

THE URBAN AGE

Volume two
17445
Number four

October 1994

PRIVATIZATION AND CITIES

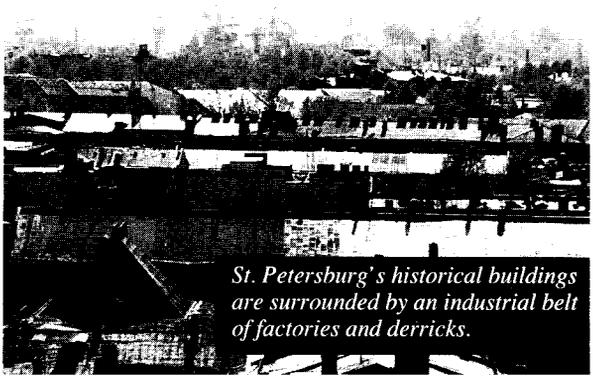
Privatization in St. Petersburg: Challenges in the Post-Soviet Era

by Leonid Limonov and Vladislav Miagkov

ST. PETERSBURG. St. Petersburg was founded in 1703 by the Russian Emperor Peter the Great. When he captured this part of the Baltic coast from Sweden, he secured direct access to international commercial and political networks. St Petersburg was proclaimed the new capital of the Russian Empire—"a window into Europe."

St. Petersburg relinquished its capital status to Moscow after the revolution of 1917 and became instead a military-industrial center for the country. Its budget came from the state, and its development was

financed by Moscow. Many private-sector initiatives gave way to massive state interventions. Housing provides a good example. Mass housing construction, which began in the 1960s, was dictated by the state, which had become both builder and customer. Citizens, having spent years on housing waiting



St. Petersburg's historical buildings are surrounded by an industrial belt of factories and derricks.

Russian Cities on the Road to a Market Economy: The Housing Sector

by Olga Kaganova and Nadezhda Kosareva

Mass housing privatization really got underway in Russia in 1992. By May 1994, 9.5 million housing units had been privatized throughout Russia, amounting to 30 percent of the eligible housing stock. There were many more privatized units in Moscow—35.5 percent at the end of 1993, and a little less than that—about 18 percent, in St. Petersburg (the national figure was 26 percent at the same time). If the number of housing units on private property (individual houses) and paid-off cooperatives were added to this amount, the average percentage of private-property housing units in Russian cities today would amount to about 45 percent. In Moscow more than half of the housing stock is private; in St. Petersburg, more than 33 percent.

lists, were not consulted about the type of housing to be constructed; neither were they likely to complain given they received their apartments free of charge. The state accepted the product and paid architects and builders in accordance with fixed established prices.

As a result, the historic center of St. Petersburg, with its parks, palaces, and rich facades of old nineteenth century houses is now surrounded by a thick belt of industrial areas. A thin circle of Stalin-period houses and huge "bed-room" districts, made up of multi-story residential areas, stretch as far as twelve kilometers from the center of the city.

Halting Steps Forward

Beginning in 1990, St. Petersburg got its name back, and private-sector

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Research



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Management
Programme



This issue of *The Urban Age* is funded by the Danish International Development Assistance, the Federation of Canadian Municipalities, the Fannie Mae Office of Housing Research, the Dutch Ministry of Foreign Affairs, and the World Bank. Developmental funding has been provided by the UNDP-UNCHS (Habitat)-World Bank Urban Management Programme and the World Bank.

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LETTERS TO THE EDITOR

We welcome your comments, thoughts, and suggestions on *The Urban Age*.

The following was received in response to the Winter 1994 issue "Politics and the City":

Editor:

Paul Singer's article "Politics and the City" in the Volume 2, Number 2, 1994 issue was quite interesting. I could not help reacting to his recommendation that the solution to the present urban crisis lies in the creation of multi-national public agencies. This seems naive because he assumes like his peers that the process of reclaiming control will be carried out by rational officials. However, what we have realized is that, in developing countries and especially in Africa, the problem is not that implementing officials of programs that alleviate urban problems do not know what to do, but they do not do them because of other extraneous factors. Apart from political reasons, these include personal gains, sociocultural reasons, etc.

To my line of thinking and researching, researchers should now focus more on "Why is it that public officials do not implement the right projects? Why is it that there is no accountability on their parts? Why is it that

everyone is concerned with personal gains instead of benefits for their society? Is it because they cannot grasp the management techniques borrowed from developed nations? Or is it lack of patriotism? Or what? It is only when we look at the problems from this premise, that we will begin to ask the right questions about solving all the myriad problems facing developing countries.

Dr. Yomi Oruwa
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Editor:

I find the *The Urban Age* very interesting. I am, however, disturbed by a clear sign of bias against a large portion of the developing world. By identifying issues of *The Urban Age* "Winter 1994, Spring 1994," etc., you display USA/Europe-centered approach which does not become an international magazine.

F.J. Du Plessis
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Editor's Note

"Privatization" is neither a clearly defined term nor a condition that can be easily compared across countries and sectors. Yet it is a trend that is sweeping the globe. According to the World Bank, in the past decade more than 16,000 large-scale enterprises have been privatized worldwide. In 1992 alone 50 countries sold assets worth US\$70 billion.

In its strictest sense, privatization is the selling of state assets to the private sector. Yet as Paul Schutzenbelt and Jens Lorentzen point out, it can also refer to a wide range of public-private partnerships. Economists point to its ability to reduce financial burdens on strained government budgets, its capacity to improve the efficiency of services, and its potential for attracting investments to capital-starved countries.

But what privatization means to a person living in St. Petersburg is vastly different from what it means to someone living in Phoenix, Arizona. In Russia, for 68 years it was illegal to own private property; all industrial, commercial, and public buildings were owned by the state. To suddenly gain ownership of a house and become a partial share-holder in a local company is a heady—and life-changing—experience. In our lead story, Leonid Limonov and Vladislav Miagkov describe what privatization means to the city of St. Petersburg, and how its progression is filled with both pitfalls and advances.

ity to the private sector. "The question," asks Richard Batley in our guest editorial, "is not whether the state should intervene but how the state should intervene." As Pedro Pirez's story from Buenos Aires and our interview with Wagu Siby point out, for privatization to work, government regulation and administrative competence are essential. Concerns of potential unemployment, monopolistic activity, and lack of political commitment also must be taken into account.

Yet, in the end, as the majority of our stories show, privatization seems to offer the chance of improving both the livelihoods of individuals and the services which they depend on in their day-to-day lives. To be fair, critics must be willing to look at how or if services were provided before privatization was attempted. As Jim Manson so skillfully points out in his description of the privatization of the water sector in Great Britain, "if you can privatize water you can privatize anything." Yet he sees the overall results as a mixed bag—one that carries with it no easy answer for implementation in other countries.

Finally, I would like to take this opportunity to thank Bonnie Bradford, who in my absence during the past year helped to broaden the scope and coverage of *The Urban Age*. She provided invaluable help on the current issue, and has now turned to writing and editing a book on health and the environment.

As always, we look forward to receiving your comments, thoughts, and criticisms on this and

Privatization: Can Government Manage It?

by Richard Batley

Richard Batley is a political sociologist in the Development Administration Group, School of Public Policy, The University of Birmingham, United Kingdom.

The new view toward privatization is that the state should directly supply services only where necessary. It should ensure that essential goods and services are provided, but not aim to be the sole producer or deliverer. Where in the past government was seen as often squeezing out market suppliers, it is now expected to support their development and promote competition.

Few nowadays would deny that governments have often over-extended themselves, suffocating private and community initiative. In many areas of public life, however, government cannot simply withdraw, leave matters to the private sector, and wash its hands of responsibility. A range of situations exist in which intervention is necessary. One way or the other, such circumstances apply to most urban services. The question is not *whether* the state should intervene but *how* the state should intervene.

In the last decade government has drawn away from the role of producer and deliverer of services and assumed the role of enabler (through financing, subsidizing, advising, and contracting) and regulator (setting policy, legal frameworks and standards).

Paradoxically, state withdrawal (from producing and delivering services) raises the demand for highly skilled public administrators capable of performing more complex, technically difficult, and politically sensitive tasks. If states failed in the past to produce services, how much more likely are they to fail to intervene selectively and supportively in markets?

Even less attention has been given to government's ability to perform as enablers and regulators in developing countries. Development agencies, govern-

ments, and researchers have focused more on the transitional process of withdrawal and privatization than on how governments are to perform *after* they have withdrawn. The risk now is that states' failure to perform their new roles will contribute to the failure of private service deliverers.

What are the particular difficulties of developing country governments in setting and maintaining appropriate arrangements for managing privatized, or arms-length, service delivery?

• *Weak market alternatives:* Almost by definition, poorer developing countries have less mature formal business sectors, with higher start-up costs, less capacity to invest, and less exposure to competition. Thus a greater burden of enablement and regulation falls on central and local governments in precisely those countries in which they are likely to be least equipped to bear the burden.

• *Difficult underlying circumstances:* Radically new approaches to public management are having to be developed in much more difficult circumstances than those experienced by reformers in more advanced countries. Changes have often been imposed by financial crisis and donor pressure, generating political tensions and demoralizing public officials. Governments, particularly in Africa, have to find ways of handling multiple change—not only through “programmed privatization” but also through “incremental privatization” of declining public services.

• *Lack of preparation for the new roles of government:* The incremental decay of public services and haste under pressure to pass responsibility to other actors have both led to government being inadequately prepared

to adopt controlling and supporting roles. Research by the Institute of Latin American Studies (University of Texas at Austin) conducted in several Latin American countries has found that governments usually do not have the legislation in place, the regulatory frameworks created, and the administrative capacity to ensure that privatized monopolies do not abuse their power. Once the monopoly (in telecommunications, gas, or local water supplies) is in place, government is in a weak position to impose conditions.

• *The need for case-by-case diagnosis:* Broad policy commitments to involve the private sector or communities in service delivery are not enough. Specific diagnoses need to be made of how services with different technologies operate in particular countries and cities, the potential of market suppliers, and the risks involved.

• *Assessment of the form of state intervention:* A wide variety of possible public-private mixes exist in the delivery of services. The World Bank World Development Report for 1994 distills these down to four broad types: public ownership and operation; public ownership but with private responsibility for operation; private ownership and operation; and community and user provision. Within these categories, there are many more or less complex ways of “unbundling” services and involving private operators: for example, free competition, financing, licensing, contracting, leasing, franchising,

joint ventures, or monopoly. Each has different implications for how government should act to ensure the public interest and maintain conditions for competition, supervise the fulfillment of long- or short-term contracts, arbitrate through regulatory agencies, or target financial support.

• *Government capacity:* This brings us to the major question before us—whether government has the administrative and political ability to undertake its new roles. Government must have the capacity not only to make initial diagnoses and assessments to decide how services should be supplied, but also to administer the state's roles once they have been established. This is partly a matter of having skills, which are in short supply, to analyze and maintain market conditions; set broad frameworks of policy and standards; manage and enforce contracts; regulate monopolists; coordinate, finance, and support producers; enable community self-provision; and support consumers with information and alternatives. More profoundly, it is a matter of having governmental institutions that are sufficiently robust to maintain the delicate balance between supporting private and community actors and, at the same time, keep a distance from particular interests. It is surely extraordinary to expect this of what are often the most fragile political systems.

1. The British Government is funding research on the issues described here. Readers are invited to write the author if they wish to join a research network.

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PRIVATIZATION

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Privatization is being undertaken in all sectors of society and, in the process, changing both the landscape and personality of the city.

The first step in the process began in 1990 with the housing sector.

According to current laws, any house can be privatized almost free of charge by those currently occupying it (see *Housing* p. 1).

Privatization of housing has been accompanied by a series of "small" privatizations, which include retail, public catering, and service operations. Most "small" privatizations involve leasing buy-outs and auction sales or tenders organized by the city. From 1992 to 1994 the city held over 100 sales, resulting in the privatization of over 3,500 enterprises. Working collectives purchased 2,950 enterprises; outside legal entities purchased 301 enterprises and 249 enterprises were bought by private persons. The total selling price was over 192 billion rubles.

"Small" Privatizations

In general, Russian laws have encouraged collaboration between buyers of enterprises (most often a workers' collective) and potential investors. For example, according to Russian privatization laws, a legal entity representing the interests of over one-third of the working collective of an enterprise has the right to pay their initial contribution in the amount of only 25 percent of the auction or tender selling price. Collectives may receive a discount on top of this, with payments being spread out over three years. It is therefore clearly profitable to establish

a mutually beneficial alliance between the working collective and the investor who has the necessary resources. Success or failure of the "privatization game" is determined by the quality of the agreement between the staff of the enterprise and the investor, and how well it secures their jobs.

The whole range of successful alliances of this type can be illustrated by two typical examples: privatization of the hairdressing salor "Under the Duma," in the center of the city, and a greengrocer's shop in the suburbs (see box, p.5).

"Big" Privatizations

"Big" privatization in St. Petersburg began on a large scale in mid-1993. "Big" privatization generally means the transformation of enterprises into joint-stock companies, and the subsequent free-market sale of a small percentage of their shares. The shares of an enterprise undergoing privatization can be purchased: (1) by the workers and managers of the enterprise by closed subscription; (2) by any Russian citizen at voucher auctions (a privatization means of payment issued to every citizen); or (3) by outside investors for money at open auction, tender, or investment sales.

As in the case with "small" privatization, the success of "big" privatization depends on the balance of interests between the working collective, the managers, and the investor. In St. Petersburg, other

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HOUSING

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summarizes all the processes and successes of privatization in various branches of the city is "non-uniformity." This lack of homogeneity has organizational, historical, and political roots.

From an organizational point of view, it is impossible for the privatization of various sectors, such as land and retail trade or housing and industrial properties, to succeed equally. Privatization is relatively new, having started just three or four years ago, and each sector is different from the others.

Current lack of homogeneity in privatization of urban real estate stems from a historical fact: in 1922, Soviet legislation abolished the concept of private real estate. Land was declared national property and from then on, no inventory of land users was undertaken. As a result, about 80-90 percent of land users did not have title to their property at the beginning of the reforms in 1990-1991.

All industrial, commercial, and public buildings were owned by the state. State housing accounted for 79 percent of urban dwellings in 1990—a multiple of the share of housing in state ownership in Eastern European countries. An exception was cooperative housing (5 percent on average, and up to 15 percent in some cities), and privately owned single-family homes (15 percent on average).

Beginning in 1961, the construction of single-family homes was prohibited in cities with a population greater than 100,000, and the state policy was to demolish this type of housing stock altogether. Today, single family homes are 0 percent of the housing units in Moscow, and 1.3 percent of housing units in St. Petersburg.

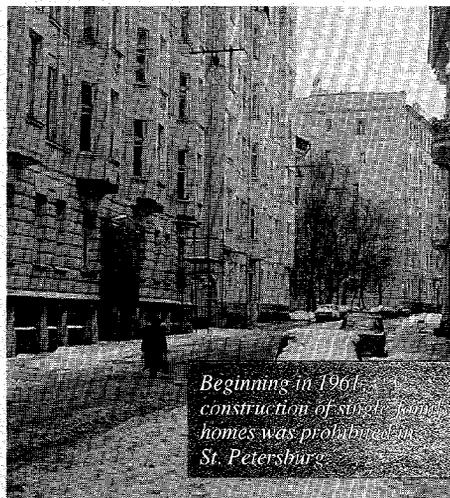
Seventy years of inertia toward land and land improvements were reflected in the first laws of 1990-91, which kicked off reforms in real estate. These laws have been developed

by different groups in different ways. Therefore the legislative bases of privatization vary for land and improvements, and even for different types of improvements.

Since 1990, Property Law permits full ownership and leasehold tenure for all types buildings and construction by any natural or legal (corporate) person, including foreign citizens. This law also states that fully paid cooperative apartments are automatically converted to the private property of families.

In the summer of 1991, the Law on Housing Privatization was adopted. This allows families to obtain voluntary ownership rights of occupied municipal and other state apartments. Russian policymakers decided that the gains from rapidly establishing a housing market outweighed the considerable costs that the policy of low-charge and no-charge privatization entailed. This federal law guaranteed the free-of-charge privatization at the "social norm" of floor space per person.

One of the most controversial topics is land legislation. The question of land privatization is a central point of disagreement between reformers and conservatives. As a result, this topic is a good example of the parallelism of federal legislation. Laws adopted by the Supreme Soviet (now the Federal Assembly)



Beginning in 1961, construction of single-family homes was prohibited in St. Petersburg.

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collective, the managers, and the investor. In St. Petersburg, other intermediaries (banks and the stock exchange) can also participate in voucher auctions. The high volume of sales in St. Petersburg stock exchanges has attracted vendors to the St. Petersburg Stock Exchange, making the city the undisputed leader in voucher auctions in Russia.

Need to Attract Capital

At the heart of the current privatization process is a compromise between economic efficiency and social peace. Benefits granted to working collectives as enterprises to encourage their transfer into joint-stock companies means that outside investments might not be attracted to the company. Local capital for financing reconstruction under conditions of stiff competition is lacking. Banks consider investments in production the least feasible during high inflation periods, and prefer to finance credit and trade operations. Privatized companies involved in production lack any investment capital whatsoever. Mass bankruptcies and a sharp growth in unemployment lead to constant crises.

There is a continuous search in St. Petersburg for ways to attract potential investors in the privatization of manufacturing enterprises. In one process, the state, as the founder and sole owner of all the shares of an enterprise undergoing privatization, establishes an open type joint stock company by issuing stock options to be sold at investment sales together with 20 percent of the shares. But an investor can use these

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Privatizing "Under the Duma"

The 1992 auction selling price of the hairdressing salon, "Under the Duma," was 60 million rubles. It was purchased by a partnership between 20 workers in the shop and an Italian businesswoman of Russian origin. The actual price after the legal discount to the working collective was 15 million rubles.

The Italian investor gave an additional 10 million rubles to the 20 members of the working collective to purchase another salon, where they started their own business. After some time, "Under the Duma" was transformed into a modern fashion house of European standards.

In this case the participants got what they wanted: the working collective secured jobs in their own business, although in a somewhat less fashionable district; and the wealthy investor obtained a business with a good location, for a relatively low price.

Privatizing the Greengrocer's Shop

The selling price of the greengrocer's shop was substantially lower. The workers and the investor (their supplier) had agreed beforehand on the share distribution of their partnership. Funds saved due to the discount to the working collective were immediately invested in the development of the shop, including repairs and the purchase of new equipment.

The success of this approach is demonstrated by the fact that 75 percent of auction and tender sales of retail, public catering, and domestic service enterprises in St. Petersburg have been won by investor and working collective alliances. Only 10 percent of working collectives managed to achieve buy-outs without outside investors.

and decrees issued by the President strongly contradict one another.

On the one hand, the Land Code of 1991 allows private ownership of urban land only by natural persons and only for single-family houses or gardening, with limited rights to sell a plot. All natural or legal (corporate) persons may lease land from a municipality for up to fifty years without the right to sublet or to sell the leasehold right.

Under the Land Code, the transfer of the title of any building or construction also results in the transfer of the seller's right of the underlying land to the buyer.

On the other hand, President Yeltsin's decrees of 1992 provide that state enterprises which have undergone privatization may acquire full ownership of their sites. Also, citizens who previously obtained land for entrepreneurial activity may acquire full ownership.

There is a statement in the new Russian Constitution about permitting private ownership of land. But currently there are no federal regulations about procedures of land privatization.

At the end of 1993 President Yeltsin canceled a large part of the Land Code, so now Russia is living partly in a vacuum and

partly in chaos regarding land legislation (see *Land*, p. 15).

When considering real-estate privatization in Russian cities, it should be kept in mind that the real practice of privatization depends as much on the policy of the local authorities as on federal regulations. The largest cities have the rights of Members of the Federation, which are similar to States in the United States. If municipal politicians in these large cities do not want to follow federal policies, they often find a way around them, or simply postpone privatization. For example, until now Moscow and St. Petersburg, and many other cities, have ignored presidential decrees. Moreover, the Moscow government has issued a decision that the only form of land rights is a leasehold tenure, in direct contradiction of the Constitution. The land policy in St. Petersburg is to avoid making any long-term decisions.

It appears that the idea of housing privatization, being formulated in federal regulation, was supported on the municipal level. Some local policymakers sincerely believed that the opportunity for many people to become owners of real property would influence general reforms positively in at least two ways: economically and psychologically.

Other politicians, especially from among former high-level officials were personally interested in establishing their rights in housing units, which were usually much bigger and better than the standard ones. Eventually they all realized that the new structure of budgetary financing and revised allocation of expenditure responsibilities was changing dramatically against local government; and that increased housing maintenance expense would burden municipal budgets.

At the same time, it was never explained clearly to people that ownership not only brings rights but also obligations; that to be an owner might have wide-ranging consequences. Moreover, to stimulate housing privatization, the strategy of equal treatment of owners and renters was adopted: the owners of privatized flats continue to pay the same highly subsidized maintenance fee as the tenants of municipal and other state flats. This will probably continue during the next five years, until the program of phased increased rents, launched in 1994, is fully implemented.

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As a rule, the volume of such investment programs exceeds the authorized capital of the enterprise by five to one hundred times.

A real investor is compelled in this case to establish contacts with the management of the enterprise in both the pre-privatization phase and during the preparation of the investment program. This allows specific characteristics of the enterprise to be taken into account, and to satisfactorily demonstrate its market potential to the investor. Positive examples of this kind in St. Petersburg are the privatization of the large power engineering plants Electrosila and Metallichesky Zavod, a meat processing factory, each with 7,000 to 12,000 jobs.

Looming Fears

Despite the success of "small" privatization, problems remain to be solved before the "big" privatization of large industrial enterprises can be completed. It is expected that the privatization of large enterprises under the conditions of an open market will result either in a sharp decline in jobs, or the need for massive changes in the types of professions needed in the work force. Another concern is the growing influence of the mafia, which frequently extorts money from small businessmen in exchange for protection from gangsters, or to use in bribing public authorities.

Open markets and competition compel enterprises to look for their own ways to survive. The problem is how to do this in the case of large, highly specialized manufacturing enterprises. Privatization in reality often means groping in the dark, using very rough ideas as signposts, and with few real connections to the overall conditions of the city in terms of jobs, commodities, or services.

The long-term goal of mass privatization throughout Russia is to increase the efficiency and flexibility of its economic system. But with the lack of a market infrastructure, privatization gives rise to a number of new dangers and problems which need solutions at both the local and federal levels. Issues such as housing construction and maintenance, employment policies, the promotion of investments, the reform of urban planning, and financing infrastructure are all vital to the development of the city.

For example, residential housing construction is in a deep crisis. Rapid construction of one-family houses for the "wealthy" (5 to 7 percent of the city's population) is only occurring in fashionable city suburbs. Mass construction of multi-apartment houses has practically stopped, due to the fiscal deficit in the city. Given the current prices of construction materials and services, neither the city's administration nor residents of St. Petersburg have sufficient funds to finance construction.

One way to break this deadlock should be mortgage crediting, but this has not occurred in Russia because of high inflation rates and the uncertainty of property ownership. City authorities have not yet learned how to cooperate with private developers and cultivate private/public partnerships. The roles of the municipality and private developers in city development projects are still unclear. Financing the development of infrastructure is especially important in this context.

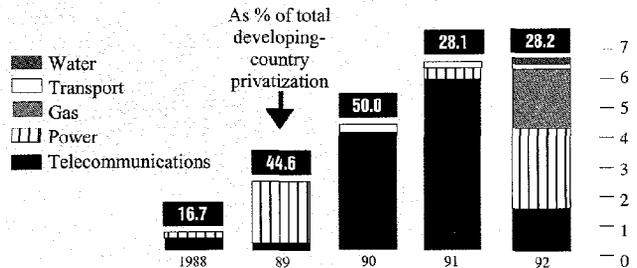
The future of all types of city development largely depends on land ownership. Unfortunately, Russian land legislation is still not consistent. Only sites for the construction of single-family houses are available for private ownership, and this only takes place in the Leningrad region outside the administrative borders of St. Petersburg city (see *Land*, p. 15).

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Global Facts and Figures: Privatization

New Hands on the Wheel

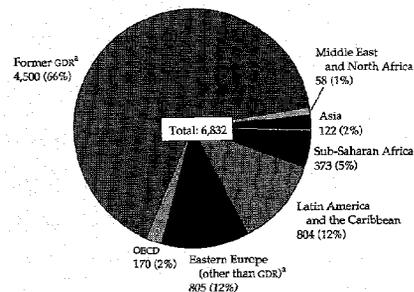
Value of infrastructure privatization in developing countries



Source: World Bank

- Nearly 100 government-owned industries in Western Europe are likely candidates for privatization during the next few years. While not all deals will necessarily go through, the estimated value of these holdings is close to \$150 billion.
- Britain's average household water bill has soared by 69 percent and sewerage charges by 66 percent since privatization of the nation's ten water-and-sewerage companies in December 1989.
- As state-owned companies in Europe cut staff to become more competitive after privatization, 750,000 or more previously secure jobs are likely to be lost during the next few years, according to projections by economists. The biggest losers will be France, with a loss of 290,000 jobs; Italy, with a loss of 180,000 jobs; and Germany, with a loss of 140,000 jobs.

Number of SOEs Privatized Worldwide, by Region, 1980-91



Source: Privatization: The Lessons of Experience

- In India's most developed state, Maharashtra, the entire budget of the state-owned telecommunications monopoly is equal to only one quarter of the funds needed to improve service levels to even a barely satisfactory minimum.
- The first phase of privatizing Russia's industrial sector ended on June 30 this year after 18 months of trading vouchers for shares in state-owned companies. The results put the assets of 12 million state companies in the hands of 40 million Russian citizens, with 650 mutual funds formed to acquire shares.
- Asia, excluding Japan, will spend \$1 trillion on infrastructure over the next decade. The size of these projects is leading Asian governments to turn to the private sector to build everything from power stations to motorways.
- Nearly all the power plants built in the Philippines during the past two years were completed under build-operate-transfer arrangements between private companies and the government. Including those still being built, there are 18 such projects, together costing more than \$2.5 billion—more than twice the government's infrastructure budget.

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Privatization: Changing the Nature of Buenos Aires

by Pedro Pirez

Pedro Pirez, an Argentine sociologist, specializes in urban management and policy studies. He is a senior research officer with the National Scientific and Technical Research Council (CONICET) and the Buenos Aires Center for Social and Environmental Studies (CENTRO).

BUENOS AIRES. Buenos Aires provides a good vantage point for reflecting on the effects of privatization on a major city. This is true even though privatization is a relatively recent phenomenon.

In most cases, the rationale for privatization in Buenos Aires was the deterioration of its public-sector utility enterprises. The cumulative effect of poor quality services, inefficiencies, and ineffective management made it impossible to cover current needs or future growth. Privatization offered hope that city services would be substantially improved, but many are still waiting for these improvements to occur.

Privatization of Services

Over three million people live in Buenos Aires, the federal capital of Argentina. The greater metropolitan area of Buenos Aires is home to 11 million people.

In 1989, the Federal Government began privatizing public-sector enterprises, and the Municipality of the City of Buenos Aires introduced aggressive privatization policies. Trash collection services have been partially privatized since the early 1980s. During the last few years, almost all other urban services have been privatized. Management of city revenues, real estate records administration, operation of sports facilities and the zoo, advertising in public places, part of the metropolitan rail transit system, parking, road maintenance, street lighting, telephone service, electric power, and gas were privatized between 1991 and 1992. Water supply and sewerage were privatized in May 1993, and the subway in January 1994.

Like many Latin American cities, Buenos Aires is subdivided

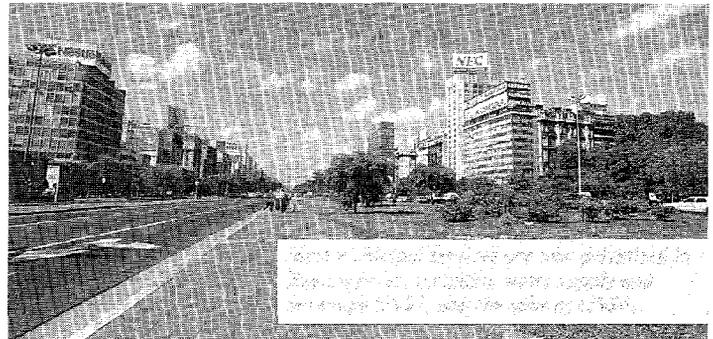
into districts with very dissimilar standards of living and variations in the quality of urban management. The privatization of utility services tends to exacerbate such differences. For instance, when trash collection was partially privatized in Buenos Aires, this service remained in municipal hands and under poor management in the southern sector of the city. This sector, inhabited primarily by low-income groups, covers one-third of the city. The services further deteriorated with partial privatization.

The public-sector utility enterprises were faulted for not adequately extending the existing service networks, and this was considered one of the indicators of their poor management practices. The privatization process—especially of water and sewerage services—has overlooked the matter of necessary system extension to the outskirts of the metropolitan area. The responsibility for extending services was not transferred to, or taken on by, any entity. In the case of water service, over 40 percent of the metropolitan population is not adequately supplied. Even though the area to be serviced is quite large, this may be another example of how distinct social groups living in different districts of the metropolitan area do not receive the same treatment.

Economic Effects

Although many services were already monopolized, privatization of utility services has created new monopolies, for example, the water supply and sewerage company. When responsibility for services such as telephones, electric power, and gas is handed over to more than

one company, each company becomes the sole provider in the territory to which they are assigned. Costs in the city of Buenos Aires are already high compared with costs in other countries. Monopolies can push these costs even higher, as can already be seen in the case of telephone communications.



Privatization may, by some accounts, appear to contribute to the economic concentration of wealth, not only within the city but ultimately throughout Argentine society. There may be two reasons for this: utility services have remained in the hands of four or five of the country's major economic groups, some of which are associated with foreign corporations; and they are failing to fulfill their economic distribution function within the city by tending to exclude the city's lowest-income inhabitants.

Public Responsibility

Privatization involves the risk of further consolidating a non-democratic system of city management. Since monopoly situations do exist, utility-service decisions affecting the daily lives of urban dwellers are in the hands of private-sector functionaries.

Formal regulation and monitoring are the responsibility of the federal government, and there is little interaction with either the

public urban management entities, such as municipalities, or with the users of the utility services. If no public responsibility is imposed on the utility service provider, the relationship with the user population is strictly that of a provider to its clients or customers. The relationship between the user and provider becomes just one more

commercial relationship, unless city residents or local governments succeed in pressuring the federal agencies responsible for overseeing service providers. Utility companies, which have an enormous impact on the quality of life of the city, remain beyond the reach of many inhabitants.

Missing Framework

These examples illustrate gray areas that have resulted from specific privatization arrangements. The risks of privatization having these types of results can be limited by taking steps to ensure that privatization contracts and management of the public aspects of city life are properly regulated and monitored.

Almost all the problems that have been identified and described can be traced to shortcomings in the regulation and monitoring of privatization. These privatization agreements were carried out without defining policies related to utility services;

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without setting goals and objectives, or formulating the procedures for achieving them; and without identifying the roles of

the various intervening parties. These parties include private-sector companies, public-sector agencies, cooperatives, users, and municipalities. Decisions were not made on how privatization would be financed, including determination of rate schedules, payment procedures, and possible subsidies and their sources. Service quality standards were not articulated and accountability was not delineated.

These policy gaps have meant that there have been no clear regulations and guidelines to govern the provision of privatized services from the outset. The result has been that such gray areas have not been avoided, and mechanisms have not been created to begin eliminating them.

This situation may be different if local metropolitan authorities took part in framing policies, formulating regulations, and designing monitoring procedures. Enabling users to play a more active role, not just as customers in the market, and assigning them more rights and responsibilities, would also help change the present state of affairs.

Privatization has been carried out in Buenos Aires without defining policies for the city to follow, and without developing definitions that would help guide the authorities. These are serious shortcomings. Metropolitan public management agencies should provide a supporting framework for the city's residents and their activities. If this were the case, then private entrepreneurs and the services they offer, could be utilized as sources of financial and management support. Important steps could also be taken to limit the tendency of private entrepreneurs to subordinate the interests of the city and its residents and optimize their own business objectives.

Albania: Creating a New Private-Sector Economy

by Edi Joxhe

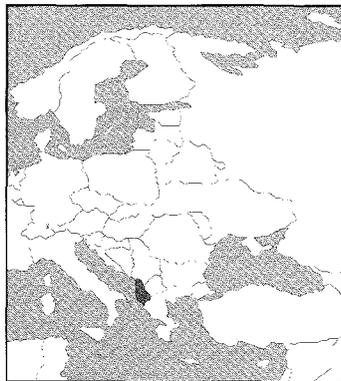
Edi Joxhe is an advisor to the Minister of Construction of the Housing and Territory Adjustment in Albania.

TIRANA. In Albania, the words "private sector" and "private property" were considered absolute heresy until the end of 1990. Nearly the entire GDP came from the public sector—even barber shops and shoe shiners were not in the private sector. In an amazing turn of events, the Albanian Government anticipates that by the end of 1996, 70 percent of GDP will be from the private sector. Albania is building up the private sector at an extremely fast pace.

Albania has 3.3 million people and Tirana is its capital city. The Democratic Party came into power after the first free elections of March 1992. They took over a country with a depressed economy, an inflation rate of 500 percent, and extreme poverty.

The New Albanian

The new Albanian believed the best way to achieve economic recovery was to institute a rapid privatization policy, accompanied by a legal framework and market-oriented institutional structures.



The privatization of agricultural land was among the first programs launched by the Democratic government.

State owned enterprises such as stores, supermarkets, and some

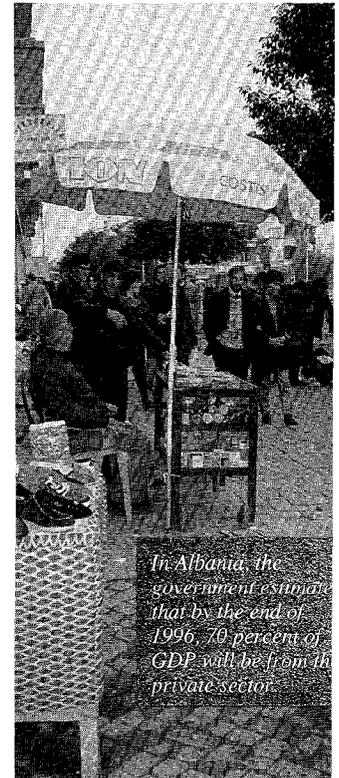
businesses, such as restaurants, shoemakers, watchmakers, and hairdressers, were also privatized. Existing facilities were sold at auctions or in installments. The state gave up monopoly rights over foreign trade, and new local private export-import companies were born. These companies bought most of the state-owned warehouses.

The next step was privatization of small manufacturing enterprises with 10 to 50 employees. Most of these enterprises handle food processing and light industry. Privatizing these industries was intended to make these enterprises viable, increase efficiency, and create new jobs. The privatization of medium and large enterprises is in process.

All state-owned houses, which constituted about 80 percent of all urban housing, were privatized within one year. This established a private housing market, including the buying and selling of houses. Housing policies on future housing construction using public funds will be implemented by The National Housing Agency, a governmental institution. This agency will manage all the loans and grants received by the government from local and foreign banks for building houses, and these houses will then be sold to citizens. Nearly 85 percent of construction companies are private, and they are securing most of the construction contracts.

Use of Regulation

The privatization process has been accompanied by laws and pricing policies. State control over prices was removed for most items, including prices for bread and fuels. However price increases for bread and heating



fuels were compensated for state employees, retired people, and the unemployed. Later on, these compensations were integrated into their salaries, pensions and social assistance. Since the 1990-1991 period, when the country was at the threshold of starvation, Albania has witnessed a boom of private bread factories and private fuel selling facilities, which has led to an increase in production and lower prices because of competition.

According to 1993 International Monetary Fund data, Albania had the highest growth rate (11 percent) of any East European country. Other objectives have also been achieved, including attracting local and foreign private capital into Albania, increases in efficiency, and the creation of a competitive environment. Albania now has

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one of the most liberal legislation packages for the protection of foreign investment. The government has managed, through its monetary policies, to control inflation, which has been reduced to 25 percent in the past two years. The Albanian currency has been very stable during these past two years, unlike currencies in other East European countries.

Privatization of Services

The government plans to introduce the private sector into the provision of municipal public services. This is expected to increase service levels, increase efficiency, and save public funds. The private sector is already being engaged for municipal solid waste management, municipal funeral services, and road maintenance.

An especially difficult aspect of privatization is privatizing utilities. While Albania is a country with many resources and potential, the power and water supply systems do not function properly, largely due to lack of public investment in the rehabilitation of the existing systems. The government is preparing a strategy for involving the private sector in this area. This strategy will begin with the privatization of management and concessional contracts. The government is also starting to prepare the legal and regulatory framework which will enable utilities to be privatized, to avoid many of the negative consequences that might follow the transfer of a public monopoly to the private sector. A regulatory agency will be set up to regulate the price and quality of water according to predefined environmental standards.

Albania is advancing rapidly, but at the same time with caution, in developing its privatization policy. Its main reason for relying on privatization to build a new economy has been past experiences with the inefficiencies and non-productivity of the public sector.

Privatization of Municipal Services in India

by Dinesh Mehta and Meera Mehta

Dinesh Mehta is director of the National Institute of Urban Affairs in New Delhi, India. Meera Mehta is a consultant specializing in urban development and finance.

NEW DELHI. The rapid rise in demand for urban infrastructure in India is a result of increases in both population and incomes. The urban population of India increased from 159 million in 1981 to 217 million in 1991. The urban GDP per capita increased from Rs. 4,200 (US\$ 131) in 1981 to Rs. 10,840 (US\$ 338) in 1991.

The limited financial, technical, and managerial capacity of municipal governments to maintain existing infrastructure services and to cope with in-

creased demand is demonstrated rapidly. But the infrastructure bottlenecks severely constrain the growth prospects of economic enterprises in Indian cities. Municipal governments in India have realized that managing existing services efficiently and economically is more important than adding new services.

The management services contract (or "contracting-out") is the most common form of privatization in India (see box, p. 10). The cost savings from contracting out range from 15 to

70 percent for different services in the city of Rajkot in western India (see table above). Studies of contracting out arrangements suggest that each city adopt a gradual approach of contracting only part of the service in specific locations within a city. As experience with contract management procedures grows, and as more small scale contractors emerge, further services can be contracted out.

Readiness for Privatization

Democratic decentralization of municipal governments through the 74th Constitutional Amendment has broadened the range of functions and responsibilities of urban governments. Many state governments have enabling provisions that allow for privatization of the mandatory municipal services. Efforts are underway to develop "model contracts" for various municipal services. Training and technical assistance to the municipal governments on contract management are now being organized.

The institutional structure for financing urban infrastructure in India is in a nascent stage. An estimated annual requirement of Rs. 40 billion (US\$ 1.25 billion) is not likely to come from the budgetary resources of the national and state governments. A Financial Institutional Reforms and Expansion (FIRE) Programme proposes to develop a viable infrastructure finance system that will tap the growing capital market with appropriate debt instruments and promote public/private partnerships.

The FIRE program's policy includes: promoting a commercially viable infrastructure finance system; increasing private sector participation in the delivery of municipal services and land development; improving the capacity of local governments to plan, operate, maintain, and recover costs of services; and develop appropriate legal and institutional structures for infrastructure management.

Rajkot

Service	Extent of privatization %	Original costs (Rs in lakh)	Cost savings (Rs in lakh)	Estimated cost savings as a % of original cost
Street light	33	14.86	2.97	20.0
Primary solid waste removal	5	16.97	2.61	15.4
Secondary solid waste removal	70	187.2	43.20	23.1
Cleaning of public latrines	58	11.16	7.17	67.7
Local solid waste removal	1	2.38	0.54	23.1
Gardens	17.5	8.64	6.30	72.9

creased demand is demonstrated by the current state of municipal services. Nearly one-fourth of urban residents in India do not have direct access to safe drinking water, and over half lack access to safe sanitation.

The average municipal revenue of Indian cities is Rs. 220 (US\$ 7) per capita per annum. With such low revenues, a result of setting prices for services far below the actual costs of operation and maintenance, cities cannot maintain existing services. Financing new infrastructure is difficult with such limited debt service potential.

Changes in Macro-economic Policies

The package of macro-economic reform policies in the industrial, financial, and trade sectors has ushered in a new era of investment growth. With the opening up of the economy, foreign and domestic investments in the past three years have grown

70 percent for different services in the city of Rajkot in western India (see table above). Studies of contracting out arrangements suggest that each city adopt a gradual approach of contracting only part of the service in specific locations within a city. As experience with contract management procedures grows, and as more small scale contractors emerge, further services can be contracted out.

There is limited but growing experience with other forms of privatization such as BOO/BOT and its variants (see box, p. 10). The range of projects of this type include: toll roads and toll bridges in Madhya Pradesh, Bombay, and Delhi; mass rapid transport in Hyderabad; water supply in Vishakhapatnam; and waste water recycling in Madras. Many of these projects will have the participation of foreign technical and financial institutions. These projects require changes in the current pricing policy and management of urban



Public-Private Partnerships in Municipal Infrastructure Services

10 by Paul Schuttenbelt and Jens Lorentzen

Paul Schuttenbelt and Jens Lorentzen are infrastructure advisers with the Urban Management Programme based in Nairobi, Kenya.

Editor's Note: This section outlines some of the most common mechanisms for privatization of municipal sectors. The following pages describe privatization efforts now taking place in individual sectors: water, solid waste disposal, land, telecommunications, transportation, and food.

The traditional supply orientation to infrastructure policy has tended to overemphasize facilities rather than focus on services¹, and to emphasize public sector provision and the excessive political involvement in decisions about investments and pricing services. The result has been inadequate operations and maintenance, nonsustainability and unreliability of services, constraints to economic productivity, and environmental degradation.

Experience of the past decade confirms that the solution to infrastructure problems is not merely to expand capacity by making new investments. The key to reform is to deliver infrastructure services that users need and are willing and able to pay for. Infrastructure service delivery should respond to providers whose demand can be identified; services should then be provided in a sustainable way. This requires a level of management and financial resources often beyond the reach of local government in developing countries. In an environment of decentralization, urban local authorities are looking more to the private sector as a source of investment,

¹ Infrastructure services are defined as those services derived from the set of public works traditionally supported by the public sector to enhance private sector production and to allow household consumption.

management expertise, and improved efficiency.

As discussed more generally in this issue of *The Urban Age*, "privatization" can be a means to overcome constraints facing the public sector. The term is frequently used to mean any process whereby the private sector is involved in the provision of public services. We see "privatization" as involving a broad range of options for including the private sector in partnerships with the public sector. We use the term "privatization" here only to describe cases where major assets or services are sold off by government.

The Partners

Public Private Partnerships are based on involving different actors or stakeholders, who may be divided into the following four groups:

- the *public sector*, whose principal role should increasingly be to create competitive pressures for more effective and efficient service delivery and enable, facilitate, regulate, and monitor partnership arrangements;
- the *formal private sector* which, because of its access to financial resources and its potential ability to operate more efficiently, can play a role in financing and providing certain infrastructure services and in construction, operations, and maintenance;
- the *informal private sector*, which is actively involved in many aspects of services, particularly in low-income areas and whose potential role in partnerships should increasingly be recognized; and
- the *community and its*

representatives who have direct interest as service users, but who can also be involved in awareness-raising, advocacy, decision making, and in actual provision of services, including operations and maintenance, and even in construction of facilities.

Options for partnerships are diverse and in a number of cases overlapping. A sample of selected partnership options are listed in the box below.

Selected Partnership Arrangements

The most common type of partnership arrangement in developing countries is contracting out. Increasingly however, as they assume greater responsibilities for service provision, local governments are forced to more systematically consider a broader range of partnership options. Some of the most common arrangements are listed below. It should be noted that definitions vary between different organizations or authors. We have attempted here to adopt definitions that accommodate, to the extent possible, the most common definitions found in literature references.

Build Own and Operate (BOO)—Partnership between public and private sectors whereby the private firm is authorized to build, own, and operate the asset/service.

Build Operate and Transfer (BOT)—Same as BOO but the asset/service will be transferred to the public sector after a period of time.

Contracting Out—The placing of a contract by a public agency to an external private company.

Franchising/Concession—A private partner takes over responsibility for operating a service and collecting charges, and possibly for funding new investments in fixed assets.

Affermage—Public authority controls construction and owns fixed assets but contracts out operations, maintenance, and collection of service charges.

Leasing—One partner making use of equipment/assets without purchasing but by paying a lease to the other partner.

Management Buyout (MBO)—The management of the company purchases all or part of the company.

Privatization—Public enterprise/asset is sold to a private partner.

Management Contract—Private organization takes over responsibility for managing a service to specified standards by using staff, equipment, etc. of public authority.

Within the above-cited options, it is also common to distinguish between the following modalities:

Vouchers—Citizen is provided with a voucher that enables her/him to buy a service from a private supplier.

Competitive Tendering (CT)—The process of seeking a number of competing bids for a defined service to be performed under contract.

Compulsory Competitive Tendering—As CT but through force of legislation or (CCT) regulation.

—P.S. and J.L.

Water:

At the Limits: The Success and Failure of Water Privatization in Britain

by Jim Manson

Jim Manson is editor of Water & Environment International and a director of AQUAviron. He has written extensively on water and environmental issues for the national and specialist media.



LONDON. In the 1980s Margaret Thatcher's Conservative government masterminded a series of ambitious privatizations in Britain. The most controversial and politically risky of these was the privatization of the country's water industry.

Water is close to the limits of what can legitimately be privatized. As the London-based "Economist" magazine noted in 1986: "If you can privatize water you can privatize anything." Not surprisingly the government's plan to take water services, regarded by many as the "ultimate monopoly," out of public ownership was opposed not only by the opposition Labour party and trades unions but by a great many ordinary people too.

Opposition to the Water Privatization Bill became so fierce that some Conservatives would have been happy to have abandoned it, and at times during the bill's rocky ride in Parliament this came very close to becoming a reality. But eventually it reached the safety of the statute book and in late 1989 the ten water authorities of England and Wales were converted to Public Limited Company status and floated on the London Stock Market.

Problems Ahead

It is useful to bear in mind that part of what is admired about Britain's water industry today has as much to do with its earlier overhaul, in the 1970s, as it has with privatization itself.

In 1974 hundreds of small water and sewerage authorities and river boards were replaced by

the ten water authorities of England and Wales. The geographical boundaries of these new, much bigger organizations, ensured that entire river basin systems—from source to sea—became the responsibility of an individual water authority. It was an innovative idea to have responsibility for water supply, wastewater treatment and sewerage, pollution control, recreation, and nature conservation under the same organizational umbrella. It was an approach that led to the building of comprehensive in-house skills and helped Britain's water industry earn an international reputation for operational, process, and consultancy skills.

None of this, however, could prevent cracks from eventually appearing in the system, quite literally in the case of Britain's creaking sewer network. The problem was chronic underinvestment and a lack of incentive to deal with it. In the early 1980s the government began to tighten up on the financing of utilities, while introducing performance aims and setting financial targets. But the water industry responded only superficially to government attempts to encourage the development and use of economic tools, such as strict application of the polluter-pays-principle, showing every sign, in fact, that it had no intention of moving away from its dependence on local-authority type levies.

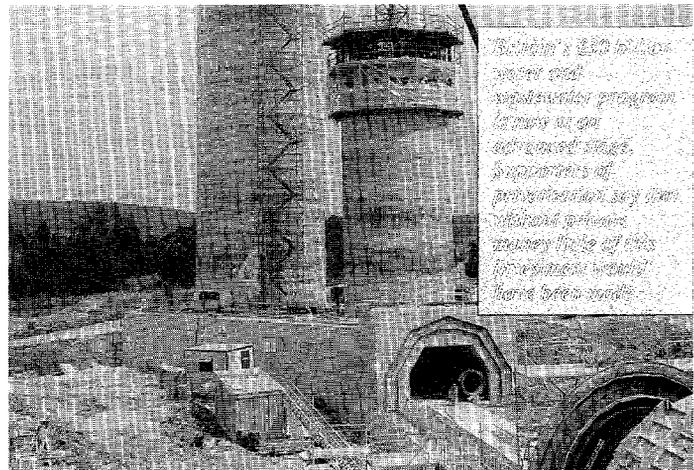
Probably the most crucial issue in terms of public, or rather voter, acceptability of water privatization was environmental and price regulation. During the final two year run in to privatization it was the former that led to strained

relations between the water authorities and government. A government White Paper proposed that environmental regulation should be the responsibility of a new independent agency, in the form of a National Rivers Authority (NRA). The water authorities tried to resist. "With curious misjudgment or isolation from outside opinion," as David Kinnersley put it, the water authorities collectively took the position that their industry should in no circumstances be broken up. No-one else thought this realistic: the private monopoly that combines utility and regulatory roles became the gamekeeper and poacher in one.

government for periods of twenty-five years, and bound by control on price increases and standards of service. Regulation of the license terms would be carried out by another new body, OFWAT (Office of Water). The water PLCs would, of course, have all sorts of new freedoms—they would be able to pay what dividends they liked to their shareholders, to invest in more capital projects than the government had allowed, and to move into other types of business.

Brave New World

The early years of water industry privatization have been characterized by sweeping



It was simply unacceptable.

Eventually, as the NRA proposal won increasing support elsewhere, the water authorities were forced into submission. After this, the future shape of the industry quickly became clearer. The new Water Service PLCs, as they were to be called, would be essentially water supply and sewage disposal businesses, licensed by the

changes in management style inside the water PLCs, rapid diversification into new business areas, and a lot of obvious tension between the industry and its regulators.

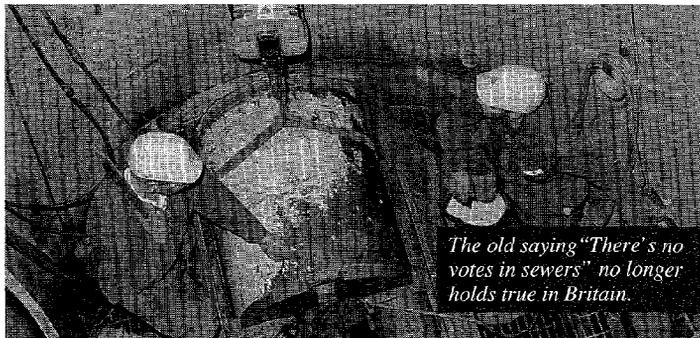
In operational terms, the culture shock of privatization has been absorbed relatively easily by the industry and its workforce. The water industry, unlike other

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utilities, has not been subject to heavy job losses—although this could still come. There has been



criticism that some PLCs have been allowing a decline in in-house technical skills through “natural wastage,” leading to an unhealthy reliance on outside consultants and contractors of uncertain ability. But a tough environmental regime run by the NRA, and equally strong control of drinking water quality by the Drinking Water Inspectorate (DWI), has led to all-round quality improvements, and not, as was feared, a decline in standards.



The old saying “There’s no votes in sewers” no longer holds true in Britain.

One of the most conspicuous signs of the industry’s new private status has been the wave of acquisitions and mergers that have occurred in the water industry contracting, product, and service sectors as the PLCs have diversified away from the core business. The effects of this have not all been positive. An important part of OFWAT’s brief is to ensure that subsidiary companies of Water PLCs compete fairly for water industry contracts and are not favoured over other suppliers. Many contractors, however, are not convinced this is happening. Nor has water diversification—largely in the form of vertical integration; the purchase of complementary water and wastewater service or contracting business—been particularly successful commercially. Despite some flashy turnover figures, few of these businesses produced the profits that were predicted. And there have been some expensive failures. But Britain continues to perform well on the international

water scene, with the Water PLCs as flagships. The PLCs are to be found playing key roles in several multi-billion dollar water and wastewater schemes around the world.

Creative Tension

Under the water pricing regime devised by OFWAT, the Water Service PLCs are allocated a “K” figure, relating to the amount by which they are allowed to raise customer charges beyond the rate of inflation. A Water PLCs “K” is determined by several factors, for example, the amount it has to

invest in plant and equipment to comply with national and EC laws, and its overall efficiency. Some of the initial K settings were too high, and were adjusted downwards by the OFWAT director general Ian Byatt. This caused a rift between the regulator and some of the PLCs. This was described by Byatt as “creative tension,” and considered a generally healthy sign.

Publication in 1993 of a damning report on the privatized utilities in Britain from the National Consumer Council “Paying the Price” in 1993, resulted in considerable negative media attention. “Paying the Price” was highly critical of the scale of the profits being made by the Water PLCs (these rose 26 percent in the first two years following privatization, nearly three times the rate of inflation). It insisted that the customers were being forced to “bear the brunt of investment costs.” It also argued that for a low risk industry gearing levels were very low and

that the PLCs had little incentive to borrow on the open markets when they would get more or less what they wanted from higher customer charges.

In its July 1994 Price Review, OFWAT reacted to the growing pressure for it to curb these steep price increases. For the next ten years the average annual increase will be pegged at one percent above inflation. This has been well received by consumer groups, but the OFWAT director general’s keenness to “switch off the price escalator” and his suggestion that water customers should not have to pay for “gold plated environmental schemes,” has brought him into conflict with the NRA, which is worried that pollution issues are being forced into the background. Indeed there is wider concern, particularly among environmental groups, that the NRA, once promoted as Europe’s biggest environmental agency, is being systematically slimmed down by government in preparation for its absorption into a new single environment agency.

A Mixed Picture

Five years into water industry privatization then, the overall picture is a mixed one.

Viewed from a government and industry perspective there is a huge £30 billion investment program now well underway in Britain’s water industry, helping to modernize treatment facilities and ensure that the country is able, in the main, to comply with stringent European (EC) environment laws. There is in place a regulatory system with statutory powers to protect consumer interests and enforce water quality and pollution laws. And there is recent evidence that public, or rather customer, opinion is becoming a more powerful force in influencing policy, for example, on charges.

The flip to this is a deepening hostility toward the water industry from consumers, who have seen bills rise at two and a half times

the rate of inflation over a four year period while water companies have turned in conspicuously high profits during recession and awarded senior directors average salary increases of 16 percent over the same period. Consumer groups insist that shareholders have come out winners, while suppliers of products and service to water companies accuse them of abusing their monopoly position and deploying accounting tactics that have driven specialist contractors and manufacturers out of business. Meanwhile industry research is no longer made available for the common good, and the water industry’s sense of “community” has been largely lost in the drive for corporate supremacy.

Conclusion

Britain, in opting for wholesale privatization of its water industry has taken the most radical route of any country to date. In a very short space of time sweeping operational and management changes, together with an entirely new business philosophy, have had to be absorbed by the industry and its workforce. In France, the other of the two best known existing private water models, privatization—based on a system in which the local government bodies retain control and ownership of assets but franchise out long term operations contracts to specialist water and wastewater treatment companies—has evolved over a number of decades, avoiding the culture shock experienced in Britain.

Privatization is an inherently political act. Nonetheless, overpoliticization can produce unforeseen and unwelcome effects. Water professionals in those countries currently thinking about privatizing their own water industry, among them the United States and Germany, ought to be arguing for a pragmatic approach from legislators to changes in their industry.

Cote d'Ivoire: Public Sector Participation in Water Supply and Sanitation



ABIDJAN. SODECI is an Ivorian company whose capital (about US\$ 15 million), is owned 52 percent by local interests, 46 percent by Saur, the French water distributor, and 2 percent by a government investment fund.

SODECI started operations with the Abidjan water supply system 34 years ago, and now manages more than 300 piped water supply systems across the national territory. Until recently, SODECI operated under a concession contract for water production in Abidjan, the capital city, and under a lease contract for water production and distribution in all other urban centers, for water distribution in Abidjan, and under a management contract for operation of the Abidjan sewerage system.

In 1960, following international competitive bidding to select a foreign private partner, the original contract was awarded to SODECI, a mixed enterprise created by a consortium of French companies on the one hand, and the Ivorian government on the other. This first contract was a concession for water supply in Abidjan and included operations and maintenance as well as investment in new boreholes.

A lease contract for water supply services in other urban centers and a maintenance contract for Abidjan sewerage and drainage were awarded to SODECI in the early 1970s. By the mid-1980s, these arrangements had resulted in high quality and technically efficient water and sewerage services, and SODECI's financial performance was good. But at the same time, the government's financial performance in the sector was seriously deficient. Over-investment in production facilities had created heavy debt service obligations.

In 1987, the Ivorian government restructured the sector and negotiated a comprehensive concession with SODECI for all urban water supply services in the country. The company now receives no operating subsidies and all new investments in water supply assets (mostly expansions) are self-financed. Although this arrangement was not subject to competition, SODECI's operating fees were reduced substantially during renegotiation of the contract. Sewerage services continue to be operated under a management contract, which was awarded to SODECI following competitive bidding. The Ivorian authorities plan eventually to arrange a lease contract for sewerage.

of SODECI's domestic connection fees have been waived. The number of connections grows between 5 and 6 percent each year.

Since taking on increased responsibility for designing new project systems and financing them through internal cash generation, SODECI has shifted toward more client-oriented projects, such as extending tertiary distribution pipes to serve additional customers and improving systems.

Since the early 1970s, full cost recovery has been the rule, and revenues from water sales have fully covered capital and operating and maintenance costs. During the past ten years, nonrevenue (unaccounted-for)

general manager and all provincial managers are Ivorian. Private Ivorian interests now own a majority of the company's shares. Its bonds are one of the main items traded on the Abidjan stock market, and it has distributed dividends to its shareholders.

While SODECI's operating costs are fairly high (at about US\$.45/m³), they are comparable to those of the better water utilities in West Africa. SODECI's portion of the tariff is used to cover its operating costs, depreciate its assets, extend and rehabilitate distribution networks, and pay dividends. It pays the government a rental fee to service the debt attached to earlier projects financed by the government. The company has paid



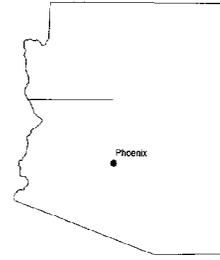
Today, the company has 275,000 individual house connections as well as many public connections serving schools, hospitals, and the army. Altogether about 70 percent of Cote d'Ivoire's 4.5 million urban residents—2.5 million in Abidjan and the rest in settlements of 5,000 to 400,000 people are served. Under a policy to provide low-income households with direct access to water, 75 percent

water has never exceeded 15 percent. While collection from private consumers is about 95 percent, collection from government agencies is more problematic. Despite the dispersal of operations, there are only four staff per thousand connections. The company has also succeeded in developing local capacity by reducing expatriate staff from 40 to 15 over a period during which operations were expanding. The

taxes since its inception. SODECI provides service close to the standards of industrial countries. It provides a rich demonstration of the flexibility of operational contracts, management contracts, lease contracts, and concessions, and the potential for progressing from less intensive to more intensive forms of public sector participation over time.

Solid Waste:

Phoenix, Arizona: Privatization of Solid Waste Services



4 by Robert Donovan

Robert Donovan is superintendent of sanitation in the city of Glendale, Arizona, and a solid waste consultant. He is the former solid waste administrator for the city of Phoenix, Arizona.

PHOENIX. Phoenix, the capital city of the southwestern state of Arizona, has a long-standing reputation for being innovative and progressively managed. The reputation is the result of managers and employees who are both empowered and willing to experiment. This philosophy led Phoenix to develop a model for the privatization of solid waste services.

In the late 1970s Phoenix had a sanitation workforce of approximately 480 personnel servicing a city of 700,000 people. The budget for this operation, inflated to today's dollars, would be about US\$ 80 million annually. Today, Phoenix has a population of over one million people, yet the total sanitation workforce is 330 people, with an annual budget of US\$ 43.3 million. These results were achieved by developing a competitive privatization process.

Phoenix provides two types of residential collection services: a twice weekly collection of containerized refuse, and a quarterly collection of bulk trash.

The city council asked the management of public works to privatize a portion of the collection service as a test of potential cost savings from the privatization process. The public works director asked his staff to prepare a competitive bid, against the private sector, to perform the service. The city council and management approved public work's participation in the bidding process and his request and the "competitive privatization" environment was born.

At that time, Phoenix was divided into four separate sanitation districts. As an initial privatization step, public works bid the bulk trash collection for

one of the four districts. The sanitation staff developed a collection cost figure to compete with private contractors. Browning Ferris Industries won the bid.

Sanitation managers were forced to look at the efficiency and cost of their system in an effort to stem the tide of privatization and maintain control of their own destinies. They knew the city council and management were willing to privatize up to 50 percent of city services in an effort to save costs. Policy makers did not want to give up control of more than 50 percent of the collection service, in case of serious contractual problems with the private sector.

Public works and sanitation managers and staff were not willing to concede 50 percent of their operation to private contractors without a fight. A careful analysis of the Browning Ferris operation made it clear how they had been able to develop the low bid for the bulk trash operation. Instead of using open bed trucks and trailers with four or five man crews, Browning Ferris had bid a rearloader, a tractor, and a two man crew. They were able to load three times as much refuse with half the manpower. City staff began converting to this type of operation in the other districts.

The city council and management were impressed with the cost savings and increases in productivity resulting from the bulk trash bid, and decided to bid sanitation service for an entire collection district. As before, the Phoenix sanitation division entered into the competitive bidding process. The district chosen, the Southwest Collection District, included over 50,000 billed units. City forces sharp-

ened their pencils and went to work. When the dust cleared, the private sector had defeated them once again.

City of Phoenix sanitation managers and staff had been soundly defeated early in the "competitive privatization" process. This situation shifted dramatically, and the city won the next three successive bids. What are some of the factors that make the Phoenix "competitive privatization" model an effective tool for innovation and productivity? Why has it generated such remarkable savings in an era when municipal service costs seem to be escalating so rapidly? The answers to these questions relate to primarily two important factors: process and people.

As to process, Phoenix established certain criteria prior to tendering its' first bid. Over the years of practicing "competitive privatization" of solid waste services, Phoenix has learned additional lessons. At first, the city was concerned about losing control of its' ability to provide high quality service to residents, and this remains a major concern. Phoenix has maintained an unwritten policy that no more than 50 percent of the operation will be in the hands of private contractors at any one time. This policy was proven wise when the contractor for the Southwest Collection District was failing.

Budget, finance, and audit personnel have done an excellent job of identifying the city's direct and indirect costs of providing solid waste services. This allows council and management to make informed decisions about contracting and expected savings. The process has been documented in an administrative regulation

which outlines the role of each department, and documents the city's internal bid generation process for outside bidders. As Phoenix learns from each new experience, it updates and enhances the process to maximize the cost effectiveness of solid waste services whether they are delivered by the city or private contractors.

People have been at least as important a process in this success story. Council and top management gave line management and labor the opportunity to compete. When management and labor discovered that they were behind the power curve technologically, the council and management provided funding to obtain current technology and the time to implement it. Labor worked with management to increase efficiency. Labor and management worked together because management included labor in the process, and because each contract required the successful contractor to offer displaced workers a position. These positions did not have to be at the same rate of pay as their earnings with the city. The city also held vacancies open prior to bids, allowing displaced drivers to retain city employment, although they might have to accept a comparable or lower position.

"Competitive privatization" has served Phoenix well. It has created productivity improvements, driven the implementation of leading edge waste technology empowered line managers to embrace change, created a labor management team, and proven a winner for the rate payer.



Land:

Privatization of Land in Russia

by Olga Kaganova and Nadezha Kosareva

ST. PETERSBURG. The picture of privatization of land in Russia is quite grim; marked progress in privatization is limited. What is the problem? There are several reasons behind the unpopularity of the concept of private property for land among the municipal authorities. First of all, from the standpoint of current interests of the city, leasing is much more beneficial to the budget. Secondly, private ownership of land has many "ideological" adversaries who have found aggressive support of western followers of Henry George, an American philosopher who preached that God-given land should belong to all people. Thirdly, exclusive control enjoyed by municipal authorities over the allocation of land for development is considered by many officials as the source of power, influence, and enrichment. And, finally, the formal justification of authorities in many cities is provided by the absence of land cadastres; but, instead of taking a simple inventory as the first step and starting the land reform on this basis, they embarked on a lengthy and expensive game of creating fully computerized cadastres on the basis of second-generation GIS.

What is the reason behind such a dramatic difference in the privatization of land and enterprises? From the very beginning, the problems of land reform were dealt with by conservative agrarian-oriented politicians with no attention paid to urban land tenure issues.

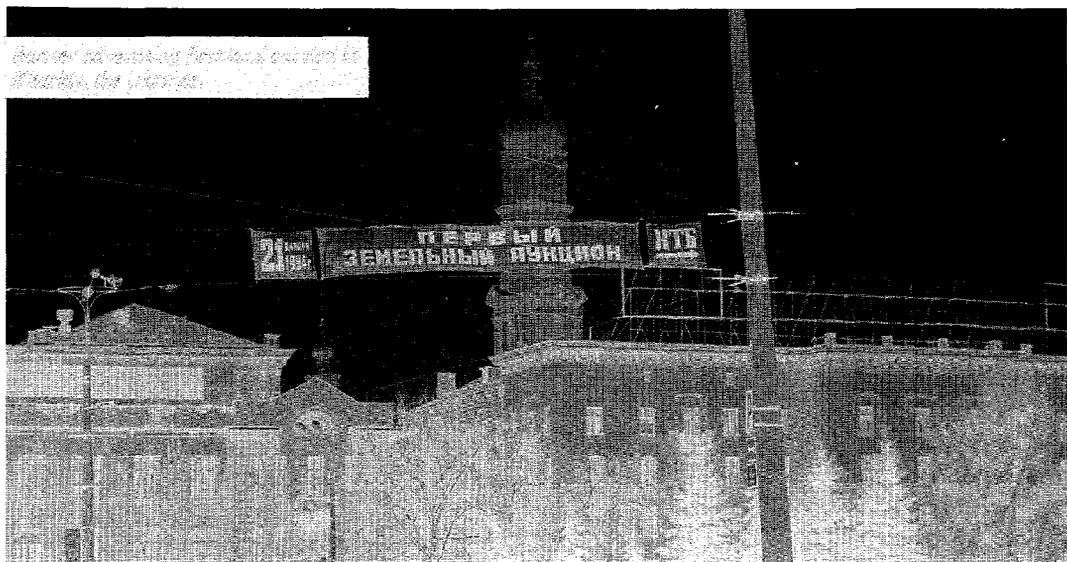
It is clear that exclusive municipal control over land and the vagueness of the rights of land owners and tenants create an unfavorable climate for investments in Russian cities. Therefore, the slow pace of land and urban reform is the main obstacle for the development of real estate markets.

For the active inclusion of market forces into the urban economy it is important not only to privatize real estate, but to create the environment for free

municipalities have established their own commercial real estate brokerage and real estate development firms.

Hopefully, the majority of

these shortcomings are simply "growing pains" and the real estate economy will continue to develop.



competitive development of entrepreneurial activity; in other words, small and medium businesses in all sectors of real estate. In those activities, non-existent before the reform, such as in brokerage and appraisal, the development and self-organization of market infrastructure is going strong. However, in the fields formerly occupied exclusively by the state sector—maintenance of residential and other buildings, for example—the creation of newly independent businesses meets many obstacles as municipal authorities frequently adopt a protectionist policy. Of course, the progress of demonopolization and privatization is varied across the spectrum of cities.

The concept of "conflict of interest" is not only absent in the Russian legislation, but not even fully comprehended by public opinion. Therefore, the activity of both the municipal bodies and individual officials is often a glaring example of "conflict of interest." For instance, some

Land Auction in Ukraine

KHARKIV. The city of Kharkiv, Ukraine's second largest, began early in 1994 to auction parcels of land for commercial and residential development. This city of 1.5 million conducted the first ever open, competitive land auction in the Ukraine, and one of the first in the former Soviet Union. Although the results of the first two auctions have been modest, they mark an important step for the city's government. Existing national law prohibits the outright sale of land for commercial uses, so the city instead sold 50-year leases to land parcels. In an effort to mimic private ownership as much as possible, the Kharkiv government made the leases renewable and transferable.

The decision of the Kharkiv executive council to auction the leases was controversial: the city prosecutor claimed that the scheme was illegal. The mayor and the council, on the other hand, maintained that the auction was within the city's established authority to both allocate land for development and to sell rights to the parcels. The council decided to carry out its plan not only to raise money for the city and promote more efficient use of land based on market principles, but also to create a public alternative to the "shadow economy" where land parcels have been sold unofficially.

The first auction, held in January 1994, put 16 parcels of land—8 commercial and 8 residential—on the market. The city limited participation in the bidding to Kharkiv residents and firms registered with the city. The residential parcels were not auctioned because only one bidder applied to take part. But two of the commercial parcels sold, both slated for construction of offices with a limited retail component (a cafe and a shop).

The "sale" of the two parcels yielded 1.5 billion karboovanets (about US\$41,000), a sum that the city plans to use to construct 10 three-room apartments. The city's second land auction, on June 24, was a little more successful. Buyers purchased three long-term leases—for a multifamily residential building, a commercial building, and a garage.

Drawn from Landlines, Newsletter of the Lincoln Institute of Land Policy, September 1994.

Telecommunications:

Privatization in Peru: Reducing the Distances Between Us

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by Jorge Zavaleta Alegre

Jorge Zavaleta Alegre is a staff writer for *GESTION*, and a correspondent for *CAMBIO16 AMERICA*.



LIMA. In Peru, geographical distances remain a major obstacle in connecting the 23 million people who live in its 2,000 cities, towns, and villages.

Time in Peru is still measured by the solar calendar and such mysterious markings as the Nazca lines, which outlined the harvest calendar. Among the earliest means of communication were *quipú*, complex systems of plaited strings and knots, and *chasquí*, men trained to swiftly transport

lowest figure in South America, and the second lowest (above Haiti) in Latin America. In Latin America, the average is 5.4 telephone lines per 100 people.

Decree Law 702, issued during Albert Fujimori's presidency, declared the development of telecommunications a public necessity. This decree lays down free-market principles to guide that development. Promotion, administration, and supervision are to be the responsibility of the

sufficient capital to CPT to give a total holding of 35 percent of its capital stock. In theory, CPT was already a private corporation with a diverse group of shareholders, but it had serious functional shortcomings. The package included an offer to ENTEL employees of up to 10 percent of its shares, with the remaining 55 percent to be disposed of through the stock market.

The bidders in the auction were such prestigious telecommunications companies as AT&T Cable and Wireless, GTE International, STET International, Telecom France, Telecom Korea, and Southwestern Bell. They made attractive and competitive offers, which helped create a climate conducive to investment in other sectors in Peru. Government sources calculate that by July 1995, when President Fujimori's term of office ends, a total of some US\$ 5 billion will have been invested through privatization in a range of sectors.

Telefónica Española, the successful bidder and grantee of the service concession, is already active outside Spain in Venezuela, Romania, Puerto Rico, Chile, Argentina, and the United States. It controls nearly 14 million primary lines and has annual billings of over US\$ 10 billion. The Peruvian Government received US\$1.391 billion for the shares it auctioned, while CPT obtained nearly US\$ 611 in capital.

The goals of the privatization are to double the current level of service within the next five years. During this period, exclusive rights will apply only to fixed local telephone services and domestic and international long distance calls. At the same time, tariffs will be adjusted, with the ultimate objective of eliminating

the present cross-subsidies.

Telefónica Española intends to expand and modernize by providing over one million new lines, modernizing 200,000 existing lines and 19,000 public telephones, and installing public telephone booths in all population centers with over 500 people that now lack this service. It also aims to reduce the time new subscribers have to wait to be connected. Many are skeptical about this, since telephone service in Peru has long been in the hands of an inefficient bureaucracy. This bureaucracy virtually set up its own informal private business in telephone lines, and forced its arbitrary management decisions on users.

The government is confident that by transferring management of the country's telecommunications enterprises to the private sector it has set the stage for its modernization by eliminating distortions that have prevented this type of progress.

The opposition political group in the privatization auction agree that the telecommunications sector could not be expected to generate significant job opportunities in Peru. The official response is that the benefits of privatization can be quantified only if a value can be assigned to increased ease of commercial exchanges, improved integration of remote groups into the general population, and rapid response to requests for assistance.

The greatest challenges are to ensure that the economic effects of the program are irreversible, to continue to expand Peruvian and foreign investment, and to increase both competition and fiscal revenues. The results of privatization can be guaranteed only if there are no major change

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Headquarters of *Compañía Peruana de Telefonos* (The Peruvian Telephone Company), now controlled by *Telefónica Española*.

fruit from the Amazon and fresh fish from the Pacific to the Inca nobility in the imperial Andean city of Cuzco.

While today's world is connected by satellites and computers, and increasingly resembles a global village, many population groups in Peru continue to be so isolated that they can be reached only by Air Force hydroplane or helicopter. In the Amazon region, with its forests and turbulent rivers, contact between indigenous communities is still largely dependent on fragile canoes or *peque-peques*.

Having a telephone in Peru today is a privilege. Peru currently has 2.8 telephone lines per 100 people, which is the

state. This new legislation sets up a modern classification of telecommunications services and prescribes a restructuring of tariffs that is expected to ensure reasonable returns for interested companies.

Shares in the Peruvian Telephone Company (CPT) and the National Telecommunications Company (ENTEL) were sold to *Telefónica Española* for a total exceeding US\$ 2 billion. This was the largest transaction of its kind in Latin America, and the fifth largest such transaction in the world so far in 1994.

In the recent auction, held on February 28, 1994, the Peruvian Government sold off 35 percent of ENTEL shares, approximately 20 percent of CPT shares, and

in the current rules of the game. This is especially true since, for the past 50 years, the pendulum of government in Peru has swung between populism, and attempts at establishing a market-driven social economy.

Thanks to enactment of a single constitutional law, privatization has been a fairly straightforward process. The transfer of telecommunications into private hands was based on three pieces of legislation: (1) the Peruvian Constitution of 1993, which restricts monopolies; (2) the Constitutional Development Act, which outlines the specific steps to follow to move from the five-year monopoly period to open competition; and (3) eliminating the state's exclusive rights in the telecommunications field.

The sustainability of privatization will depend on the Constitution. The very fact that it has taken place in Peru means a consolidation of democracy, and an advance in co-existence under rules of law. It also means the availability of improved ways to communicate for enhanced social, physical, and cultural integration with the rest of the world.

Regional Seminar on Public/Private Partnerships for Urban Development in Latin America and the Caribbean: The Privatization of Urban Services

The LAC Office of the Urban Management Programme jointly with the Municipality of Quito and with the support of OLDIS, is preparing a regional seminar to foster critical debate and exchange of experiences on private sector participation in the provision of urban services/facilities. Special focus will be on the identification and analysis of the conditions required for successful implementation of public/private partnerships, and the redefinition of the role of the public sector based on experiences from the region.

The event will take place in Quito in February 1995. For further information, contact the UMP-LAC Office at Casilla 17-17-1449 Quito, Ecuador, Fax: (593 2) 462 134; Tel: (593 2) 462 132/462 136, email: lac@pgu.ec

Transportation: Privatizing Toll Roads in the Philippines

by Saviniano Perez

The Philippine government promotes private sector participation in public infrastructure facilities through an act that authorizes "Financing, Construction, Operation, and Maintenance of Infrastructure Projects by the Private Sector and for Other Purposes." This bill was promulgated in July 1990 and amended in May 1994. Its enactment shows that the Philippine government recognizes the private sector as an important force in national growth and development, and believes that the private sector can bring technical expertise and management efficiency to public infrastructure development and operation. In addition to providing appropriate incentives to mobilize private resources, the amended law also allows private sector participants to manage public facilities. This approach is expected to be especially appropriate in the area of toll road development.

MANILA. Privatization is expected to become an important approach to toll road development in the Philippines. Local experience shows that there is an opportunity to promote toll road development by impressing upon road users the need to pay for benefits received. However, project planners and implementors must remain dedicated and imaginative in dealing with the sociopolitical issues that affect the privatization process.

As private sector participation in Philippine road construction grows, several issues will need to be addressed, such as rate fixing for toll roads. Setting the initial toll rate is critical, as is the need to provide reasonable and regular rate adjustments that are acceptable to the road users. Current toll rates at the Luzon Expressway are among the lowest in Southeast Asia, for example. The Philippine National Construction Company (PNCC), a private corporation that was acquired by government financing institutions, wants to adjust the rate to a new level that will allow recovery of its projected investment in rehabilitating and improving the existing Luzon Tollways System. It also seeks joint ventures with both foreign and local investors, who will be repaid with revenue from the adjusted toll rates.

PNCC participation in toll road development dates back to 1977, when the PNCC's predecessor, the Construction and Development Corporation of the Philippines (CDCP), obtained a legislative franchise to operate,

construct, and maintain toll facilities in the North and South Luzon Toll Expressways. CDCP proposed maximizing the use of private resources, allowing the government to redirect its own efforts to other infrastructure projects. Their franchise included the right to collect toll fees at rates fixed and/or authorized by the Toll Regulatory Board for expressway use. This was the first major attempt to privatize toll road management in the Philippines. PNCC's franchise was subsequently expanded, giving it the right to construct, maintain, and operate all extensions or linkages from any part of the North and South Luzon Toll Expressways and/or the Metro Manila Expressway.

The Metro Manila Urban Expressway System (MMUES), the densest road system in the Philippines, is another strong candidate for private sector participation. The latest in a series of transportation studies for Metro Manila presents a master plan for some 150 km of expressways to cope with the rapidly increasing traffic as well and urban development needs of the metropolitan area.

Although development of the Metro-Manila Urban Expressway System is receiving priority, a method for identifying and undertaking small-scale toll road systems suitable for other urban areas is being developed. The Build-Own-and-Operate scheme (BOO, see box p. 10) presents one possible model for private sector participation in toll road develop-

ment. Another approach links road development with housing, industrial, and commercial development, giving the developer a franchise to operate the road, which will be constructed as a toll facility.

In the four years since the Philippine BOT law has been applied to encourage privatization of toll roads, several lessons have already been learned:

- More promotional efforts are needed to demonstrate the advantages of investing in toll roads, which tend to attract fewer investors than power generation projects.

- Prospective investors worry that toll rates will remain regulated. Partial deregulation of toll operations and toll-rate fixing may be needed to ensure a better rate of return on investment.

- The investment required for toll roads, especially elevated urban expressways, is beyond the financial means of most local investors. Foreign investors therefore play a pivotal role in financing toll road projects.

- In rural areas where some farm-to-market roads are presently tolled, development of better road systems through BOT or BOO schemes may meet with the least resistance. Appropriate technology and road standards are needed, however, to suit rural conditions.

- Efforts must be made to help implementing agencies and their regional offices fully understand the BOT scheme and the financing aspect of proposed BOT projects.



The Reform of Urban Grain Stores in China

by Xiaochen Meng, Weijie Dong, and Gangjian Fu

Xiaochen Meng is associate professor in the Department of Urban and Environmental Sciences, Peking University. Weijie Dong and Gangjian Fu participated in the research on grain stores in the Chengwen District.

BEIJING. Grain is China's most important commodity. It links the daily lives of all citizens and contributes to the nation's stability. The production and distribution of grain (mostly rice and wheat) has long been monopolized by the government, which distributes rationed grain supplies to urban residents through a system of state-run grain stores. This grain ration system has also been an important method of controlling the population of Chinese cities.

Under China's centrally planned economy, the purchase price, selling price, and sales quantity were all under strict state control. As a result, grain stores

channeled." Citizens' consumption patterns have also changed, and price reforms were introduced in the early 1990s. All of these factors have reduced the number of state-run grain stores and contributed to grave difficulties facing the remaining stores.

An Increasingly Competitive Marketplace

Reform of the economic system has broken the state's monopoly of grain markets, and greatly decreased the market for state-run grain stores. There are basically three new outlets for grain distribution. First, free markets are developing rapidly

due to new agricultural policies. Private sellers have a wide range of grain sources, and their prices vary according to demand. Free market prices are higher than government subsidized prices, but lower than negotiated prices.

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China: The Challenge of Urban Migration

by Xiaochen Meng, Peking University, China

Editor's Note: As a follow-up to our Spring 1994 issue on International Migration, we thought it useful to describe the in-country migration now taking place in China—the largest rural-to-urban migration occurring in the world.

China is a big country with a population that exceeded 1.1 billion in 1990. Today, while the population of the United States is moving out of the central cities and even the suburbs, the Chinese people are just starting to move into cities from the rural areas. Urbanization in China is only beginning to occur by Western standards, although the process is moving fast and has already brought with it many social problems.

China's total urban population is 301 million, the largest national urban population in the world. Even so, China's urbanization level is low at just 26.4 percent of the total population. In most developed countries, the urbanization level exceeds 70 percent. There were 31 cities in China with over a million residents in 1990, accounting for just 5.3 percent of the country's population. There were, however, more than 9,000 small cities with less than 200,000 residents, making up 16.3 percent of the population.

Factors Limiting Urbanization

Why has the urbanization process previously been so slow in China? The main reasons were China's household registration system and the country's post-1949 industrial policy.

The central government set up a household registration system in the 1950s to control population movements. Under this system, the population was divided into urban and rural categories, and the latter could not move to the cities without government approval. There were just four ways for rural people to become urban residents.

First, young people that passed the college or university entrance examinations could get a job in the cities after graduation and settle there. Second, those who joined the army and performed well could get a job in the cities when they finished their service. The third way was marriage. If a rural person married an urban resident, he or she could become an urban resident. The fourth and most important way was through government employment. When the urban labor force was not adequate to meet economic development objectives, State-run enterprises could hire workers from rural areas. Yet all four of these possibilities had only a minimal impact on population movements. Of the total urban population increase during this period, 68 percent came from natural increases in the existing urban population and just 32 percent was due to rural migration.

Effect of Urban Reforms

Urban reforms, which began a few years after rural reforms, have also made it easier for rural people to move to the cities. The opening of the grain market was a key step. Grain is the main food of the Chinese people. Under the economic planning system, urban residents received a monthly grain ration from the government. Non-urban residents were not eligible for a grain allocation, and thus could not stay long in the cities. However, as a result of grain distribution reforms, grain was put on the open market and people could buy as much as they wanted if they had the money. This removed a major barrier preventing rural-urban migration.

A second important reform allowed private businesses to operate in China's cities. Since not many urban residents were interested in working in private business, rural migration became the main source of labor in these new ventures. Some became street vendors, repairing shoes and umbrellas, while others found jobs as housekeepers or baby-sitters.

The third reform was in the state sector, as the government began to allow company managers to make hiring and firing decisions. Many factory managers preferred to hire rural laborers because they were willing to do dirty, heavy work and could be paid temporary wages with no benefits. Moreover, as temporary workers, they could be fired at any time, keeping labor costs low. The boom in China's construction industry, for example, has created a number of openings for rural laborers.

Although these reforms removed barriers to rural migration, major difficulties still face rural people settling in China's cities. First, it is very hard to secure permanent employment. The second problem is housing. The government has just begun to set up a housing market, although most people still get housing from their employer, and many factories will not hire new arrivals since they cannot house them.



A state-run grain store in Chanewen District of Beijing. Economic reform has broken the state's monopoly of grain markets.

came to be viewed as the basic units of a grain distribution system rather than retail outlets where people could shop for grain. Since the mid-1980s, however, with the spread of market reforms, grain supplies have become increasingly "multi-

Naturally, these markets have become strong competitors to state-run grain stores. Second, companies and factories can buy grain directly from farmers in large quantities to distribute to their staff free or at low prices. This form of grain distribution is especially common in large government departments, companies, and factories. Finally, grain farmers sometimes go into urban residential areas and sell grain themselves door to door. These farmers usually do not have a license, making it difficult to determine how many there are and how much they sell. Profits are high since the sellers do not pay taxes to the state, while the costs are very low. As a result, the number of these grain sellers is increasing rapidly.

Problems with Pricing Policy

For a long time, the sales price of state grain was lower than the purchase price of grain from the farmers, due to extremely heavy state subsidies for grain consumers. In 1992, after a second grain price adjustment, food stores still could not achieve adequate profit margins because they were forced to include transportation in their costs.

Because grain stores have long operated at a deficit, and because the government does not have special funds for this purpose, grain stores also have no money for renovation or other improvements. The store buildings, most of them former residences or even old temples bought by the state in the 1950s, are now in a state of disrepair and ventilation systems for storage are poor.

Management and Labor Issues

Management is another major problem for grain stores. Hierarchically, there are three layers of government management above grain stores: the district, bureau, and central government. Stores are actually considered executive units where the state's grain

distribution goals get fulfilled, and thus their profits are secondary to the social welfare goals. Finally, because they cannot independently hire or fire staff, the stores are extremely inflexible in responding to any kind of change.

Workers in the grain distribution system have become used to acting according to government policies and rationing plans, without any understanding of the market implications of their decisions. During the Dragon Boat Festival in 1991, for example, grain stores were allowed to set their own prices for "zongzi," a special holiday food consisting of pyramid-shaped rice dumpling wrapped in bamboo or reed leaves. But workers felt unable to make pricing decisions, and went to the government bureau for advice instead.

Future Challenges and Recommendations

The grain store system faces tough challenges, making reforms and adjustments both necessary and urgent. Changes should be made with an eye to long-term trends, however, so as to allow flexibility to accommodate future developments.

With the eventual "freeing" of grain prices, competition will be even stronger for state-run grain stores, whose proportion of the grain market will decrease steadily. If market share drops to 70 percent, 561 staff members would be needed. In other words, for every 10 percent drop in market share, 80 jobs would be eliminated.

It is clear that urban grain stores need to make substantial adjustments in the number of stores, their size, and location, in order to raise profits and retain market share. Officials at different levels of government should recognize the necessity and importance of these changes, however, and take effective support measures.

ROUNDTABLE

In the "Roundtable," we present several questions to prominent people on the topic being discussed in each issue. The purpose is to create a forum for interchange and debate among people with opposing points of view. Our hope is that readers will find it a starting point for generating their own discussions, both within their cities and in response to *The Urban Age*.

In this roundtable we approached Wagui Siby, an economist and lawyer specializing in urban environmental management. Mr. Siby, a Senegalese, is currently a member of the regional panel of experts for the Urban Management Programme in Africa. He has been an adviser to the Ministry of Modernization and Technology of Senegal. Christine Kessides is Principal Economist in the Water, Transportation, and Urban Development Department of the World Bank. She was deputy director of the 1994 *World Development Report*, "Infrastructure for Development."

UA: How efficient, in practice have privatized services been?

SIBY: In theory, privatized services are considered efficient because of their strict management, their flexibility in meeting demand, the quality/range of their products or services, and their tight cost control. In practice, privatized public services are largely ineffective because of the new demands that private management makes on the administrators of these services.

KESSIDES: It is important to be clear about what criteria for efficiency you use, and against what standard you compare their performance. Frequently, managers of privatized services face a legacy of problems created by the former public providers. To overcome these problems, the new owners/operators may need to make relatively large tariff increases, cut overheads, and drop certain services. These actions may be necessary for higher productivity, even if they appear from the outside to be negative developments.

UA: What dangers, if any, does privatization bring? Should there be concern that services to low-income groups will be neglected?

SIBY: The danger in privatizing public services lies primarily in the cost of the services or products offered. A privatized service makes no distinction between a wealthy customer and a poor customer. In developing countries this means that the poor cannot afford to use the privatized services unless someone else (the state, local government) pays the difference between the actual cost and the price payable by the user.

KESSIDES: A danger often stated is that poor users cannot pay the full cost of privatized services. This is not necessarily true. In many surveys it has been found that not only are the poor willing to pay the cost of reliable services, but they are actually paying to the informal sector higher prices than the rich—and often for inferior services.

UA: For privatization to succeed, it seems that both the profit motive and competition have to work. In what percentage of developing countries is this the case? If it is not the case, what can the public sector do to help create market conditions?

SIBY: In most developing countries services are privatized because the state wants to disengage from providing services; thus, cost reduction rather than any motive of competition or profit seeking is more important. In the majority of cases privatization has therefore not succeeded. The state needs to develop management training facilities, create market conditions, and possibly monitor the progress of the newly privatized services, offering technical assistance if necessary.

KESSIDES: Even in low-income countries, carefully designed public-private sector partnerships, with strong political support, have produced significant cost reductions, new investment and service extensions, and improved service quality. More generally, governments should undertake legal reforms and other measures to promote competition in activities which do not involve natural monopoly.

UA: Experience shows that there are several pragmatic difficulties inherent in privatizing services, such as the difficulty of collecting payments, how to set correct pricing levels, and the importance of assessing demand. Do you know of cases in which these difficulties have been overcome?

SIBY: Setting correct pricing levels, determining user/customer capacity to pay, and assessing demand are concerns that are inherent in private enterprise. But privatized public services have enormous difficulties in integrating these concerns into their management.

KESSIDES: All of the problems you list are equally faced by the public sector as provider—in fact, they are potentially worse, because the decisions of the public provider are often highly politicized. An efficient and responsive service provider must have the managerial and financial autonomy to operate "as a business not a bureaucracy."

The Privatization of City-owned Enterprises: Gdynia's Experience



by Wieslaw Byczkowski

Wieslaw Byczkowski was elected to the Gdynia City Council in June 1994 and appointed as vice president responsible for city property and ownership transformation; he is a lawyer by training.

GDYNIA. Simply stated, the thrust of Poland's political and economic reform is to decentralize decision making and to privatize economic activity. Municipalities were created as autonomous entities in May 1990. A wide range of responsibilities were transferred from the state, including the ability to own and transfer property and to engage in economic activity. This responsibility was later removed through a legislative amendment passed October 1992, causing much controversy and confusion in municipal economic development and privatization policies. The overall goals in the privatization strategy are:

1. To optimize use of the city's resources through the most effective ownership structure.
2. To provide the city with revenues.
3. To insure that local services will be provided at the highest level of quality and at the lowest possible cost.

An initial step in the economic transformation was the communalization or transfer of ownership of state-owned enterprises and property to the municipalities. Gdynia received twelve companies including two providing municipal services, as well as companies engaged in commercial activities such as fishing, construction, and computer services. The city then had to decide the optimum legal structure for each company, dependent on the economic strength and marketability of the company. Those with less market potential were transformed into a specific organizational form and placed on the city budget which is allowed under the Budget Law. The companies deemed market-

able entered a privatization track.

Seven companies underwent a capital privatization process by first becoming limited liability companies with stock held by the city, which it offers for sale to investors. The remaining four were privatized through the liquidation process. Two of the four "liquidated" were directly sold and two were transformed into private companies owned by the employees who lease the companies' assets from the city.

In 1994, the last of the twelve, the city transportation company, which had been made a "budget" company, was liquidated. Three

private companies, singly owned by the city, were created from its property.

None of the methods described above has proven perfect, each raising problems and questions. In the capital privatization process, it is difficult to locate strategic investors. It was further difficult to successfully restructure the company debt, which would be inherited by the newly privatized company.

In the process of liquidation, the newly formed companies shared financial problems resulting from high leasing fees, low share of initial capital relative

to the needed working capital, pressure from the workers for higher wages, and lower investment and the difficulties of collecting overdue payments. In employee-owned companies, the position of the union is very unclear and there are considerable possibilities for conflict of interest.

The city has also made progress in selling and leasing city-owned real estate through auctions and tenders, processes with guidelines established by the state. However, much choice real estate awaits the appropriate investor.

An Interview with Franciszka Cegielska, Mayor of Gdynia



Gdynia, a young city, developed in the 1920s from a small fishing village into Poland's modern port city after Gdansk's was designated an international free city. A part of the coastal Tri-City conurbation with a population of 757,961 including Gdansk and Sopot, Gdynia is home to 250,622 people.

Gdynia is known as a city of entrepreneurship with a high percentage of privately owned businesses, real estate, high per capita income, and relatively low unemployment. Due to the efforts of its progressive leadership and business community, Gdynia won the bid to host the 1994 EuroPartneriat, which brought over 2,100 foreign and Polish companies together in Gdynia's recently developed World Trade Center Expo, a 8,000 m² exhibition hall with conference facilities.

Franciszka Cegielska, Mayor of Gdynia, was recently re-elected to serve a second term as mayor as the city enters its fifth year of autonomous local government. Mayor Cegielska, a ship engineer by profession, is well-known nationally for her innovation and serves as the Vice President of the Association of Polish Cities and as a delegate to the European Council.

UA: What have been the successes of the municipality in the area of privatization during your first term as president from 1990 to 1994?

Cegielska: Without a doubt our greatest success, both financially and substantively, has been in the privatization of city services such as local transportation services and city cleaning services. The creation of a market for the provision of services which the city buys through a competitive process has rationalized the expenses in the city budget. Equally important is the perception of the city residents that the transport services are timely and efficient and the city is clean.

The city has developed a unique method to privatize the city-owned housing stock, with the result that in the last few years, from May 1990 until present, approximately 3,000 apartments have been sold to the tenants in residence.

Another successful and interesting venture is the 30-year lease on the city market hall with the association of traders who have funded the entire cost (\$500,000) of the renovation of the market hall completed last year.

UA: What are some of the barriers to the process of ownership transformation/privatization?

Cegielska: The most serious barriers are in the legal and legislative areas (unstable regulations and the lack of clarity in the case of some of the laws) and the lack of sufficient local capital and lack of interest from foreign capital—these are barriers that result from our growing up under the conditions of socialism.

UA: What is the most important task of Gdynia's local government in the area of privatization?

Cegielska: It is to rationalize the management of communal resources, including city housing and commercial properties.

We actively seek our developing country readers' input for this section. Our intention is to facilitate networking among developing country city managers and their constituents.

INTERNATIONAL UNION OF LOCAL AUTHORITIES

Contact: Mr. Drew Horgan, Secretary General, IULA, 39 Wassenaarseweg, 2596 CG, The Hague, The Netherlands; Tel: 31-70-324-4032; Fax: 31-70-324-6916.

The International Union of Local Authorities represents local governments around the world and seeks to improve local government and services to urban residents. The IULA also represents local governments in discussions with the United Nations and other international organizations.

The IULA is made up of over 350 national associations of local government, cities, counties, research institutions, and individuals who seek greater participation of local citizenry in improving government at all levels. The union believes that local government is increasingly important given the trend of decentralization at the national government level. It acts as a clearinghouse for information among its members and helps local governments in different countries share ideas.

SETTLEMENTS INFORMATION NETWORK AFRICA

Contact: Diana Lee-Smith, Mazingira Institute, P.O. Box 14550, Nairobi, Kenya; Tel: 254-2-443219, Fax: 254-2-444643.

Settlements Information Network Africa (SINA), created in 1981, is a network of people working on self-help settlement projects in Africa, including housing, education, health, nutrition, skills training, community organizing, and employment.

Originally a more informal network that helped isolated individuals and organizations contact others with similar problems, SINA moved on to organize national and regional meetings, and study tours throughout Africa. For example, SINA recently sponsored a study tour for three members of Tanzanian womens' organizations to visit Zimbabwean housing cooperatives.

The network is operated by the Mazingira Institute, a Kenya-based NGO.

BRAZILIAN INSTITUTE OF MUNICIPAL ADMINISTRATION

Contact: Carlos D'Oliviera, Largo IBAM, No.1, 22271-070 Rio de Janeiro, RJ Brasil; Tel: 021-266-6622, Fax: 021-537-1262, Telex: 21-22638 INBM BR.

This 41-year-old organization, with 100 city members and 200 consultants, helps cities, towns, and other local municipalities strengthen their local government system.

Of the 100 current projects, the largest is in Mozambique where IBAM is helping to bolster municipal institutions and rehabilitate cities to make them more liveable.

SISTER CITIES INTERNATIONAL

Contact: Richard Neuheisel, 120 Payne Street, Alexandria, VA 22314, USA; Tel: 703-836-3535, Fax: 703-836-4815.

Sister Cities International was set up to develop better international cooperation between U.S. cities and cities around the world, creating opportunities to explore culture, promote dialogue, and to foster an atmosphere in which economic development and trade can be explored. More than 1,040 U.S. cities are linked with 1,802 cities in other nations, addressing issues ranging from the environment to education, from the cultural to the medical and beyond.

Recently, Rochester, New York, was able to help its sister city, Krakow, Poland, by sending a city accountant to teach finance and data processing. Portland, Maine, and Archangel, Russia, raised funds for high school exchanges.

Many cities have an ongoing dialogue. New Brunswick, New Jersey, in a bid to boost trade with its sister city, Debrecen, Hungary, has been holding an annual conference since 1990.

The organization will assist cities interested in finding sister cities in the United States with similar histories or populations, industry, or geographical features.



URBAN MANAGEMENT PROGRAMME FOR ASIA AND THE PACIFIC

Contact: Nathaniel Von Einsiedel, UMPAP, P.O. Box 12544, 50782 Kuala Lumpur, Malaysia; Tel: 603-255-9122; Fax: 603-255-2870.

The Urban Management Programme for Asia and the Pacific (UMPAP) was set up by the United Nations Development Programme to promote people-centered, environmentally friendly, and participatory development in Asian cities, home to 1.3 billion people.

This inter-agency coalition of the UN aims to bolster urban management capacity, encourage urban networking, generate sustainable urban environmental policies and practices, and make sure that non-government and community-based organizations participate in the development of Asian cities.

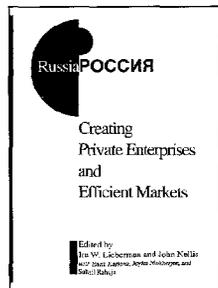
UMPAP began publishing *Urban Links* in November 1993 to share information, skills, and experiences with those working in the areas of urban environment, poverty, and municipal management issues. The organization also participates in a variety of conferences on urban issues and publishes selected papers.

Russia: Creating Private Enterprises and Efficient Markets



by *Ira Lieberman and John Nellis. The World Bank, 1994. To order copies of the book, contact Rose Malcolm, Room G4127, The Private Sector Development Department, The World Bank, 1818 H St., N.W.; Washington, D.C. 20433; tel. (202) 473-7495; fax (202) 522-3742.*

This book presents the views of top experts and actors in Russian



privatization, outlines the achievements since the process began in November

1991, and sets out the daunting issues that still need to be resolved. Contributors include officials of the Russian government, advisors to the Russian privatization body (the State Committee on Property Management or GKI), officials of international financial institutions working with the GKI, university professors on contract to the GKI, and staff of private consulting firms employed by the GKI.

Chapters focus on what was done and why, on what remains to be done, and on several key questions, including:

- How can "insiders" (former managers of public enterprises that have gone private) be prevented from blocking the secondary trading needed to complete the restructuring of privatizing firms (and bring in outside investors)?
- Since the voucher scheme expired in June 1994, what will happen to the 12,000-14,000 firms that have not yet been restructured?
- Why has small-scale privatization (of small businesses) lagged and what does it mean for

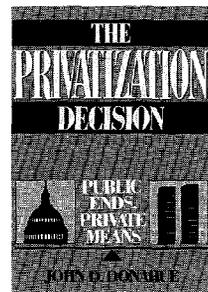
the economic future of the country?

• How can the technical assistance needs of medium and large firms that are now private be met without reintroducing the heavy hand of the state? Who will fund and provide these resources? And what parallel reforms are required in the financial sector and capital market development to support these actions?

The Privatization Decision

by *John D. Donahue. Basic Books, Inc., New York, N.Y., 1989*

In the United States, where telephone utilities, railways, and airlines have always been private, privatization means something different than in the United Kingdom, Chile, Mexico,



Argentina, and Eastern Europe. Typically, it means enlisting private energies to improve the performance of tasks that can remain in some sense public.

Donahue looks beyond stereotypes about the miracle of privatization to the intricacies of public spending, collective decision-making, and institutional structures. Cronyism and political infighting exist among private contractors as in the public sector. Accountability for both is key.

The author maps out the features that make certain public tasks promising candidates for privatization, but warns of the dangers of privatizing tasks that would be better left to government.

World Development Report 1994

The World Bank, 1818 H St., N.W., Washington, D.C., 1994.

Replete with examples of successes and failures, the *World*

Development Report 1994 looks at the delivery of infrastructure in developing countries.

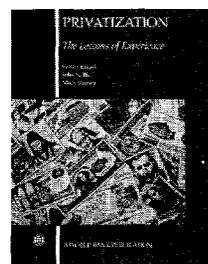
Typically such services have been delivered by monopolistic public enterprises or government departments. To correct this, the report calls for three measures to improve services: 1) manage infrastructure like a business, not a bureaucracy; 2) introduce competition (directly if feasible, indirectly if not); 3) give users and other stakeholders a strong voice and real responsibility.

Support for giving a larger role to the private sector in the provision of infrastructure is growing in reaction to favorable results of recent initiatives in this direction, as with Mexico's telecommunications sector and Argentina's railways. The report provides ratings of the feasibility of private sector delivery of a broad array of infrastructure services.

Privatization: The Lessons of Experience

by *Sunita Kikeri, John Nellis, and Mary Shirley. The World Bank, 1992.*

This book reviews experiences with state-owned enterprises (SOEs) and their privatization in developing and industrial countries. It extracts salient themes



and lessons for the successful design and implementation of such reform. It touches on the privatization of industrial, commercial, manufacturing, and service-producing SOEs operating in both competitive and noncompetitive markets.

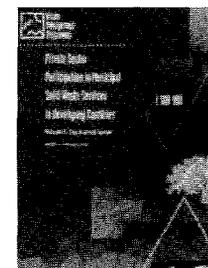
According to the authors, for privatization to succeed, a clear strategy and accompanying goal are essential. This involves identifying and resolving policy tradeoffs; establishing the appropriate scope, pace, and sequencing of privatization; and choosing the right methods.

Private Sector Participation in Municipal Solid Waste Services in Developing Countries, Vol. 1.: The Formal Sector

by *Sandra Cointreau-Levine. Urban Management Programme Discussion Paper No. 13, UNDP/UNCHS/World Bank Urban Management Programme, 1994.*

This paper analyzes the participation of the formal private sector the delivery of municipal solid waste services in developing countries.

To weigh the pros and cons of private sector participation, many factors need to be analyzed. Cointreau-Levine looks at the potential role of the



private sector in the contexts of cost recovery, efficiency, public accountability, management, finance, economies of scale, legislation, institutions, and cost. Particularly important is the separate analysis of the costs of the different components of solid waste service—collection, cleansing, disposal, and transfer

Below is a selection of urban events and training courses culled from The Urban Age's current files. We are not always able to list events more than once, given space limitations. Please refer to past issues of The Urban Age for additional events scheduled in 1994. Send your announcements to: The Editor, The Urban Age, Room S4-031, The World Bank, 1818 H Street NW, Washington DC 20433, USA. Facsimile: 202-522-3224, internet: nmccneil@worldbank.org

Conferences

Fes, Morocco—October 16–21, 1994. **Urban Development and Management at a Turning Point: Which Way Tomorrow?** Contact: Michel Sudarskis, Secretary General of INTA, International Secretariat, Nassau Dillenburgstraat 44, 2596AE The Hague. Tel: +31-70-324-4526, Fax: +31-70-328-0727.

Bangkok, Thailand—October 17–24, 1994. **Urban Finance and Cost Recovery.** Contact: USETI Selection Committee, 1000 Thomas Jefferson St., NW, Suite 106, Washington, DC. 20007, USA. Tel: 202-338-3400, Fax: 202-333-4782

San Antonio, Texas, USA—November 3–4, 1994. **Making Cities Globally Competitive: Spurring Foreign Trade, Investment and Tourism.** Contact: Chris Mead, CUED Conference Director, 1730 K Street, NW, Suite 915, Washington, DC 20006, USA. Tel: 202-223-4735, Fax: 202-223-4745.

Hong Kong—November 7–12. **World Congress on Urban Growth and the Environment.** Contact: Congress Secretariat, 10 Tonsley Place, London SW18 1BP, UK. Tel: 081-871-1209, Fax: 081-875-0686.

Cincinnati, Ohio, USA—November 17–20, 1994. **Urban Public Housing.** Contact: Professor Wolfgang F. E. Preiser, School of Architecture, University of Cincinnati, Mail Location 0016, Cincinnati, Ohio, 45221-0016, USA. Tel: 513-556-6743, Fax: 513-556-3288.

Melbourne, Australia—November 20–23, 1994. **Cities and the New Global Economy.** Contact: OECD-Australia Conference, The Meeting Planners, 108 Church St., Hawthorn 3122, Australia. Tel: 03-819-3700, Fax: 03-819-5978.

Bali, Indonesia—December 5–9, 1994. **Health, Economics and Development: Working Together for Change, The Seventh International Congress of the World Federation of Public Health Associations.** Contact: WFPHA Secretariat, c/o APHA, 1015 15th St. NW, Suite 300, Washington, D.C. 20005, USA. Tel: 202-789-5696, Fax: 202-789-5681.

Calcutta, India December 15–18, 1994. **Environment and Health in Developing Countries.** Contact: Dr. Rabin Ganguly, Indian Institute of Management-Calcutta, Joka, Diamond Harbor Road, Post Box 26757, P.O. Alipore, Calcutta 700 027, India. Tel: 91-33-77-2390, ext. 290; Fax: 91-33-242-1498.

Lapland, Finland—April 1–5, 1995. **Living on the Margins—Making the Best of Limited Resources.** Contact: Douglas Gordon, Secretary General, Suomi-Finland IFHP, P.O. Box 100, 00521 Helsinki, Finland. Tel: 358-0-148-88412, Fax: 358-0-148-6672.

London, England—April 4–7, 1995. **Health at the Crossroads: Transport Policy and Urban Health.** Contact: Conference Office, London School of Hygiene and Tropical Medicine, Keppel Street, London WC1E 7HT, UK. Tel: 44-0-171-927-2314, Fax: 44-0-171-580-7593.

Washington, DC—June 25–28, 1995. **Violence as a Global Health Issue: Responding to the Crisis.** Contact: NCIH Conference, 1701 K Street, NW, Suite 600, Washington, DC 20006, USA. Tel: 202-833-5903, Fax: 202-833-0075.

Education Programs and Courses

Liverpool School of Tropical Medicine—A new three month course in Community Health in Developing Countries with a strong focus on the provision of community health in unstable conditions involving population displacement. The course will be offered for the first time in January 1995. Contact: Anne Gordon, Course Secretary, Community Health in Developing Countries, Liverpool School of Tropical Medicine, Pembroke Place, Liverpool L3 5QA, UK. Tel: 051-708-9393, Fax: 051-707-1702.

Boston University—The School of Public Health will offer its seventh annual Management Methods for International Health course from February 2–April 30, 1995. This very intensive twelve-week course stresses the practical application of management principles in the public and private health sectors of developing countries. Contact: Michael Devlin, Course Manager, Management Methods for International Health, 53 Bay State Road, Boston, Massachusetts 02215, USA. Tel: 617-638-5234, Fax: 617-638-4476.

University of Birmingham—The School of Public Policy will be offering a Masters in Public Management beginning in 1995. Designed for "high-flying" managers in the public sector, this program combines essential theory with current best practice in public sector management. Contact: Dr. Donald Curtis, Director, Development Administration Group, School of Public Policy, The University of Birmingham, Birmingham B15 2TT, UK. Tel: 44-21-414-5033, Fax: 44-21-414-4989 or 5032.

Newsletters

A selected list of newsletters and journals carrying information on urban development issues.

INTERNATIONAL NEWS

Ripa International
22 Bedford Square
London WC1B 3HH
UK
Tel: 71-580-7138
Fax: 71-580-7140

WEDC BULLETIN
Water, Engineering and
Development Centre

Loughborough University of
Technology
Leicestershire LE11 3TU
UK
Tel: 44-509-222885
Fax: 44-509-211079

IHS NEWSPAPER
Institute for Housing and Urban
Development Studies
Weena 718
PO Box 1935
3000 BX Rotterdam
The Netherlands
Tel: 31-10-402-15-40
Fax: 31-10-404-56-71

Reforms in Urban Planning

Privatization and the development of the private sector also will require reform of the urban planning system. The Soviet system knew only two types of plans: general plans for 15 to 20 years (the last general plan for St. Petersburg was approved in 1897), and detailed development plans for individual city blocks. There was no need to develop zoning plans when the state was the only investor, client, contractor, constructor, and owner of real property.

In addition, the precipitous privatization of housing in the city has resulted in a number of problems. Although many apartments in the city have been privatized, the city continues to pay over 90 percent of public utilities such as heat, water, and electricity, as well as the buildings' management, maintenance, and repair costs.

A considerable portion of housing erected between the 1960s and the 1980s is notorious for its low quality and high maintenance costs due to the centralized heat supply system and other public utilities. A substantial part of this housing stock requires major renovation that cannot be paid for by the new "owners." Without any attempt to transfer these expenses to the owners of privatized housing, many city blocks may turn into slums. This is due to underinvestment in the maintenance of utilities.

Finally, mass privatization of housing in the near future will add to the problems of the city environment, including the deterioration of inter-house and inner-house common areas, and the decline and degradation of some city housing. To prevent these phenomena, city authorities must promote joint actions by residents organized into informal communities and neighborhoods. These will form the basis of future community development cooperatives and other community-based non-governmental organizations.

Making Reforms Less Painful

The goal of local and federal bodies is to make the transformation St. Petersburg less painful, and to supervise and control the process of structural reconstruction. Privatization and the development of a market economy make it possible to use international experience to help overcome the decline of the city. Only a short time ago, comparisons with the West would have been useless. But the current problems of St. Petersburg can already be described in the same professional language as the problems of Liverpool, the northern city of France, Pittsburgh, and Boston of the 1960s, and other areas that have been through a post-industrial crisis.

We can be certain of only one thing: the transition to a market economy in St. Petersburg has caused a deep structural crisis. A city five million people employed primarily by enterprises of the military-industrial complex cannot exist under the conditions of free-market prices elsewhere in the world. St. Petersburg must look for new phaseout functions within Russia and in the world. Its geographical position; its huge scientific, cultural and educational potential; and its historic and artistic values will make this transformation possible. We can say with confidence that the St. Petersburg of the twenty-first century, both in population size and composition, will be distinctly different from the soviet Leningrad. And this transformation will continue to be closely linked with privatization.

Leonid Limonov, an economist, is Coordinating Director of Research Programs of the Leontief Centre in St. Petersburg, Russia. Vladislav Miagkov is Senior Researcher at the Economic and Mathematical Institute of the Russian Academy of Sciences, and Vice-President of the Russian Society of Appraisers.

Sources for Facts and Figures, p. 6: material on public-sector infrastructure and Maharashtra drawn from The McKinsey Quarterly 1994, Number 1; The Washington Post, August 7, 1994 provided the data on European privatization; The Economist, February 26 and July 23, 1994 provided material on Britain's water bills and India's electricity; figures on privatization of Russian industry from Business Week, July 4, 1994; a look at private power plants in Asia is from Institutional Investor, October 1993; data on housing in BOT plants in the Philippines is drawn from the Far Eastern Economic Review, July 28, 1994.

Photo credits: p. 1 (St. Petersburg) Panos Pictures; p. 4 (St. Petersburg) Panos Pictures; p. 7 (Buenos Aires) Panos Pictures; p. 8 (Tirana, Albania) Sally Iardola; p. 11 Jim Manson; p. 12 Jim Manson; p. 13 (Abidjan) Joe Leitmann; p. 14 (Phoenix) Robert Donovan; p. 15 (Ukraine) Gerald Keyden; p. 16 (Lima) GESTION; p. 18 (Beijing) John Courtney; p. 21 (Kraków, Poland) Maria Przędziecka, Sister Cities International.

Next Issue

The next issue of *The Urban Age* will be on Information and the City. The following issue will be on the Human Environment of Cities. We look forward to receiving your comments and thoughts on these upcoming issues.



The *Urban Age* is printed by REPRODUCTIONS, INC. on recycled paper using soy-based inks.

The *Urban Age* is published four times a year and is available to developing country subscribers free of charge. Developed country subscribers are charged US\$20.00 annually. Editorial offices are located at Room S4-031, The World Bank, 1818 H Street, NW, Washington, DC 20433, USA. Fax: 202-522-3224, internet: mmcneil@worldbank.org

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