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Total market approach – better provision of basic services through intelligent market segmentation between private and public sectors

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The state has a (co-)responsibility to provide its citizens with certain basic services (e.g. primary education and health services). Many poorer developing countries have considerable difficulties in fully meeting this responsibility to the required level of quality. Therefore, non-governmental services such as private schools and hospitals, which are usually of better quality but also charge fees, often develop in parallel to state services, which are usually free of charge. The total market approach aims not at crowding out the private sector by strengthening the public sector, but at making intelligent use of market forces.

The basic concept: segment general public services into private, public and mixed market areas

The total market approach is based on the observation that, for most goods and services provided by the state, sections of the target group are quite capable and willing to pay cost-covering fees for high-quality services. The basic idea behind this approach is therefore to exploit this willingness to pay through "market segmentation"; private sector solutions are to be provided for demand backed by purchasing power, mixed forms (partial subsidisation) for the middle market segment, with only the poorest generally receiving services free of charge from the state (financed by taxes). Wealthier countries already have such models in place with private universities, health insurance, etc. In developing countries, it is mainly the health sector pioneering such models.

Win-win solution: lower-end market segments also benefit

From a development perspective, the total market approach is particularly attractive because it allows the state to cover part of the demand through private-sector solutions while concentrating its activities on the remaining "market segments", using the resources saved to provide the poorest with essential goods and services. Supply in all market segments can thus be improved with costs being mainly borne by demand from more prosperous market participants (voluntary redistribution). The longer-term goal is to expand the private sector market segment as much as possible, so that the state can increasingly focus on those segments where it is needed as well as on quality assurance in all three market segments.

Dilemma of efficiency, improved provision but rising inequality?

A key challenge for the approach is the need to demarcate the market segments as effectively as possible to avoid "free-rider" effects. This primarily requires product differentiation; only when the upper-end market segment is also perceived as being of higher quality people will be ready to pay (more) for it.

This, however, also gives rise to one of the approach's key criticisms of helping to create a two-tier society: those who can afford it receive "better" basic services than the rest. The win-win solution improves provision for all, but simultaneously increases or reinforces inequalities.

The "better-off" side of the market also complain that they are being asked to pay twice: through taxes, they help pay for state services that they do not even use. But if they were to get exemptions (or compensation), a major advantage of the approach (redistributive effect) would be lost.

Critics often put forward an alternative that does not require differentiating the quality of the service; if the state were to demand a uniformly high price for the same (high-quality) service from everyone, the state could then use some of this revenue to "cross-subsidise" the poor (introduction of "social tariffs"). But such a solution brings its own challenges (e.g. stigmatisation, how to determine ability to pay).

Market development according to the total market approach poses a further challenge in that it requires excellent knowledge of market structures on both the supply and the demand sides, as well as corresponding governmental steering capacities (information on service qualities, cost structures, actors, payment capabilities and willingness to pay). This precondition is not easy to meet in many poorer countries and can lead to additional costs, which then need to be weighed against the benefits.

Conclusion

All in all, the total market approach seems to make sense in terms of development policy, especially where the state has sufficient steering capacity and quality differentiation is socially acceptable.■