew by 2-3 per cent a year in many countries. Whereas in 1972 only 13 central governments (of those listed in the Fund's Government Finance Statistics Yearbook) were spending one third or more of GDP, by the late 1970s the number had tripled--to 38 out of 90 countries. In the developing countries, especially the least developed that have relatively large subsistence sectors, the public sector role is even larger when only the monetized part of the economy is considered.

One form that public sector expansion took, especially in the developing countries, was the growth of parastatal organizations--public or state-owned enterprises. Numbers are hard to come by, and generalizations tenuous; the pattern of state-owned enterprise growth

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1/ Cf. Sharkansky (1980), p. 117. In recent years the U.S. Department of Health, Education, and Welfare had 750,000 people working under contract, and only 157,000 as direct hire employees. See Hanrahan (1977), p. 217, and Savas (1981).

is geographically uneven. But in most developing countries for which data are available, substantial growth took place. 1/

The performance of a public enterprise is difficult to measure, and great differences exist in performance between countries and sectors. Existing information can support few firm generalizations, but it is widely asserted that, in most of the developing countries, the performance of state-owned enterprises has been "disappointing." 2/ Conceived to be leaders in modernization, adopters of new technology, and generators of public savings for investment and growth, public enterprises in the developing countries have more often than not been plagued by management deficiencies, political pressures to sustain employment and low prices, and unclear--often contradictory--policy signals from government. As a result, efficiency has been low (in the sense of minimizing input use to produce given outputs). 3/

Jones and Mason 4/ give the following reasons for "inefficiency," defined not in terms of traditional allocative criteria (choice of the wrong price/quantity bundle) but in terms of a failure to minimize costs of production for quantities of output actually chosen:

(1) Public enterprises work under bureaucratic systems that usually control processes, rather than outcomes. "The time-consuming traditional rules of government (procurement procedures, for example) are difficult to reconcile with the needs of an organization that must operate in a dynamic market place."

(2) Political influence is often used to transfer income to special interest groups, but usually not openly.

(3) Public enterprise decision-makers lack incentives to control costs. One of the important reasons for this is the fact that it is difficult to distinguish between good from bad managerial performance, since there are legitimate and illegitimate reasons for losing money. Jones and Mason observe that there are no necessary reasons for public

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1/ For example, the share of state-owned enterprises in gross fixed capital formation grew between the late 1960s and late 1970s from 20 per cent to 59 per cent in Algeria, 27 per cent to 36 per cent in Taiwan, 17 per cent to 30 per cent in Turkey, 11 per cent to 23 per cent in Peru, 14 per cent to 23 per cent in Brazil, 17 per cent to 24 per cent in Kenya, and 15 per cent to 24 per cent in Ivory Coast. See Short (1983).

2/ This is not only applicable to developing countries as the U.K. experience suggests. See Pryke (1981, 1982).

3/ Sheahan (1981) stresses the need to define efficiency carefully, since market failures, imperfections, and noneconomic factors are important in explaining the origin and functioning of public enterprises.

4/ Jones and Mason (1982).

enterprises to fail to minimize costs (although there are many sufficient reasons) and that the costs of public enterprises must be compared with the costs of alternatives.

Thus, instead of contributing to public saving, the state-owned enterprises have frequently turned out to be drains on the budget and burdens on consumers of their outputs. A recent survey of the role of public enterprises in developing countries provides the following typical conclusion about performance:

> Most studies have evaluated performance on the basis of financial rather than social profitability. Based on this criterion, many (but not all) countries operate public enterprises that show low profitability or large and mostly continuing financial losses. The losses are mostly due to: (i) inadequate planning and poor feasibility studies resulting in ill-conceived investments; (ii) lack of skilled managers and administrators; (iii) centralized decision-making; (iv) state intervention in the day-to-day operations of the firm; (v) unclear multiple objectives; and (vi) political patronage. 1/

Discontent with inefficiency in public enterprise operations is one factor that has pushed the idea of privatization forward. While governments have mainly concentrated on improving the performance of these enterprises, in a great many cases they also have begun to look at other ways to deal with the least profitable and most troublesome enterprises.

The rapid growth of central government activities, like those of state-owned enterprises, in the past decade coupled with slower economic growth and consequent fiscal pressures, is another major factor explaining the interest in privatization. In the industrial countries, much of the growth in government spending in the 1970s came in the area of "entitlement" programs, but the spending on these programs has everywhere been difficult to contain. Higher costs could be financed until the early 1970s without too much difficulty, since GDP and tax revenues were growing rapidly. But since then, slower economic growth and strong resistance to heavier tax burdens has forced reconsideration of the scope and financing of these programs.

In most developing countries the problem has arisen in a different form. In many of these countries, a substantial share of government expenditure is being devoted to education, health, and other activities related to the meeting of basic needs; it is not uncommon to find education claiming one fourth or more of recurrent expenditure in low-income countries. Yet access remains limited. In sub-Saharan Africa, for

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1/ Choksi (1979), p. iv.

example, one third of all children of primary school age are not in school, few people have access to modern health facilities, and only 25 per cent of the people have access to clean water. At the same time, severe constraints exist on the raising of more revenue by taxation. Economic growth has slowed down--especially in the lowest-income oil-importing countries--and prospects for the next decade are poor. Also, in the low-income countries, farms and mines are virtually the only sources of tax revenues. Farmers, however, are already heavily taxed through price policies and export taxes, and international price projections for most primary goods are not particularly good, at least for the next few years. This leaves little hope for revenue buoyancy in the near future and demands closer attention to the incentive effects of price and tax policies.

These are some of the immediate problems from which the present interest in privatization derives. Political-ideological elements are, of course, strongly present in some cases, but for the most part the recent burst of interest in mobilizing private resources has its origin in pragmatic concerns. These include methods for modifying institutions and approaches that have proved to be inadequate, mobilizing individual energies now unused or misused in order to bolster sagging economic growth rates, and providing more and better public services in the face of tight resource constraints. Privatization thus has relevance in all kinds of political systems and can be a vital component in any development strategy, whatever its ideological foundations.

The broad appeal of the idea of privatization is seen in recent moves in some of the centrally planned economies. In January 1982, for example, the Hungarian Government opened the legal door to the formation of private corporate enterprises employing up to 150 people. To be sure, the new law stipulates that these enterprises must have some features of a cooperative, but it would be surprising if most of them did not take on many characteristics of private companies as known in capitalist systems. In any case, they are to be allowed to compete against state enterprises. According to a press report, the new policy "is partly an attempt to force moonlighting workers, who account for nearly one fourth of all the hours worked in Hungary, to come out in the open . . .". A Hungarian academic calls it ". . . a change that legitimizes private enterprise on a historic scale for the socialist countries. . .". 1/

Similar changes are under way in China. In November 1981 the Chinese Government openly dropped its previous policy of assuring state jobs to everyone, reputedly because of the negative impact of this practice on incentives and, hence, on productivity and because too many people are coming into the labor force to make continuation of the policy viable. The Government officially told people to "get organized on a

1/ New York Times (December 3, 1981), p. D-5.

voluntary basis and find work for themselves." 1/ As in Hungary, private corporations are now legal.

Privatization, in the sense of greater scope for private activity, is clearly a potentially useful approach for governments of all ideological persuasions. Three specific aspects of this approach are discussed in this paper: selling (or closing down) state-owned enterprises; allowing the private sector to provide services either in place of or in competition with government; and government contracting of service delivery to private firms. The relevance of each of these, of course, varies between countries, but the experiences surveyed below suggest that the most promising approaches for most countries are deregulation and government contracting of services. Policies that allow an expanded private role in service delivery can generate substantial new resources, significantly raise productivity of resource use in general, improve services, and bring about faster economic growth.

IV. Divestiture

According to Webster's dictionary, the strictest definition of "divest" is "rid"--and this is indeed the pure, hard definition of divestiture--ridding the public sector of its enterprises by selling them or shutting them down. Divestiture in this sense is not altogether without ambiguity; it can mean simply a sale of government equity in a corporation whose shares are mainly privately held, or a transfer of assets and employees from a state-owned enterprise to a government ministry. Not much is being "divested" in these transactions.

In any event, divestiture in this sense is for many people what privatization means. It is also a chosen instrument of economic reformers and stabilizers. It is rather surprising therefore to discover how few examples of divestiture can be found. This conclusion is based on a fairly systematic look at the experience of 22 countries where there are *a priori* reasons for expecting some divestiture to have occurred. Eleven of these countries have experienced ideological or political turnarounds in the 1970s, with a smaller role for the public sector as one of the objectives. 2/ Eleven others are what can be called "one-step-back" countries, where the desirability of retrenching the

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1/ The press report from which this comes continues as follows: "After three years of quietly promoting private enterprise, Peking suddenly burst forth with an official imprimateur and a package of inducements for the self-employed, including tax exemptions, low-interest loans, and hiring rights . . .". Washington Post (February 5, 1982), p. A-23.

2/ These countries are Chile, Peru, Portugal, Egypt, Jamaica, Pakistan, Sri Lanka, Tunisia, Guinea-Bissau, Uganda, and the United Kingdom.

public sector has been openly expressed by local political leaders. 1/ The distinction between the two groups of countries is obviously blurred, as indeed is the exclusion of many countries from the list. Certainly, however, it is in these countries that plentiful examples of divestiture might be expected. In fact, examples are few.

Chile is unquestionably the best case. In the three years of the Allende Government (1971-1973), over 500 enterprises were taken into the state sector-nationalized, "intervened", 2/ or requisitioned. 3/ These were turned back to the private sector or liquidated with astonishing rapidity, as Table 1 shows. The Chilean divestiture was even broader than is indicated in the table, since much pruning took place within enterprises that remained in the state sector. Thus, the National Airline of Chile (LAN) eliminated unprofitable routes and concentrated on international service; SOQUIMICH, the state chemical corporation, closed many unprofitable plants; IANSA, the state sugar company, closed three inefficient mills and in 1980 was planning to sell a fourth.

Table 1. Public Enterprises in Chile

	1970	1973	1977	Target 1980
With participation in ownership				
Enterprises	46	229	45	15
Banks	—	19	4	--
Intervened enterprises	—	259	4	—
Enterprises in liquidation	--	--	17	--
Total	46	507	70	15

Source: Foxley (1982).

1/ Turkey, Bangladesh, Somalia, Guinea, Ivory Coast, Mali, Brazil, Senegal, the Philippines, Argentina, and Zaire.

2/ This refers to cases where government intervened in company management or seized companies with labor or production problems.

3/ Prior to 1971 there were only 46 state-owned enterprises under CORFO (Corporación de Fomento de la Producción de Chile (Production Development Corporation of Chile)), the agency responsible for most state commercial enterprises.

On a smaller scale, efforts at divestiture are also being made in Jamaica. The Seaga Government has acted in regard to sugar mills; of eight government-owned mills, two have been closed and five were divested by leasing to domestic and foreign sugar producers. Similarly, land under government ownership is being divested; some 20,000 acres now held by the Government Agricultural Development Corporation are being assessed for potential divestiture. In the tourism sector, the Government has tried to sell the hotels it owns; four of these have been leased to private parties, and negotiations were continuing in 1981 for the leasing of four others. Some hotels that cannot be sold at reasonable prices or even leased in their present condition have been transformed; five floors of the Kingston International Continental, for example, were converted to office space and another hotel was wholly converted.

In Peru, divestiture is still in a planning stage, although the planning is well advanced. In the late 1960s, Peru had 40 state-owned enterprises. After the military coup in 1968, this number grew fast--by creation of new enterprises, nationalizations, and appropriation of bankrupt firms. The number of state-owned enterprises peaked in the mid-1970s to about 175, then declined to about 140 in 1982. Almost 100 of these are wholly state-owned, and the state owns over 50 per cent of the equity in another 17. The state-owned enterprises generate some 20 per cent of Peru's GDP and dominate major sectors of the economy: fishing, cement, chemicals, paper, fertilizer, agricultural marketing, banking, and utilities.

The Peruvian Government that took office in July 1980 announced its intention to reduce the number of state-owned enterprises by selling its shares. Some 70 firms are likely candidates. The market value of state-owned enterprises to be sold is probably about US$500 million, or 2-3 per cent of Peru's GDP. The Government is working out a strategy for the sale, but little actual divestiture has yet taken place. 1/

Similar moves are under consideration elsewhere in Latin America. There have been reports that the Brazilian Government intends to divest a large number of state-owned enterprises in the next few years. A list of 250 candidates for divestiture has apparently been drawn up. Here, too, however, concrete action is not yet apparent.

1/ IBRD-IFC (1982).

The Chilean and Jamaican experiences probably represent the most intensive divestiture efforts made in recent times. In the industrial world, only the U.K. experience is comparable. 1/

In the developing world, examples of divestiture can be seen in Pakistan, Bangladesh, Somalia, Sudan, Zaire, and the Philippines; there are undoubtedly many other countries for which information is not readily available. In Pakistan, two small engineering firms were returned to the private sector, and a specialty steel mill has been shut down. A rice mill and two sugar mills have been divested, and 12 other enterprises have been identified as candidates for liquidation or sale. In Bangladesh, major steps have been made to privatize the fertilizer marketing system. In the Philippines, the Government's National Development Company sold its shares in an electrical products manufacturing firm to General Electric Philippines. Other Philippine development banks have also divested a few enterprises. 2/ The Government of Zaire abolished many agricultural parastatals in 1978: the agencies for cotton (CONAFITEX), maize (ONACER), sugar (ONDS), livestock (ONOE), edible oils (ONP), coffee (ONC), cocoa (ONDC), rubber (ONCN), fishing (ONP), and wood (ONB). A replacement grain marketing agency (ONPV) was dissolved in March 1981. The Somali Government liquidated four state-owned enterprises. The bus system in Khartoum, the Sudan, has been returned to private ownership.

Although this cursory survey has undoubtedly overlooked many other examples of limited or piecemeal divestitures, in general, despite widespread expressions of intent to divest, cases of divestiture are difficult to find. It is easy to understand why this is so, why few governments consider divestiture a viable policy, and why those that find it appealing also find divestiture difficult to implement.

1. There is, first of all, the classic general contradiction: governments do not want to sell profitable enterprises, and private parties do not want to buy unprofitable ones.

1/ The U.K. Government under Prime Minister Thatcher has reduced its share in British Petroleum from 68 per cent to 39 per cent since 1978. In February 1981, it sold half of British Aerospace and just under half of Cable and Wireless, a telecommunications product and services company. More than half of British National Oil Corporation is slated for sale and British Gas will also be sold to private interests. These transactions involved sale of shares on the stock market. The National Freight Company, a road transport conglomerate, was sold to its workers and bankers in 1981. The Government would also like to sell British Shipbuilders, British Airways, and British Leyland. (The Economist (London), November 28, 1981, pp. 94-95; and Wall Street Journal, March 16, 1982, p. 32).

2/ Far Eastern Economic Review, January 29, 1982, p. 51.

2. Potential effects on employment are a major obstacle everywhere. Overstaffing is almost invariably one of the reasons behind divestiture. Workers, their representatives, and political leaders know that, directly or indirectly, divestiture will almost surely mean higher unemployment. Fear of resulting political backlash is a major deterrent to divestiture-minded political leaders.

3. The political risks of divestiture are high for other reasons. The responsible officials or political party can be accused of giving away the national patrimony, selling out to capitalists or foreigners, or both. Whatever the price at which assets change hands between government and private buyers, charges of corruption are likely. Or the charge may be of incompetence, as in the United Kingdom. 1/ In some cases, divestiture involves destruction of national symbols. In Turkey, for example, the leadership reacts negatively to proposals for divestiture of state economic enterprises; they see themselves as heirs to Ataturk and consider the state-owned enterprises as his legacy, which should be retained. Much the same situation exists in some Latin American countries. In Brazil, some elements of government are in favor of widespread divestiture while others regard this as weakening national defense. In Argentina also, many state-owned enterprises are related to defense and are untouchable. In post-Nkrumah Ghana, an attempt to sell a state pharmaceuticals company to the American firm, Abbott Laboratories, led to street demonstrations and university student protests against turning back the anticolonial clock. The sale never took place.

4. Sale of state-owned enterprises is relatively easy only for enterprises that came into the state sector as a result of a political-ideological transformation that has subsequently been reversed. That is, the state enterprise sector of most countries comprises three elements: (1) enterprises that were created by the government and have always been in the public sector; (2) failed enterprises that were once private or semipublic but that have since been taken over by the government to avoid liquidation; (3) enterprises taken over during a revolution or during a period of pronounced political change. It is relatively easy to divest by sale only the third group of enterprises because they were presumably once profitable and former owners can be identified. This was the case in Chile, as well as in the Pakistan divestitures.

1/ The U.K. Government's sale of a small state-owned enterprise, Amersham International, gave rise to a storm of criticism by the Labor Party and other critics. The stock exchange put a value 30 per cent higher on Amersham stock than the price asked by the Government when it divested. Speakers in Parliament charged that the Government sold a successful enterprise ". . . at a knocked-down price . . . giving unjustified profits to some private institutions and individuals at the expense of the Exchequer." (Wall Street Journal, March 1, 1982, p. 27).

5. Even in highly permissive circumstances, small but delicate problems surround the actual divestiture.

(a) In the more advanced countries, sale of state enterprises involves sale of equity. This is the case in the United Kingdom, for example. The size and sophistication of U.K. financial institutions and capital markets are such that the Government's shares can easily be absorbed by private buyers and institutions; reduction of government holdings thus presents few difficulties. But this is not the case in developing countries. An economy as advanced as Peru--with its well-developed system of financial intermediation, a sizable middle class, and a mature private sector--cannot easily absorb the 70-odd state-owned enterprises slated for divestiture. Sale of the approximately US$500 million in assets involved could crowd out other claimants for investible resources and accentuate inequalities in income and wealth. A smooth sale requires careful planning, a gradual approach, and the strengthening of financial institutions.

(b) Agreement on a price acceptable to the buyer and seller is particularly difficult. Buyers often enter the negotiation with the expectation of a bargain. As the government has made an enormous commitment by publicly announcing its willingness to sell the enterprise in question, buyers anticipate that the necessity to sell will result in a very low asking price. 1/ But the officials and politicians responsible for the sale fear that they may be accused of selling at too low a price so they are inclined to push up the price.

(c) In some cases, there are thorny problems of how to handle debt obligations of the enterprise to be divested.

Not only is divestiture difficult to achieve, but its benefits often appear slight and it can involve significant costs. Benefits must, of course, be defined in terms of objectives. In governments considering divestiture of state-owned enterprises, four main objectives are usually involved, implicitly or openly: (1) reduction of fiscal and monetary pressures; (2) improvement in efficiency of resource use; (3) reduction in the burdens on public sector managers; and (4) reduction of government for ideological reasons.

The reduction of fiscal pressures can result from smaller wage bills and lowered demands for investment resources, the monetary relief from reduced credit absorption. But experience in a number of countries (Peru, Pakistan, and Somalia, for example) suggest that the usual candidates for divestiture are neither big employers of labor nor major absorbers of credit. Most employment is in essential state-owned

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1/ This happened in Canada recently, in negotiations over divestiture of some units of Air Canada.

enterprises, such as railroads and utilities; in a few strategic industries, such as copper in Chile and Peru or sugar in Somalia; in nonmanufacturing enterprises (notably marketing), which are not usually targets of divestiture. It is the same with credit absorption. The deficits of these organizations and their resultant borrowing from the banking systems are generally due to imposed subsidies which are not reimbursed by government. Deficits of the manufacturing state-owned enterprises--the prime subjects of divestiture talk--account for only a small share of outstanding credit (in Somalia, for example, less than 15 per cent in the late 1970s).

It is true that the efficiency of resource allocation and use would probably be greater if state-owned enterprises were divested. But the major culprits are not usually even considered as targets for divestiture--the railroads, for example. In small countries, the state manufacturing sector is normally tiny. In Somalia, for example, outside of sugar refining, state industry employs fewer than 5,000 people (less than 3 per cent of the paid labor force) and its economic contribution in terms of share of GDP or share of exports is only slightly higher.

The same reasoning applies to sale with the objective of reducing management problems. In the few countries where divestiture is being seriously considered and analyzed (Pakistan and Peru, for example), the enterprises listed as candidates for divestiture include few of the ones causing problems.

Thus, potential benefits seem small in most cases. There is not much fiscal relief to be had by cutting down on padded payrolls, and the manufacturing state-owned enterprises--the usual focus of divestment strategies--normally do not contribute much to credit expansion problems. A lowered burden on public sector managers might be a more significant factor and general ideological preferences can certainly be satisfied.

If the benefits are small and uncertain, the costs of divestiture and of efforts at divestiture can be substantial. There are, first, political costs to the authorities. As noted above, divestiture requires the responsible authorities to take extremely unpleasant and often politically dangerous steps--cause unemployment, destroy symbols of modernization, impose economic hardship on particular regions and groups, and admit past errors and waste. Any sale of public assets to private parties generates suspicion of corruption and charges of selling out to capitalists--often foreigners. Such a sale can easily give rise to charges of incompetence, at best. It is not surprising that local authorities tend to be unenthusiastic, to say the least, in their attitudes toward divestiture.

There are also political opportunity costs. In pushing for divestiture, economic reformers forgo political goodwill and deplete intellectual resources that could be used with greater effect in other reform initiatives. 1/ And there can be economic opportunity costs as well.

The argument set out above is, first, that prospects are poor for closing or selling state-owned enterprises--particularly the industrial state-owned enterprises whose presence and inefficiencies excite reformers; and, second, that the gains are not likely to be great in any case. If that is true, then the question becomes: What should be done with state-owned enterprises? A good answer requires an analysis of the dangers and opportunities created by the presence of these enterprises.

The main problem is not that state-owned enterprises are overstaffed, overfinanced, and inefficient. It is not even that, in many instances, there is little economic justification for their existence. After all, all societies have remnants of economically irrational investments. An oversized fruit cannery or match factory, or an underutilized steel mill, represent no greater waste of resources than some roads or hospitals or administrative buildings. The special danger of the industrial state-owned enterprises is that they will not remain static; there are recurring efforts to try and validate them. The cannery management seeks a satellite scheme; a milk processing plant seeks a state dairy farm; a meat processor tries to monopolize animal purchases in order to secure a supply of beef that is otherwise unattainable. If attempts to create economically unjustifiable linkages can be thwarted, the industrial state-owned enterprises in most countries are, at worst, inexpensive symbols, easily supportable.

This does not mean, of course, that efforts to reduce their social costs should be abandoned or that the search for ways to increase their benefits to society should be given up. The general prescriptions for greater efficiency for state-owned enterprises everywhere are unexceptionable--that is, improvement of management, greater transparency of operation, and reduced politicization in some key respects. Better management is, of course, not only--perhaps not even mainly--a matter of training better managers. Most problems of these enterprises derive not from managerial incompetence, but from the surrounding environment and from history, weak budgets and accounting systems, disorderly intrapublic sector financial relationships, scarcities of trained and motivated staff, uncongenial macroeconomic conditions (for example, limited and irregular access to foreign exchange and even to domestic raw material inputs, and working capital scarcities due often to tax policies), and the fact that many state enterprises were originally ill-conceived.

These problems of the state-owned enterprises are likely to diminish slowly, even with persistent efforts at reform and with improvements

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1/ This is, of course, true for both local reformers and foreign donors or financial institutions.

in management skills. Because divestiture offers equally limited prospects in the short term and medium term, the policy issue becomes how to capitalize on the presence of these enterprises--how to use them in a positive way for development, while curbing their tendency to expand. Even the least efficient state-owned enterprise has some potential benefit. In particular, in the least developed countries with abundant aid, they can be used to provide needed channels for external assistance and can be encouraged to take on an explicit training role for the surrounding economy. Since these ideas are somewhat novel, they are explained in greater detail below.

One way to strengthen the management of state-owned enterprises and to allow managers to deal more effectively with the problems of the environment is to bring in foreign management specialists under managing agency arrangements. This is especially applicable in the small developing countries. This solution would serve three purposes:

(a) a formal link would be created between the enterprise in question and some donor source;

(b) foreign management would probably be more inclined to debate with government such matters as input and output pricing; the foreigners might also be able to better withstand political pressures with respect to hiring and firing; and

(c) day-to-day management would probably be improved, and more on-the-job training could take place.

The central idea here is that, for the industrial state-owned enterprises in this group of countries, what is needed is special access to a foreign source of support which could provide money and other help--access to information, including technology, and perhaps political support--and that this special access can be created by means of a foreign management team. A case illustrating the potential of this suggestion is the Juba Sugar Project in Somalia. This large enterprise (4,000 hectares already in cane and 8,000 planned, with accompanying refinery) is managed by Booker International. The Somali authorities have brought in this expatriate management team and, with it, have widened access to official U.K. assistance. Thus, the Juba project was endowed by the British Aid Agency (ODM), with a well-equipped training workshop for the key crafts; it is probably the best source of such training in Somalia. Other training efforts are evident at Juba--middle-level management workshops, for example, very few of which seem available elsewhere in Somalia. Casual observation suggests that this kind of training is much more relevant than what is provided in the crowded classrooms of the school of administration in the capital.

Even more to the point, when a vital piece of equipment broke down recently, and there was no hope of obtaining money either from project resources or from the Somali Government budget to replace it, Booker International called on the ODM for help, which came in the form of a small grant (£25,000) for purchase of the required equipment. The presence of Booker in Juba has opened the possibility of further U.K. assistance of this kind. Moreover, in many countries, there is untapped potential for using the state-owned enterprises as training centers for the economy as a whole. For example, in the Somalia case, the training efforts at Juba could easily be expanded for this purpose, with financing by government subsidy and/or foreign assistance.

The Juba model could also be duplicated in other state-owned enterprises in Somalia and in similar developing countries. The development literature for decades has pictured industrial enterprises as sources of "externalities"--notably training and intangible modernizing effects. In fact, the industrial sectors of many developing countries have provided little training and few intangible benefits. But industrial state-owned enterprises can be made to serve these goals more effectively by moving in the direction indicated--that is, bringing in foreign management to ease access to aid and making special efforts to turn the factories into on-the-job training institutions, which will produce skilled people for the economy as a whole.

For heavily assisted developing countries, there is a significant advantage in having industrial state-owned enterprises in the public sector; if these enterprises were divested, they would be excluded from access to most official development assistance. In that group of countries, where donors are plentiful and willing to help but few channels exist for aid, this could provide a major opportunity.

Thus far, divestiture has been considered in terms of sale or liquidation, but there are other methods for achieving the same objective which are more likely to be acceptable to local decision makers. One such method is leasing. Lease arrangements can be coupled with equity participation by private parties. They can be written so as to make the lessee responsible for rehabilitation or refurbishment investments, in return for a share (conceivably up to 100 per cent) of profits.

Leasing is especially suitable in situations where profitability is achievable if amortization of capital costs and interest charges can be reduced or completely written off and if profits are especially sensitive to management inputs. It has been used in the hotel industry in a number of developing countries, such as Jamaica and Liberia, but it has broader potential.

Leasing is a versatile and potentially powerful instrument of indirect divestiture. Some of the same effects can be achieved by deregulation and encouragement of competition. This is not likely to be acceptable for commodity-producing state-owned enterprises; few governments are willing, for example, to expose their import-substitution industrial enterprises (public or private) to foreign competition. But leasing is certainly relevant for state-owned enterprises in marketing and other services. The best way to reduce the negative effects of these enterprises in agricultural marketing, for example, is to allow other agents to compete. This opens up the general matter of service delivery--the second instrument of privatization.

V. Private Provision of Services

Many governments discourage the private provision of services. They claim 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 also exclusively by the public sector. However, this excludes a large and potentially beneficial source of supply--that offered by private individuals and nongovernmental organizations. If governments would encourage these private suppliers, they would increase the quantity and diversity of services offered and reduce the burdens on the public sector. They might also reduce costs, since these services are now offered illegally in many cases; wider opportunities to provide such services would reduce risk and stimulate supply.

The range of services that can be privately supplied is, of course, very wide, and the kinds of suppliers are highly varied. Some examples are given below.

1. Education

Private education has a long history in industrial as well as in developing countries. In the nineteenth century, "performance contracting" was common; for example, villagers paid teachers a fixed fee when the child attained measurable competency in reading and writing. This system began in the United Kingdom and spread to India, Malaysia, Canada, and West Africa. In many developing countries, church groups and other private voluntary organizations have long been major sources of education as well as health care. And in much of the world, private schools continue to exist, and vocational training is done very extensively outside formal educational systems--by apprenticeship schemes, secretarial schools, etc.

2. Health care

In many developing countries, modern health care services and sale of nontraditional drugs are legal monopolies of the state. In fact, however, illegal markets flourish--for pharmaceuticals provided by private purveyors who circulate even in rural areas and for medical services provided by pharmacists or publicly-employed medical doctors and nurses who also work for private patients. The World Bank report on sub-Saharan Africa has several relevant observations:

In rural areas, often the only legal source of drugs is the public sector pharmacy or dispensary. The public sector frequently offers inadequate and irregular drug supplies, however. In many cases, budget allocations for pharmaceuticals are used up in the first few months of the year. Most rural people must, therefore, either do without, or buy on the illegal market--if they can afford it. Reductions in the legal restrictions on sales of basic pharmaceuticals would increase the public's access to these drugs and reduce their cost, making a major contribution to the health care of the majority of Africans . . . .

In market-oriented countries, this approach could be developed further. For example, training paraprofessionals in health and sanitation, and encouraging them to set up on their own, would limit the public sector role to training, certification, and supervision. Rural health workers would then circulate, or establish themselves in the villages, and provide services for fees. In contrast, the public sector strategy (village health workers serving a group of villages) involves great financial and logistic difficulties, thus far unresolved in most of Africa, or indeed elsewhere. This example serves to illustrate a general point: much of the administrative burden in the public sector arises from the need to organize, motivate, and control people; and this burden could be reduced if the private sector were allowed a greater role under government leadership. 1/

3. Marketing

Agricultural marketing services are also a government monopoly in many developing countries, at least on a formal legal basis. This is especially the case for export crops and inputs (fertilizers, agricultural equipment, agricultural chemicals); in many instances, food crop marketing is also a legal monopoly of government. Agricultural marketing, in the conditions normally found in developing countries is inherently unsuitable for large-scale, bureaucratic organizations because it entails many small transactions taking place over large physical areas, typically characterized by poor communications and rapidly changing circumstances. It thus demands flexible, rapid, and decentralized decision making because of the enormous obstacles to effective central supervision and control. Moreover, state trading systems require relatively heavy inputs of skill per unit of sales (accountants, administrators, supervisors, etc.), and state trading monopolies waste the skill, experience, and human energy available in the actual or potential community of private traders. Such state monopolies substitute costly, formally acquired skills for the raw capacity and energy generated by the search for profit. Also, public sector trading monopolies involve wasteful use of capital resources.

1/ World Bank (1981), pp. 37 and 88.

They are by nature capital intensive, requiring bigger inventories, more and better warehousing facilities, and more elaborate accounting procedures than private trade.

There are many good and understandable reasons why governments around the world have ventured so extensively into agricultural marketing, and why in developing countries they have tried so frequently to impose government monopsonies and monopolies. But experience--almost without exception--has proved this practice to be a burdensome, unsuitable, and inefficient use of public sector resources. If the main rationale for the establishment a public sector presence in rural marketing is to protect peasants against exploitation by private traders--which is often said to be the case--then the best way to achieve this goal is to allow competition between public and private trading agents. Monopoly--public or private--is the breeder of inefficiency and, market power, from whatever source, permits exploitation. Allowing private traders to compete with state trading monopolies might, therefore, be a major source of new resources and improved efficiency in the use of current public resources. And this policy can also spur rural effort by making the economic environment more open and more rewarding. 1/

4. Drainage and salinity control

Experiments with new uses of private sector resources to meet rural development needs are taking place in many countries, although they have received little attention. In Pakistan, for example, private tubewells have taken over the major task of salinity and waterlogging control in the Indus River Plain. Twenty years ago the Pakistan Government and foreign donors decided that the most efficient and equitable approach to water control in this area was to install large-volume public tubewells. Private tubewells were to be tolerated, but it was envisaged that they would ultimately disappear. 2/ But despite the expenditure of billions of rupees by the public Salinity Control and Reclamation Projects (SCARPs),

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1/ It does not diminish the force of this argument to recognize that allowing private competitors into markets monopolized or monopsonized by state agencies is neither simple nor problem-free. In fact, one of the underlying obstacles to liberalization of these markets is precisely that much of the superstructure of price and marketing policies has to be overhauled for an effective liberalization of marketing to take place. Subsidies, pan-territorial pricing, and price stabilization schemes are all made difficult by a private presence in the market. The private traders buy where costs are relatively low but they charge full costs to consumers. This profit-maximizing (cost-minimizing) behavior is often attacked as "creaming the market." What it really means is that a state agency cannot survive competition with private traders if it must pursue social policies involving noncost-minimizing behavior; it must be explicitly subsidized to cover the losses that are inevitably incurred.

2/ Mohammed (July 1967).

which built and now maintains 11,000 tubewells, the private tubewells did spread and today they pump twice as much water as the public tubewells. Moreover, the water table has risen to dangerous levels in much of the area served by the public tubewells; the best drained region is the Bari Doab, which has no SCARP at all, but has many private wells. In addition, tubewell maintenance and repair costs are absorbing a growing share of the money available for irrigation, and the Pakistan Government now faces the appalling prospect of financing the replacement costs of the aging stock of public tubewells. The solution being explored at present is to privatize the public tubewells entirely, leaving the salinity and water control job to private wells financed by individual farmers and groups of farmers. The transitional problem of how to arrange the transfer of the existing public tubewells is now under consideration.

5. Agricultural extension

No public service is given a more critical role in the development process than agricultural extension. The agricultural extension agent is supposed to be the transmitter of new technology and the instrument of agricultural transformation. Yet the virtually universal reality in developing countries is that agricultural extension agencies function extremely poorly. It is especially difficult to recruit and retain trained and motivated staff for these agencies. The deficiencies of budgeting and the cumbersome financial administration, as well as the scarcity of nonsalary budgets, mean that most extension services are poorly provided with equipment, especially vehicles. They are always short of fuel and spare parts, so that services are often impossible to perform. Moreover, long distances, bad roads, and poor communication make supervision and control of agents especially difficult.

The fielding of a smoothly functioning, effective extension service represents an administrative and organizational achievement that is beyond the reach of most poor countries for some time. Is there a way to accomplish some of the objectives of extension by privatization?

Actually, Latin America has a tradition of private extension services. In Colombia, for example, the agricultural bank (Caja Agraria) required the borrowing farmers to arrange for private technical assistance as part of the loan agreement. The farmer would hire a private specialist--an agronomist or another farmer recognized as an expert--with financing provided by the loan. This assistance was provided without charge to small farmers.

In Uruguay and Argentina, these arrangements took a slightly different form. In Argentina, farmers or ranchers joined together to form Regional Agricultural Experimentation Consortia (CREAs). These began in the 1950s. 1/ They were patterned after the French Centres d'Etudes Techniques (CETAs). They bring together a small number of farmers (8-12)

1/ Arias (1972).

for monthly or bimonthly meetings. The group hires a technician to advise them. They visit one farmer's (rancher's) fields (or herds) for several hours and spend the rest of the day discussing what they saw. Thus, new techniques including such innovations as organic farming and use of water conservation and low-input technologies, are introduced. By 1970, there were 108 CREAs in Argentina, with 1,130 farmer-members whose holdings covered 2.9 million hectares. They have a national organization, hold training courses, and publish a monthly newsletter and a journal.

The farmers and ranchers involved in these CREAs and related organizations are, to be sure, those with relatively large farms, but the model can be adapted for small farmers. A recent experiment in Chile suggests the potentials of innovation along these lines and also indicates some of the difficulties. For a long time Chile has had the reputation of having one of the best-financed and best-staffed extension operations in the developing world. It was nonetheless much criticized because of its poor services to farmers. Over 90 per cent of the Chilean Government's agricultural technicians and professionals were located in Santiago or the provincial capitals; they were rarely in the field. In the 1970s, there were three main public sector institutions responsible for providing technical assistance to agriculture: the Agriculture and Livestock Service (SAG), the Agrarian Reform Training and Research Institute (ICIRA), and the Agricultural Development Institute (INDAP). Technicians employed by the SAG and the ICIRA numbered about 450 in the late 1970s, almost all of them working in the so-called reformed sector, consisting of small landholders who benefited from earlier land reform efforts. But the help these technicians gave was mainly nontechnical--for example, preparation of credit applications and formation of cooperatives. The agencies were unable to tell farmers much about crop practices, new seeds, and alternative technologies.

This centralization of extension efforts presented some difficulties to the post-Allende Government. The reformed sector included 40 per cent of the best land in Chile, but this land now belonged to small farmers who had little capital and, often, not much technical knowledge or management experience. To deal with this challenge, the Government started a program based on the idea that technical assistance to these farmers should be provided by the private sector, with the Government subsidizing the cost. The basic approach is that individual farmers contract for a package of technical services (farm planning, planting help, advice on agricultural practices, post-harvest evaluation) from agricultural "consultants." Middle farmers (owning between 5 to 15 hectares) are eligible for a subsidy covering 70 per cent (about US$200 total) of the cost of the package. Farmers with holdings smaller than five hectares could also benefit from subsidies if their cash flow permitted some payment. If not, they would continue to be served through the supervised credit operation of the Agricultural Development Institute (INDAP). The Government was expected to enroll 10,000 farmers in the subsidy program in the first year, and 30,000 to 40,000 after a few years.

The subsidy element in the program quickly revealed some flaws--notably the weakness of supervision and control. It was difficult for the Government to know whether the farmer actually received the technical services for which he contracted. Both the technical assistance "consultant" and the farmer had an obvious interest in receiving the subsidy, even if service delivery was inadequate. They could, conceivably, conspire and divide the subsidy, so that they would benefit whether or not technical assistance was actually delivered.

The Government therefore modified the system in 1981. Its central features have been retained, but more controls have been introduced. For example, the new arrangement provides for closer surveillance and harsher penalties for violation of the law. It seeks better compliance with contractual obligations. Financing arrangements have been modified with this end in view. Previously, the farmer was supposed to make some cash payment out of his own pocket to his technical assistance consultant, but this was difficult to verify. The new arrangement specifies that farmers must make advance payments to consultants before the Government will make its contribution. While this experiment in subsidized private agricultural extension clearly presents serious administrative difficulties and pitfalls, it is highly innovative and illustrates the possibilities for creative use of private service delivery to meet urgent development needs.

6. Transportation

Transportation, especially urban transportation, offers many opportunities for private activity. In most cities, two common carrier systems coexist. One is the modern bus and subway network, which is relatively capital intensive, highly structured, and usually organized in the form of publicly-owned or franchised monopolies. The other is a privately-owned and organized fleet, more diverse and unstructured; it includes such vehicles as taxis, minibuses, vans, jitneys, and rickshaws. In case after case, the superiority of the private, small-scale system has been demonstrated convincingly. A few of these cases are summarized below. 1/

For many years, the citizens of Hong Kong relied for their transportation on bus companies enjoying exclusive franchises. In the early 1930s, competition from illegal taxis became severe. These taxis were used as small buses, hired by a group at an agreed rate for a specific trip or by individuals who paid by the seat. In 1960, the Government allowed these vehicles to be licensed for specific functions--transportation of workers, school children, airline staff, and hotel guests. At the same time, many minibuses continued to operate without licenses (that is, illegally); although registered as private cars, they were available for hire.

1/ These are drawn from Roth and Wynne (1982) and Midgely (1981).

The Government persistently discouraged the private operators and favored the franchised buses, but the level of comfort and frequency of service of the latter were so unsatisfactory that demand for the informal carriers grew sharply and the number of nonfranchised carriers approximately tripled during the 1960s. In 1969, the Government legalized the minibus as a form of common carrier--the Public Light Bus. By 1972, the Public Light Buses were handling one fourth of all public transportation, and by 1976 they handled one third. More than 4,300 Public Light Buses had been licensed, and the Government, worried about the survival of the franchised buses, then stopped licensing new Public Light Buses.

In Buenos Aires, Argentina, the collectivo (microbus) is the main mode of transportation. It arose in the 1920s as a shared taxi, operating on a fixed route chosen by the driver himself. In 1936 the Argentine Government clamped down on the collectivos and created a state enterprise to which it gave a total monopoly of city transportation, but some microbus lines survived. In 1951 the state enterprise (Transportes de Buenos Aires) took over all services, but this was a disaster both financially and in terms of quality. By 1959 it was incurring a deficit of over US$1 million a year. In 1962 it was liquidated--one of the few recorded cases (perhaps the only one) of the divestiture of an urban transportation system. Private operators took over all transportation services except the subway.

In Calcutta, India, the use of private buses, a system in operation since the end of the 19th century, was banned in 1960 when the Calcutta State Transport Corporation (CSTC) was given a monopoly. The CSTC quickly ran into financial, managerial, and labor relations problems, including a paralyzing strike in 1966. In response to public demands expressed before the 1966 elections, and also to raise money, the West Bengal Government licensed 300 private buses. These proved profitable, although they charged the same fares as the unprofitable CSTC and their routes were inferior. By the late 1970s, Calcutta had some 1,500 full-size private buses in operation, as well as about 500 private minibuses. They now carry, without subsidy, two thirds of all bus traffic in the city. The CSTC, with the best routes and the same fares, is subsidized by the Government at US$12 million a year. The success of Calcutta's private bus operators illustrates some general advantages of private sector service in the less developed country setting.

(a) Private buses are kept in operation, with necessary repairs being quickly done. The CSTC, which has to go through bureaucratic procedures to get spare parts, usually has half of its buses out of operation at any one time.

(b) Private bus crews, paid a percentage of revenues, make greater efforts to collect from passengers. Fare evasion is estimated to be 25 per cent on CSTC buses, whereas it is negligible on private buses.

(c) The CSTC is greatly overstaffed. In 1980, it had 50 employees per bus, one of the highest such ratios in the world.

The private bus owners in Calcutta are organized into associations that have contributed to a successful operation. These organizations, formed voluntarily and spontaneously by the private owners, set down rules to allow smooth and equitable relations between buses, such as rules about running on time. Operation, maintenance, and overall management of the vehicles remain in the hands of the individual owners.

Some cases in Africa show both the perils of refusal to rely on the informal, small-scale sector and the benefits of doing so. Abidjan, Ivory Coast, was served until 1974 by a very active informal system of common carriers, known as a'bakas. Originally, they brought goods from outlying areas to city markets, and later they evolved into illegal common carriers for the low-income areas of the city. In 1974 Abidjan's bus system, Société de Transport d'Abidjan (SOTRA), a joint venture with a majority share held by the Government, urged the Government to ban the a'bakas in the city limits because of unfair competition. The Government agreed to do so. The consequences were unfortunate--for the people of Abidjan, for the municipal and national budgets, and even for SOTRA. Before 1974, SOTRA was profitable, despite the competition of the informal carriers, and it had a well-managed fleet of 300 buses. With the banning of the a'bakas, SOTRA launched an extensive fleet expansion and capital construction program; by 1981 the fleet had 900 buses, and it is supposed to increase to 1,600 by 1985. As a result, SOTRA has been in deficit since 1975.

The story of Dakar, Senegal is similar. The two sectors in Dakar consist of a bus company, Société de Transport en Commun (SOTRAC) and private minibuses, or "Cars Rapides." SOTRAC dates from 1971, with a 15-year franchise (monopoly) on public transport in Cap Vert (the Dakar metropolitan area). 1/ In 1981 SOTRAC had 430 buses and 35 minibuses. The informal transportation sector is dominated by Cars Rapides, organized in 1961 on a cooperative basis and later into a syndicate. At present, there are 650 vehicles in operation, less than the 1974 peak of 700 vehicles, owing to government restrictions on fleet expansion. Cars Rapides handle 40 per cent of all passenger trips, whereas SOTRAC handles 20 per cent, and taxis and private cars handle the remaining 40 per cent. SOTRAC operates with a growing deficit, from US$2.2 million in 1976-77 to US$3.8 million in 1978-79, representing 25 per cent of total operating costs in that year.

Deficits notwithstanding, SOTRAC proposed to expand service so as to achieve effective monopoly of Dakar's public transportation. For this purpose, it would need almost 500 additional buses and greatly expanded facilities--at a probable cost of US$61 million. 2/ This would entail

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1/ SOTRAC is owned 64 per cent by the Government, 27 per cent by Renault-Saviem, and 9 per cent by others.

2/ French public and private capital would probably finance 38 per cent of this total.

also the banning of the Cars Rapides, which in 1979 carried twice as many passengers as SOTRAC buses without government subsidy and in the face of government restrictions on fleet expansion or even replacement.

In Nairobi, Kenya, a happier road was followed. The matatu--the private minibus variant in that city--was legalized in 1973. About 3,600 of them operate around Nairobi; about 1,000 provide purely urban service. Modern transportation is provided by the Kenya Bus Service Ltd. (KBS), which has 320 buses under a franchise with the Nairobi City Council and is a foreign-owned private company. After 1973 it decided, on grounds of unfair competition, not to increase its fleet when the matatu was legalized. So, while the population of Nairobi grew from some 500,000 in 1970 to almost 1 million in 1980, the fleet remained about the same size. The company's buses ply the main routes, with the company covering costs. The matatus, meanwhile, are the backbone of the transportation system. In 1979 there were 1,550 privately operated matatus, carrying 66,000 passengers a day. They go where the business is--that is, in low-income areas and, in peak periods, along commuter corridors and charge about the same fares as the Kenya Bus Service.

There can be little question that in urban transportation--and, almost as surely, in other transportation--small-scale, private operators have decisive advantages over the public sector producers. One observer comments as follows on the informal, private systems: 1/

> At first glance they all appear to be different, but this is primarily because of variations in hardware--from bicycle rickshaws to sleek European minibuses. The institutional structure and basic operations are quite similar: private individuals acquire the highest technology vehicle that they can afford, and respond to the mobility demands of their neighbors at a tariff that most of them can pay . . . A few billion people cannot all be wrong, and there is really no need for us to painfully invent a new urban transportation mode when there are literally thousands of jitney systems in flourishing operation.

VI. Government Contracting of Services

As noted earlier, sharp distinctions between public and private sectors can mislead; economic activities rarely fall into one or the other category in all their dimensions, nor are they usually in pure form in any dimension. Thus, governments may finance an enterprise and allow a private firm to run it, or private owners may finance an

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1/ Sigurd Grava, cited by Roth (1982), p. 211.

enterprise with subsidies from the banking system. It is suggested above that, for these reasons, the picture of "private" and "public" sectors, each constituting a well-defined and separate entity, is not quite accurate.

It is nonetheless useful to distinguish the public sector from the private sector in terms of how public services are supplied or provided. Thus, there is an important distinction to be made between the agent or agency that organizes, arranges, and (usually) finances the supply of a service and the agent who delivers, produces, or manages it. By reducing the public sector's role as producer or delivery agent and increasing its role as organizer, arranger, and overseer of privately produced goods and services, the potential for constructive privatization is greatly enhanced.

Public services can be delivered in many different ways, in addition to conventional provision by a government agency through its own employees. 1/

(a) Under intergovernmental agreements, one unit or level of government pays another to supply a service. In the United States, for example, counties sometimes draw up contracts with cities for the maintenance of county roads within city limits. 2/

(b) Contracting of services is extremely widespread in all areas of activity. Much of the U.S. national defense, that pre-eminent public good, is, of course, privately handled by contractors. A private contractor even mans and operates the Arctic Early Warning System. And elsewhere, there are now private air forces as well as mercenary forces for hire.

(c) Franchising is another method, either exclusive (a grant of monopoly rights to a private firm to provide a given service) or nonexclusive (for example, taxi franchises). In some countries franchising is common in utilities (gas, water, power) and in urban transportation.

(d) Grants and vouchers are well-known devices for encouraging consumption of goods and services. A subsidy from government to producers is the classic form of grant. Vouchers are subsidies to the consumer for specific goods or services--for example, housing, food, education, and cultural activities.

(e) In free market transactions, the government is not present at all, although it may set standards for the provision of services.

1/ Savas (1981), p. 58.

2/ Such arrangements are very common in the United States: in 1973 two thirds of American cities had arrangements with other government units for services such as water supply, sewage treatment, jails, police communication, libraries, animal control, and public health services (Savas (1981), p. 59).

(f) Voluntary services can be organized and delivered by consumers themselves; recreation facilities, fire protection, protective patrols, and street cleaning are examples.

The instrument with the greatest relevance to the private sector in developing countries is contracting. It is widely used in the industrial world. Table 2 illustrates the vast array of activities that U.S. cities contract to private firms. In Denmark, one private firm handles ambulance and fire services for most cities; Savas observes ". . . while Wall Street is cleaned by a government bureaucracy, the streets in Communist Belgrade are cleaned by a worker-owned enterprise that has a contract with the city government." 1/

Comparable contracting arrangements are rare in developing countries, although they do exist. The city of Buenos Aires, Argentina, for example, created in 1977 a public corporation, Cinturon Ecologica Area Metropolitana S.E. (CEAMSA), to improve the region's physical environment. Its main preoccupation has been trash collection. The agency contracted (after open international competition) with a single private concessionaire. The contractor was paid on the basis of waste tonnage deposited at specified fill areas rather than on the basis of cost and was given complete freedom to organize the work and the work force. The number of employees involved in trash collection is now one seventh the number previously employed, the cost to the region's government is lower, and the urban administrative burden has been greatly reduced. The success of this approach is said to have stimulated interest in other cities--for example, in Caracas, Venezuela.

Contracting also involves major problems that limit or condition its use. A 1978 U.S. study of municipal contracting for the provision of private services listed the arguments commonly raised against private contracts. 2/

(a) Higher cost. Contracting involves costs in government administration, and the contractor's profit (or fees) must be added to the government's cost of doing business. Consequently, contracting of services to a private concern can be more expensive than public delivery of services.

(b) Poorer service for citizens. Since the objective of private firms is to maximize profits, a firm may reduce its service in order to increase its profits.

(c) Chance of corruption. Because of the desire of private firms to obtain contracts and to increase profits, great pressure may exist for contractors to engage in questionable or illegal practices, such as bribery, kickbacks, and payoffs.

1/ Savas (1981), p. 65.
2/ Fisk (1978), pp. 7-10.

Table 2. United States: Number of Cities Using Private Firms to Supply Municipal Services Under Contract 1/

Service	No. of Cities Contracting with Private Firms	Service	No. of Cities Contracting with Private Firms
Refuse collection	339	Sewer lines	14
Street lighting	309	Treasury functions	14
Electricity supply	258	All fire services	13
Engineering services	253	Mosquito control	12
Legal services	187	Museums	12
Ambulance services	169	General development	10
Solid waste disposal	143	Alcoholic rehabilitattion	9
Utility billing	104	Records maintenance	9
Animal control	99	Election administration	8
Planning	92	Police communications	8
Water supply	84	Building and mechanical inspection	7
Mapping	74	Fire communications	7
Water distribution system	67	Housing	7
Payroll	65	Recreational facilities	7
Street construction and maintenance	63	Personnel services	6
Hospitals	57	Urban renewal	6
Special transportation services	49	Crime laboratory	5
Cemeteries	47	Irrigation	5
Microfilm services	47	Parks	5
Nursing services	34	Traffic control	5
Assessing	31	Water pollution abatement	5
Public relations	30	All public health services	4
Bridge construction and maintenance	25	Juvenile delinquency program	4
Industrial development	24	Licensing	4
Tax collection	24	Soil conversion	4
Mental health	22	Civil defense communications	2
Sewage disposal	21	Fire prevention	2
Management service for publicly owned transit	18	Noise abatement	2
Electrical and plumbing inspection	17	Patrol Services	2
Libraries	17	Registration of voters	2
Zoning and subdivision control	16	Training of firemen	2
		Air pollution abatement	1
		Jails and detention homes	1
		Welfare	1

Source: Savas (1981), Appendix Table 3a.

1/ Based on responses of 2,375 cities to a mail survey in 1973.

(d) Possibility of default. Unlike government, a contractor may go bankrupt or cease operations.

(e) Public employee displacement, drawing opposition from municipal unions. Contracting existing government services can cause strikes, slowdowns, and legal challenges by labor unions.

(f) Problems in drawing up adequate contracts. In many service areas, it is extremely difficult to formulate contracts that will ensure that a government actually receives the desired services that it agrees to pay for.

(g) Failure to guarantee adequate competition for certain contracts. For certain services, such as fire protection, few, if any, private firms exist to provide the service.

(h) Reduced flexibility of response to change. Since contracts have to be written in very specific terms, a government does not have the ability to respond quickly to major changes in service requests. Moreover, renegotiations can be costly.

(i) Lack of control over the final service. Because of the difficulty of writing and enforcing performance contracts, particularly those which focus on the quantity and quality of final products and services, a government may lose some degree of control over these products and services.

(j) Need for close monitoring. To ensure that a government receives what it pays for, detailed monitoring of the contractor's activities is required. This problem does not exist, at least not to the same degree, when a government produces the service itself and all employees are under its direct control.

The following arguments are advanced by advocates of more contracting by the government. 1/

(a) Contracting is more efficient. It exposes inefficient producers to competitive forces, permits less political management, and puts the costs and benefits of decisions directly on the decision-maker, whose own rewards are directly at stake.

(b) It allows governments to use specialized skills absent in its own work force. It allows greater flexibility in adjusting programs as demand and revenues change. It makes experimentation easier. It avoids large, lumpy capital requirements. It permits exploitation of economies of scale by even small government entities.

1/ See, for example, Fisk (1978), pp. 92 ff; and Savas, p. 89 ff.

(c) Contracting a part of the work provides a measure for comparison, and the cost of the service is visible in the cost of the contract. It thus increases the transparency of public sector operations.

These are very general advantages. Others peculiar to developing countries and to particular sectors are mentioned elsewhere in this paper. But, better than a listing of potential advantages and disadvantages, is the cumulative experience with government contracting, mostly anecdotal, which strongly suggests that large benefits are obtainable from government contracting of services to private suppliers. Savas, for example, assembles a large array of evidence indicating substantial gains in efficiency from privatization. 1/ Other writers have found similar gains. 2/

It is undeniable that risks and disadvantages exist, some of them especially pertinent to developing countries, particularly those relating to contract specifications and monitoring and to the dangers of corruption. But these problems are hardly absent when there is public delivery of services, and contracting skills can be developed over time. Moreover, in many cases, private delivery does not require a very complex and extensive role for the government as organizer and overseer. The advantages--and the problems--of government contracting of services to private "producers" are best illustrated by surveying experiences in one key sector--transportation--where experiments with contracting are relatively numerous.

1. Private road construction

Much road construction in industrial countries after World War II was financed by private capital, but indirectly through revenue bonds floated in private capital markets; repayment arrangements frequently involved tolls. Direct private financing of road construction is rare but it is not unknown. For example, in the state of Texas, the major highway between Dallas and Fort Worth was built by private companies licensed to finance and construct the road, to operate it under a toll system until the investment was paid off with a suitable rate of return, and then to turn over ownership to the public. 3/ Comparable arrangements exist in other countries--in Spain, for example. The Transport Department of the U.K. Government would like to follow the same pattern--that is, to buy roads on credit, with contractors being paid "by some form of royalty related to the amount of traffic using the road." 4/ Road tolls cannot be used in the United Kingdom because alternative toll-free roads are so numerous that collection would be a problem, and

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1/ Savas (1981).
2/ Spann (1977) and Poole, Jr. (1980).
3/ U.S. Congress (1982).
4/ Taylor (1982).

the problem is exaggerated by the large number of intersections. Contractors want a guarantee, however, of a minimum rate of return, which means protection against a traffic flow lower than projected. The U.K. Treasury wants this risk to be borne by the private financiers. This and related differences make the outlook uncertain for roads built on such installment loans.

The private financing of roads is being tried on a sizable scale in Argentina--the pioneer in this respect in the developing world. 1/ Over US$2 billion of road construction has been or may be privately financed in that country. The unusual aspects of this approach are that it involves social overhead capital generally regarded as unsuited to private financing or management and that it entrusts responsibility for financing construction operation and maintenance to a single contractor on a long-term basis. 2/

Feasibility studies for some of these roads projected reasonably high rates of return--12 per cent for the 25 de Mayo and Perito Moreno Thruways in Buenos Aires. The studies were completed a decade ago, however; as prices and price relationships have changed and construction costs are higher than estimated, the rate of return will be lower than projected.

The 25 de Mayo project has had a range of problems that illustrate the difficulties of the new approach. To assure the contractor's access to bank loans, both the Federal Government and the Buenos Aires Municipal Government had to guarantee most of the loan funds--70 per cent to 100 per cent of various cost items (e.g., equipment, labor, and materials). The municipality also gave a minimum average daily traffic guarantee (85,000 light vehicle equivalent units), which was to rise slowly each year. With the specified toll rate (US$1.00 in January 1982), this would allow the contractor to estimate the minimum revenue.

Three major problems arose. First, traffic was lower than projected--65,000 vehicle units a day instead of the guaranteed 85,000; but the contractual toll rate is fixed in real terms. Thus, the municipality is obligated to make up revenue shortfalls of about $7.3 million a year.

Second, the cost of construction exceeded the estimated cost because of the high rate of domestic inflation and major changes in real foreign exchange rates. Escalator clauses (indexation) protected the project against rises in peso cost, but the Argentine peso was revalued upward during construction. As a result, contractor payments based on dollar estimates for construction costs fell short of needs by more than $250

1/ This account draws heavily on Ulin (1982).

2/ The 25 de Mayo and Perito Moreno Thruway projects were the first major public investments in Argentina financed entirely by foreign private capital.

million. Argentine public banks had to provide substantial short-term bridging finance, which was later converted to longer-term foreign debt. The present problem is how these loans will be repayed. If the relative price of the peso had stayed high, the contractor's peso revenues would have permitted repayment of the larger dollar obligation, but the peso has plummeted.

The Government is now considering raising real toll rates to increase revenue. In any event, if toll revenues do not increase substantially, loan repayment by the contractor will not be possible; the municipality of Buenos Aires and the Federal Government will have to pay the substantial sums required by their guarantees. The guarantee problem does not arise so starkly in the other road projects in Argentina; the Nueve de Julio Road, for example, seems to carry no federal loan guarantee, nor are tolls clearly specified. The contractor is guaranteed a minimum income in U.S. dollars, with an escalator clause for price rises. The city will disburse this over a 20-year period. These road projects, like other proposed private investments in infrastructure in Argentina (a new container port, for example), almost certainly result in greater investment than would otherwise occur. The size of the increment, of course, depends on whether the guarantees have to be met and on how they are financed. The productivity and social profitability of the roads and other privately financed infrastructures depend mainly on the extent to which risk is borne by the private investor, which in turn is mainly a function of guarantee arrangements. It is conceivable that this novel form of capital transfer could become simply a new version of supplier credit financing for poorly selected public sector projects.

2. Road maintenance: an example of contracting

Road maintenance has been subject to the greatest experimentation with contracting of this kind. Problems of staff incentives and general budget crises have always had severe effects on public works and highway agencies in developing countries, and these have been aggravated recently because these agencies are heavy users of fuel. The need to cut unit costs of maintenance has led some governments to try new approaches, particularly the use of private contractors for road maintenance. 1/

Advocates of maintenance contracting stress the following benefits: (1) stronger incentives to cut costs; (2) greater flexibility in scaling resources to meet changing needs; (3) removal of the public sector burden for direct management of large and dispersed equipment fleets and work forces; (4) prevention of diversion of budgeted funds from maintenance to other uses; (5) creation of a wider political constituency for maintenance; and (6) better prospects for developing durable institutional capacity.

1/ Harral (1982).

Opponents say that contracting can raise costs because it is impossible to discharge redundant public sector employees; that contract negotiation and administration will require more people and more work; that competent contractors are too few and therefore the market for contractor services is too thin to be competitive; and that governments of developing countries are unable to manage contracts.

Some country experiences illustrate the potentials and constraints of maintenance contracting. In Yugoslavia, Brazil, and Argentina, results of a shift to maintenance contracting have been very positive. Yugoslavia started such arrangements in the 1950s. Its system is highly developed, with cooperative enterprises bearing responsibility for execution of contracts custom-tailored to specific tasks and with well-defined standards, levels of service to road users, work safety rules, and financial responsibilities. In Brazil, budget pressures, expressed in restrictive hiring and pay policies, led the Highway Department to contract maintenance which, until the 1970s, had been done entirely by the Department (i.e., by force account). The Highway Department continues to plan and manage overall operations, but production has been transferred to private contractors; the Highway Department's work force is one fourth of its 1973 size. In Argentina, a 1979 law required government agencies to reduce their work force. In response, the Argentine Highway Directorate turned over 70 per cent of its routine maintenance to contractors. In 18 months, responsibility for two thirds of the 47,000 kilometers of national road network was transferred to contractors.

An experiment in Colombia was less successful. In 1977 the Ministry of Public Works arranged four contracts for maintenance, but work programs were poorly defined. Specifications were left to contractors. No penalties were set down for noncompliance. The repayment arrangements did not work well either. The contractors were supposed to collect tolls as their only source of contract revenue, but poor estimates of traffic led to toll collections below the anticipated necessary income. Contractors also felt that the Government failed to meet its contractual obligations. Also, contactors concentrated on the most profitable maintenance elements, ignoring the rest. These and other problems related mainly to poor contract specifications generated unsatisfactory performance and much dispute. All four of these Colombian contracts ended up in court. The experience made clear the need for strengthening both contract planning and the capacity for supervision in the government.

However, limited experience and small contracting capacity need not hold back experimentation and progress in these activities, as experiences in Nigeria and Kenya suggest. In Nigeria, an initial effort in 1979 to contract maintenance for some 12,000 kilometers of paved federal highway was aborted because extreme variations in bid prices indicated that better specification of work was essential. A better prepared attempt followed in 1980. Work programs and performance standards continued to generate uncertainty among contractors, but 30 contracts for 8,000 kilometers of road were nonetheless let, half to indigenous contractors and half to multinational contractors. Three seminars were held to discuss the performance of the contractors, which was apparently good enough to encourage the Government to extend the scheme to 16,000 kilometers of trunk roads in 1982; 60 per cent of the first group of contractors will be retained.

As an indication of contracting possibilities in the less developed countries, a recent Kenya experience is also noteworthy. Despite considerable external assistance, Kenya's road maintenance operations were generally unsatisfactory for staff reasons (shortage of skilled labor, high turnover of workers, poor incentives to work, and redundant unskilled workers) and for administrative and organizational reasons (budget inadequacies, cumbersome administrative procedures, etc.). The Roads Department in Kenya has, for some years, employed small African contractors to haul material for regraveling operations. Some of these contractors developed their capacity to the point that they can do full regraveling contracts, although help from the Roads Department is still needed. By 1980-81, they were able to deliver US$5.2 million of regraveling work, accounting for 80 per cent of the country's total. These contractors are certainly being helped by Roads Department staff and often by development agency subsidies but they show that competence of this kind can be created in a reasonable time, if it is done consciously and gradually.

The authors of the survey from which the above accounts are taken note that it is too early for many firm conclusions and that contracting to private parties involves risks. With respect to efficiency, however, they conclude:

> "With rare exception, contract maintenance has proven to be a workable undertaking in countries at diverse levels of development and with diverse forms of social and economic organization. With relative freedom from entangling "red tape" and the ability to pay higher salaries to attract, retain, and motivate staff, contractors have in some cases, for example, in Nigeria, succeeded in getting maintenance done where all other approaches have failed. Where sufficient profit incentives exist, contractors are normally attracted to maintenance opportunities, even in remote areas; while larger firms tend to prefer larger contracts including periodic maintenance, in many instances, small firms have been formed specifically to undertake routine maintenance.
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> . . . It must be recognized, however, that the introduction to any new system, especially quickly and on a large scale, is risky. The Colombian experience illustrates some of the problems which can be encountered in introducing contract maintenance with inadequate planning and preparation. While the overall burden of responsibilities on the road authority is normally reduced by the

introduction of contractors, the nature of the government's responsibilities changes sharply, and there is increased need for contract management skills, for improved work planning performance monitoring, and more effective cost accounting in force account maintenance operations.

. . . initial cost results from Brazil, Argentina, and Kenya (and also the United States) suggest that contractors can perform maintenance at substantially reduced costs. The administrative costs to the government in contract management, quality control, measurement, and certification are normally substantially less than in administration of force account works, although the nature of the administrative burden is different and may require enhancement of contract management staff. In every case where contract maintenance has been used on a large scale continuing over time, government has been able to effect a substantial reduction of its own establishment.

Those who are familiar with the bloated payrolls and the vast fleets of equipment lying idle, which are characteristic of all too many road maintenance directorates not only in developing countries, will require little evidence to convince them that contractors can perform maintenance at lower costs. However, many may question whether much of the potential cost savings would revert to the public. The best safeguard of the public interest is lively, open, and honest competition; where this is assured, large cost savings are likely to be realized . . . However, it must be recognized that the twin dangers of monopolization and corruption are ever present."

Urban services and transportation services by no means exhaust the possibilities open to developing countries in terms of government contracts for delivery of services by private parties. In the less developed countries, maintenance of rural wells might readily be subcontracted--indeed, all maintenance activity lends itself to subcontracting. What is needed at this stage is more imagination and greater experimentation in devising ways to tailor the contracting to the specific needs and constraints of particular developing countries.

VII. Conclusions

Better, more creative utilization of the private sector can make a significant contribution to economic growth and change in the coming decades. There is widespread agreement on this conclusion from all points on the ideological spectrum. In recent years many efforts have been made to harness the private sector more effectively, most of them in response to the problems created by rapid growth of the public sector in the 1970s, including negative impacts on incentives. Some of these efforts are described in this paper.

Private skill, energy, and savings can be mobilized in many different ways, of which only a few are considered in this paper. Nothing is said about deregulation except in the context of allowing more open markets. Nothing is said about large and important areas such as user charges or encouragement of foreign private investment. Some unusually interesting experiences, like those in postal services, are passed over. New approaches to social security are also ignored. These omissions are due to time and space constraints, rather than to neglect of their importance.

Divestiture of state-owned enterprises, which is often seen as a major instrument of privatization, has in fact been the subject of few experiments. The potential for selling commodity-producing state-owned enterprises to the private sector seems poor, except in limited circumstances. The benefits are usually small, whereas the political and economic costs are high. In modern manufacturing, ownership of equity is in any event often a relatively minor factor in determining efficiency of resource use. In industrial enterprises in developing countries, the public-private blend is particularly complex, and whether an industrial enterprise is "public" or "private" is usually less significant than the policy environment, which tends to be similar for both private and public enterprises in such basic determinants of performance as access to credit, wage policies, and market sheltering.

If divestiture by sale of equity is the least promising way to alter the private-public mix, the most promising is the provision of services, either directly or by government contracting. The advantages of resort to the private sector in these ways can be summarized as follows.

1. Privatization can make the public sector more efficient by allowing greater concentration or focus. It is a sensible general strategy for all hardpressed bureaucracies; proliferation of programs and activities disperses existing manpower and other resources and increases the need for coordination. The public sector can do its central tasks better if it is not burdened by tasks that are not so central. For example, less absorption in foodgrain marketing, in distribution of fertilizer, in running tomato canneries, or in selling matches would leave governments better able to build and operate railroads and power companies, improve health care and education systems, and administer and unify their national territories.

2. The private sector can improve the efficiency of public entities by competition and by making available to consumers alternative sources of supply. Where government monopolies exist, and scale economies are not compelling, use of private alternatives can be a significant spur to better public performance. This is perhaps most clear in the marketing of agricultural inputs and outputs and in retail trade generally. But, as noted earlier, it is also relevant in other key sectors, such as transportation.

3. Private provision of services mobilizes new resources, mainly increased individual effort, greater intensity of work, and the commitment of skills useful in the marketplace. As noted above, in trade and transportation--two sectors critical to growth in low-income countries--the technology typical of the small-scale private sector is particularly appropriate; it utilizes little capital and employs few formally educated people and many unskilled or informally trained people. Privatization in these sectors, therefore, has beneficial effects not only on output but also on income distribution and employment.

4. Areas of activity in which private agents are allowed to compete--with or without a public sector presence--are likely to be characterized by better services. This is especially true of small-scale activities such as retail trade or personal services, sale of inputs to farmers, trucking, and urban transport. These activities are, by their nature, ill-suited to typically complex procedures of large-scale organizations, especially government bureaucracies. They are also areas where personal dedication and incentives are especially critical. But even if these factors are not strongly present, competitive provision of services leads to better services because it presents alternatives to consumers and producers, because it can make monopolistic inefficiencies more transparent, and because it dilutes power over buyers or sellers.

5. A more active private sector also allows the broader development of entrepreneurial abilities. Lack of indigenous entrepreneurs is frequently identified as a basic constraint to the economic growth of many developing countries. It is, in fact, difficult to envisage more rapid long-term development in the developing countries without more encouragement of entrepreneurship. Very little has yet been done in most developing countries to encourage the emergence of entrepreneurs; on the contrary, they have been discouraged. Leaving to the private sphere some of the activities now carried out by government would enlarge the scope for training in entrepreneurship.

6. Finally, the dispersion of economic authority brought about by a larger role for the private sector could contribute to the building of more decentralized and more democractic societies, for it represents a dilution of power and an opening of opportunity, which must in the end increase society's responsiveness to human needs.

For these reasons, the privatization of services is the policy area with the greatest potential in terms of lightening the public sector burden, increasing the efficiency of resource use, and stimulating growth. It is also rather a benign political issue (or at least much less explosive than divestiture) and more amenable to reasoned policy dialogue. It is, therefore, an especially appropriate vehicle for economic reform and is deserving of much closer attention than it has received in the past.

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