

# MARKETISATION OF PUBLIC SERVICE IN DEVELOPING COUNTRIES

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**Abstract :** In developing countries, market-oriented reforms in the public sector have resulted in new problems .small reduction in direct cost are overshadowed by indirect cost in the form of increased unemployment and economic inequality, as well as additional transaction cost incurred due to corruption and mismanagement . Public organization are unable to compete successfully in a free market due to lack of experience in a competitive setting, and private providers of public services acquire more power. Therefore , reforms fail to achieve their objects.

## INTRODUCTION

Government's across the globe have attempted to deal with the problem of escalating cost and diminishing quality of public service, made complicated by the ever expanding jurisdiction of state activities with service limitations on the incentive structure. The continuous growth of governments during good economic times allows the inclusion of new and previously excluded activities in the public sector. As economic growth starts to decline, the cost of managing big government can be perceived as a huge burden of money countries .big and expensive governments need to be contained through measures for attaining economy, efficiency and effectiveness. Public service may be considered inefficient and the management and operation of bureaucracies becomes the center of attention. Modern governments are criticized of becoming involved in too many areas of activity, and it becomes impossible to continue performing at the same level both in terms of high productivity and reasonable cost.

Solutions of such problems could be found in the introduction of market principles in the public services. It was believed that exposure to competition and imposing charges on the users to finance the services could reduce the cost and enhance the level of efficiency and effectiveness .privatization and contracting out are two common stages that are employed “ In order to reduce the burden on public bureaucracies and contribute towards increased efficiency in service provision”.

Under pressure from their internal circumstances as well as external influence , many developing countries have adopted reform strategies that have moved them increasingly towards a market-oriented approach . Privatization has become popular with governments that find it difficult to sustain enterprises that are incurring

huge losses. Some countries have been forced to adopt strategies of downsizing in order to reduce cost. Outsourcing was found to be a convenient means of reducing the burden of work on public sector organizations, as well as an incentive to more efficient performance This article will examine the pattern of introducing such reforms in the public sector, and highlight the undesirable side effects of marketisation of public services in developing countries.

An assessment of the strategies adopted as well as the circumstances prevailing in developing countries will substantiate the contention that marketisation of public services has resulted in additional problems in developing countries.

## Growth of Government and Declining Productivity

Major changes took place across societies following the conclusion of the world war II. Efforts to recover lost productivity during the war, reconstruction , and the advancement in science and technology were accompanied by major social and political innovations . a wave of decolonisation and the spread of democratic ideals brought new and diverse responsibilities to governments, and the scope of their activities expanded at an unprecedented rate ( for various explanations of the growth of government). The huge size of the bureaucracy loomed as a threat to the other public institutions. A growing awareness of the selfish motives of the bureaucracy and selfish motives of the bureaucrats led to declining performance and massive wastage of public resources. The process of modernisation of state and administration needs an active and consociational association of people at all levels of the governmental structure in order to realize the goal and objectives that the society sets for itself. The

capacity of the state has to be enhanced with the association of several other groups in society and the market could be suitable tool in facilitating the process.

### **Public Services and the Market**

Marketisation relates to the creation and enforcement of the legal preconditions of the market and the transfer of enterprise from government controls to the market process. Marketisation in its pure form cannot be practiced in public management. Therefore, most governments had to adopt a graduated strategy testing the market on limited scale before implementing the idea on a wide scale. The biggest challenge was to be found in the services expected of a welfare state. These include “principally social security, health, education and to some extent housing and transport-which should be made available to all citizens”. As these social services were considered to be expenditure without providing equivalent tangible returns, welfare services were constantly facing criticism.

Hood discussed the role of the government and state as the providers of service and emphasized efficiency and good quality, and the public are regarded as clients, users or customers.

Market practices and competition in the public sector involves transaction of various kinds, and it needs to be ensured that the costs do not exceed the gains obtained by the citizens, government and the society. Marketisation in public management. As early as 1937, Coase pointed out that there are “costs of negotiating and concluding a separate contract for each exchange transaction which takes place in a market”; and these lead to transaction costs. Besides, “voluntary market mechanisms are not sufficient to provide for the enforcement of contracts, the prevention of anarchy, and the provision of other public goods; the coercive power of government is also necessary”. This suggests the importance of preparing elaborate plans before market forces can be introduced in the provision and delivery of public goods and services. This point is extremely important for developing countries where the rules and regulations may be easily disregarded or misused to provide unfair advantage to power and well-connected participants in the process. In examining the ‘transaction modes’. These elements are significant in transforming public sector organizations and introducing market elements.

Gradually the idea grew that government had a responsibility for such goals as protection and improving the health of the population; widening opportunities for recreation and culture; developing a good education system for all; reducing inequalities of wealth; helping depressed areas; improving the housing and environment

of the poor; guaranteeing a basic income; combating unemployment; and guiding the development and conservation of basic resources. In other words the active involvement of the government was considered essential in order to maintain a fair and impartial environment in which various groups and interests could interact to reach equilibrium to minimize the negative consequences. Complete dependence on marketing forces does not seem desirable.

However, changes in the approach, circumstances and arrangements for financing and managing public services have resulted in the emergence of new problems. While such changes exert pressure on public organizations which are unaccustomed to competing in the open market, their clients have to put up with uncertainty regarding the cost and quality of services.

Some of these objectives have been achieved through privatization of public organizations, contracting-out of public services to the best bidders from the private sector, and using fixed-term appointments of officials on contract with an emphasis on performance. Although the efforts are aimed at eliminating the problems associated with traditional bureaucratic organizations, a large number of related problems have emerged in defining the aims and objectives of the public services, performance measurement and the limitations imposed by transferring control over to private organizations.

### **Reforms in Developing Countries**

Some factors that have an impact on reform attempts in developing countries can be identified in terms of political, social and economic constraints. These countries often suffer from political instability and unusual arrangements and practices. Elections are not held regularly and may not be free and fair when held. Change of regimes may be preceded or followed by a break down of order and escalation of violence. The rules of political engagement may be disregarded, and the government hardly gets support and cooperation from the opposition. Ideologically confused among competing groups is not unusual. As the new states achieved independence and attempted nation-building, the traditional values clashed with the modern, and governments faced difficulties in reconciling the two. Such circumstances are not conducive for the formulation and introduction of reform attempts.

Developing countries face an extremely tough challenge in the area of economic capability. While several of these countries are resource-poor, others suffer from gross mismanagement. Consequently, they are unable to afford the cost of planning and implementing changes for improvement. Severe political and social problems impose

a heavy burden as productivity declines and the quality of public services suffers. A study has pointed out that privatization of state enterprises in many Latin American countries has not brought about increased market competition and reduced costs and prices, mainly due to the monopolistic privileges enjoyed by these entities even after privatization. Hong Kong's attempt to introduce market principles and competition through the designation of some government departments as 'trading funds' confirms similar concern as the agencies were either enjoying monopolistic advantage or required special assistance from the government to ensure their market share. Even resource-rich Argentina's effort to become a 'First World' country through privatization of public services has been unsuccessful. The vicious cycle of political, social and economic constraints pose a formidable barrier on the way to improvement by introducing reforms.

The problems are compounded as developing nations struggle to build a modern administrative system without disturbing the traditional foundation. Due to faulty planning, organizational structures and relationships are not always clearly defined and this leads to more conflicts. The legitimacy of policy-makers is challenged, rules are formulated by people who back up their claim to legitimacy by marketisation of public services in developing countries, coercion, and the groups in power manipulate rules. This is significant as the apparently simple task of implementation of existing rules can be a formidable challenge for weak governments in developing countries. Obviously, planning, implementing and monitoring market-oriented reforms in such countries pose an extremely difficult challenge.

### **The Impacts of Marketization**

Empowerment of the consumers of the public service suffers a setback as confusion reigns due to non- and misunderstanding among both public officials and consumers. Reforms in developing countries are seldom preceded by extensive consultations and developing countries are outside the legislature. The citizen has no idea about the objectives and intentions of the government and their role in the process. Governments are ill prepared to undertake comprehensive changes and public officials have vested interest in foiling the proposed reforms. As bureaucracies are usually the strongest party in the process of public management in developing countries, their interest is upheld at the expense of reform ideals.

However, there has been limited success in the efforts to introduce market principles in the provision of public services in some developing countries and lessons can be drawn from them. Bhaskar and Khan found that a major public sector enterprise in Bangladesh had an excess

number of white collar workers, and privatization helped to reduce this problem. Other experiences point to the utility of adopting a longer time frame for marshalling the resource as well as political support for the privatization process, particularly to reassure the stakeholders. However, Haque pointed out the incompatibility of administrative system in third world countries with their economic, political and cultural contexts and recommended a process of 'administrative indigenisation'. The same argument applies to the idea of replicating privatization and contractual arrangements in improving the delivery of public services in developing countries. Such changes can only be effective when applied in consistency with the social, political and economic realities that confront developing countries. Based on the current state of affairs in most developing countries, it can be said that the grounds are not yet ready for proceeding with marketisation indiscriminately and it could generate unfavourable reactions from the stakeholders.

### **CONCLUSION**

To some extent, market-oriented reforms appear to address some of the deficiencies found in traditional public administration. The foremost consideration of cost can be cited as an example. With cutbacks and reduction of personnel, some governments in developing countries have been able to bring down the level of direct financial cost of providing some services. But the indirect costs are usually ignored. The costs related to loss of jobs, social status and self-esteem, and more importantly, the tendency by agencies to cut corners to remain within the reduced budgetary limits adversely affect the quality of management and the sense of well-being in the society. These arguments are not meant to suggest that market-oriented reforms are not suitable for improving public services in developing countries. It has been emphasized that "the instrumentalities of globalization, liberalization and privatization" are necessary "to strengthen the initial conditions of development so that growth with human face and stability could be achieved". The idea to emphasize the point that changes in basic social, political and economic activities are needed to prepare the grounds for the introduction of reforms to roll back the state, recover costs from users, and expose public service providers to the market forces in order to bring out the best of their efforts.

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