Framework for Competition Reforms

A Practitioners' Guidebook

CUTS International

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Abbreviations

ACTO:	Alliance of Concerned Transport Organisations
BMZ:	Federal Ministry for Economic Cooperation and Development
CCIAT:	CUTS Competition Impact Assessment Toolkit
CREW:	Competition Reforms in Key Markets for Enhancing Social and Economic Welfare in Developing Countries
DCR:	Diagnostic Country Report
DFID:	Department for International Development
DoJ-OFC:	Department of Justice, Office for Competition
DOTC:	Department of Transportation and Communication
DPWH:	Department of Public Works and Highways
FRA:	Food Reserve Agency
GDP:	Gross Domestic Product
GIZ :	Deutsche Gesellschaft für Internationale Zusammenarbeit
GSRTC:	Gujarat State Road Transport Corporation
LDCs:	Least Developed Countries
LTFRB:	Land Transportation Franchising and Regulatory Board
LTO:	Land Transportation Office
MBOA:	Metro Bus Operators Association
MMDA:	Metro Manila Development Authority
NEDA:	National Economic Development Authority
NFA:	National Food Authority
NTP:	National Transport Policy
OECD:	Organisation for Economic Co-operation and Development
PBOA:	Provincial Bus Operators Association
PFA:	Plant and Fertiliser Act

QR:	Quantitative Restriction
ROADSIP:	Road Sector Investment Programme
SoEs:	State Owned Enterprises
SRTUs:	State Road Transport Undertakings
TFP:	Total Factor Productivity
WTO:	World Trade Organization

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The FCR-PG has been prepared by the joint efforts of colleagues Rijit Sengupta (Director, CUTS), Cornelius Dube (Economist, CUTS), Shreya Kaushik (Senior Programme Officer, CUTS) and Neha Tomar (Senior Research Associate, CUTS) and overall guidance of Pradeep S Mehta (Secretary General, CUTS).

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Finally, any error that may have remained is solely ours.

Udai S Mehta
Director
CUTS International

Foreword

Working in the field of competition policy has some peculiar challenges. Lawyers must learn to become part-time economists; economists, part-time lawyers. Perhaps most importantly, sophisticated economic analysis needs to be brought together with political persuasiveness. For many in the field, this is the hardest challenge of all. This is unfortunate, because success in overcoming this challenge is probably the greatest contribution that competition professionals can make to global economic welfare. In many countries, unnecessary restrictions on competition imposed by governments – often with the best of intentions – prevent the economy from flourishing.

One of CUTS International's greatest strengths, it has always seemed to me, is its ability to advocate for pro-competitive reform in countries in which important stakeholders are suspicious of free market ideas. Starting in India, there are many countries whose policies have clearly been influenced for the better by Pradeep S Mehta and his team. These successes reflect the combination of skills and attitudes that CUTS embodies. It brings a deep commitment to competition culture, using evidence-based arguments, together with sympathy for the needs of ordinary people and sensitivity to the concerns of developing countries.

This Practitioners' Guidebook encapsulates this expertise. It begins with a clear account of some of the best economic studies that show the benefits of competition. It quite rightly then identifies the key challenge as being to link this rather dry academic evidence with outcomes from real policy change; a challenge that the CREW project was established to address with comparative case studies of staple foods and bus transport in four developing countries. This Guidebook provides the methodology that was used in those studies, refined in an iterative process from the experience of those studies themselves.

The Guidebook is not the first or the only publication in this area: it references and builds upon related material. I have to mention OECD's Competition Assessment Toolkit, which is generously acknowledged in this Guidebook, of course, but the Guidebook references other tools and studies as well, that would be useful for further technical details in quantifying the costs of restrictions on competition. However, quantifying the benefits is not enough.

Policymaking is not merely a cost-benefit exercise. I was therefore particularly interested in the sections in the Guidebook on political economy considerations: understanding who gains and who loses from regulatory restrictions.

Occasionally, bad policy exists solely for bad reasons – usually to benefit a self-interested group, at the expense of small individual costs on a very large number of people who barely notice. The Guidance rightly discusses ways of publicising this situation. More often, however, anticompetitive policies result from badly designed policies that aim at a social goal. We competition experts should not exceed our competence: no one elected us, so it is not for us to say whether the benefits of such objectives justify their costs. That is the role of government, but we can assess those costs and sometimes suggest better ways to achieve the same goal.

The Guidebook is a splendid tool for anyone interested in pursuing evidence-based policy reform. Encouragingly, many people are and I hope it will be widely used. I foresee still more evidence about the effects of competition as a result, but more importantly reforms that have the potential to raise living standards and kick-start growth, for the people who need it most.

John Davies
Head, Competition Division
OECD Secretariat
Paris, France

Preface

Since its establishment in 1983-84, CUTS has worked on competition and consumer protection laws in India. Using that capability it has worked in over 30-odd countries of Asia and Africa since the year 2000 to augment stakeholder interest on the subject of competition policy and law – especially among government agencies/departments, business community and civil society. This was done to create an environment for establishment of national competition regimes in these countries and assist the ecosystem to function effectively and provide the envisaged benefits for the countries and indeed their economies. The decade of 2000s witnessed an unprecedented zeal among developing countries to adopt national competition laws – many due their own realisation and to some extent due to externalities, such as regional economic cooperation, multilateral institutions etc.

We had realised from our close engagement with the national competition regime in India that it is in the interest of developing country stakeholders to be engaged in the national competition reforms process, as an effective competition regime helps establish fair markets which are critical for achieving certain social and economic benefits.

As the Nobel laureate Joseph Stiglitz asserted, "Strong competition policy is not just a luxury to be enjoyed by rich countries, but a real necessity for those striving to create democratic market economies".

In line with this credo, our Mission Statement reads as follows: *'Promoting fair markets for consumer welfare and economic development'*. In order to realise the above, one of the main objectives of CUTS interventions on competition policy and law has been to create national champions among state and non-state actors on the subject, so that they can effectively shape their national competition regimes through an inclusive, multi-stakeholder process.

With our expanding work and experience across developing and least developed countries, we realised that the adoption of national competition laws did not automatically result in the development of effective competition regimes in many of these countries. One of the main reasons was the lack of resources (financial, human and technical) that are required for developing an effective regime. Many countries did not attach adequate importance and/or resources – which resulted in these agencies having a fairly limited work agenda.

In many developing countries, sectors are often concentrated and dominated by powerful monopolies (or oligopolies), hence it is unfair to expect that a badly resourced and weak competition agency would be able to have a strong oversight on markets characterised by such strong firms. The third main reason was the historical baggage of central planning and preferential approach to state owned enterprises.

Hence, the aspiration of achieving well-functioning markets remains unfulfilled in them. Further, stakeholders are also unable to understand the value of a national competition regime in real terms, especially in terms of benefits to consumers and/or businesses – and remain oblivious to the subject.

At CUTS we realised that there was a need to facilitate greater interest and understanding on competition policy and law issues among both policymakers and key stakeholders to ensure that competition policy and law gets the attention that it deserves. Further, the task of promoting competition reforms cannot be single-handedly carried out by the competition agency in developing countries – so there is a need to engage other branches of the government to help them appreciate benefits of a pro-competitive economy. This would help them better understand implications of pro/anti-competitive policy and/or practices on consumers and/or businesses.

Pursuing this philosophy, CUTS designed the CREW project and has been fortunate to have received financial support from DFID (UK) and BMZ (Germany) through GIZ (Germany) for undertaking this initiative. One of the deliverables of the project was to construct a tool-kit that can help policymakers, economic planners, practitioners and key stakeholders to plan and implement competition reforms in a sector in such a way that it leads to demonstrable benefits for people.

This toolkit is a result of that exercise: **Framework for Competition Reforms – Practitioners Guidebook** (**FCR-PG**). The FCR-PG has been developed by CUTS with the guidance and inputs of a highly experienced and extremely helpful group of international scholars and practitioners, who have acted as Project Advisers of the CREW project. We are fortunate to have received their encouragement and support in developing this tool-kit. The tool-kit has also benefitted from the views of some competition agencies, who found it to be useful.

To better explain the applicability of the toolkit to the practitioners, sectoral guidance has also been developed to understand the project experience in both the sectors. This sectoral supplements would be especially useful to the practitioners as they not only explain the FCR-PG methodology that had been undertaken in Staple Food and Bus Transport sectors, but also demonstrate the rationale that had been adopted to initiate the reform agenda that emerged from the research. These Sectoral FCRs would help in simplifying the approach that has to be undertaken while designing advocacy agendas and subsequently their implementation. These Sectoral FCRs could be reached at: For Staple Food - *http://www.cuts-ccier.org/crew/pdf/FCR-Sectoral-Staple_Food.pdf* and for Bus Transport: *http://www.cuts-ccier.org/crew/pdf/FCR-Sectoral-Bus_Transport.pdf*

We hope that these tool-kits would be used by developing country scholars, practitioners and agencies to plan and implement pro-competitive reforms in key sectors, and assess their implications on the ordinary citizens. Such evidence would help drum up support for greater attention towards promoting competition reforms across the developing world – which would make our lives better.

Pradeep S Mehta
Secretary General
CUTS International

1
Background & Introduction

Why is Promoting Competition an Important Policy Goal?

Economists have long believed that competition is a key factor in driving growth. It does this in a variety of ways. Firstly, within firms, competition acts as a disciplining factor, placing pressure on managers of firms to become more efficient. This is sometimes called the 'within firm' effect. Studies by Bloom et al (2011, 2007) have elaborated on the issue of competition and management practices. According to them stronger product market competition and higher worker skills are associated with better management practices.

Secondly, competition ensures that higher productivity firms are able to increase their position in a market. This is sometimes called the 'across-firm' effect (Scarpetta et al, 2002). Studies of Nickell (1996), Blanchflower and Machin (1996), Nickell et al (1997), Disney et al (2000), Bloom and Van Reenen (2007) and others have showed that competition improves productivity of firms.[1]

Thirdly, and crucially, competition drives firms to innovate. Innovation increases dynamic efficiency through technological improvements of production processes, or the creation of new products and services[2] (see Blundell et.al,[3] Review of Economic Studies, 1999).

Fourthly, competition encourages entrepreneurial culture and ability which, in turn, promotes economic growth. Wong, Ho, and Autio (2005) have prepared an extensive literature review outlining the theoretical linkages between entrepreneurship and economic growth, as well as empirical evidence linking new business creation and growth. The theoretical literature suggests that entrepreneurs may contribute to growth through a diverse range of behaviours, including innovation, combination of resources and increased competitive pressures.

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Further, studies done by Krizner (1973), Leff (1979), Holcombe, (1998), Rodrick et al (2003), Audretsch et al (2006), Acs et al (2008), Gries et al (2010), Naudé (2010, 2011), etc. claim that entrepreneurial ability promotes economic growth and is considered as an important tool for economic development and innovation. Goodwin and Pierola (2015) have gathered literature that link domestic competition in makets to export competitiveness and trade performance[4].

Finally from a consumer welfare perspective, competition in market forces firms to innovate and use resources more efficiently to gain the patronage of consumers. From a business perspective, innovation contributes towards firm's growth within a sector by improving its performance compared to its rivals. On the other hand, customers realise greater benefits from such an innovative firm's goods, services and strategies. One of the features of competitive markets therefore, is more and better ***options*** for consumers and lower ***price*** of goods and services. Competition also forces firms to find new customers/consumers – thereby extending goods and services to new customers/consumers, who gain ***access*** to such goods and services. Application of innovation also improves the ***quality*** of goods and services with little or no increase in their prices.[5]

In view of these benefits from competition,[6] it can easily be expected that promoting competition in markets should be entrenched in principles of economic governance of developing and least developed countries (LDCs). However, the subject of competition receives little attention in most of these countries' and remains confined within a small group of practitioners and few academicians. *One of the reasons is the lack of a systematic approach/framework that can help link competition in markets with welfare outcomes for producers and/or consumers*. Such an approach can help these practitioners and academicians to highlight the need for greater attention to promoting competition to decision-makers.

Need for a Framework (Establish Linkage between Competition Reforms and Welfare)?

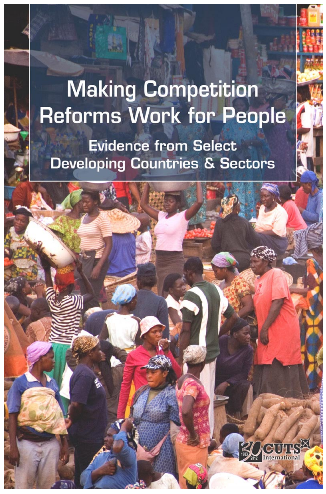
There is a lack of a systematic approach/ framework that can help link competition in markets with welfare outcomes for producers and/or consumers

CUTS initiated the project entitled *Competition Reforms in Key Markets for Enhancing Social and Economic Welfare in Developing Countries (CREW)* in November 2012 to plug this gap and develop an approach/framework to demonstrate the benefits of competition particularly in developing country markets for ordinary consumers and producers. This project is being implemented with support from DFID (UK) and BMZ (Germany), facilitated by GIZ (Germany).

The project studied two sectors – ***Staple Food*** and ***Bus Transport*** in four countries (Ghana, India, Philippines and Zambia) to assess the impact of competition reforms on the welfare of consumers and/or producers. CUTS strongly believes that liberalisation and deregulation only buttressed the need for good market regulatory institutions, without which the gains of liberalisation would not accrue to people at large, for whom these processes were designed. The concept of the CREW initiative emerged from the idea of looking at economic reforms through the lens of pro-competitive policies and practices in low-income countries. The goal was to attract greater attention of policymakers and practitioners in these countries for an informed debate on the relevance of competition reforms[7] as a means for achieving higher social and economic welfare.

CREW project emerged from the idea of looking at economic reforms through the lens of pro-competitive policies and practices in low-income countries

One of the reasons for limited attention to competition reforms as an essential component of public policy is the lack of a conceptual framework and implementation methodology that helps better understand the importance of competition reform from the point of citizens' welfare to a wider community of opinion leaders and practitioners. In recent times, the international practitioners' community has realised this 'gap' – as evidenced from the work of organisations like the OECD, World Bank, DFID (UK) and CUTS.



While some of the earlier tools of OECD, DFID (UK) were aimed to assess the nature and degree of competition in markets, some of their more recent work aims to link competition in markets with indicators of social and economic welfare. In 2014, CUTS developed a toolkit referred to as the Competition Impact Assessment Toolkit (CIAT) specifically to analyse competition distortions caused by government policies especially in the developing world. The CUTS CIAT[8] suggests a simple yet detailed process for undertaking this analysis by applying the nine principles[9] of Competition Policy.

Purpose of this Document

While a robust methodology is necessary, it has to be flexible enough to enable application in a developing/least developed country setting. This is the rationale behind this **Framework for Competition Reforms – Practitioners' Guidebook** (**FCR-PG**). CUTS has used the experience of the CREW project to develop this methodology. It explains the process for generating evidence on the linkage between competition reforms and welfare, especially relevant from a developing world context. Various tools that were applied in the CREW project to establish this linkage have been presented in this 'guidebook'. Additionally, methodologies and tools derived from other international organisations (OECD, World Bank, etc.) have also been provided. The steps are elucidated in a manner such that practitioners undertaking this assessment understand the rationale behind each step and are able to replicate this exercise in specific sectors/ markets.

It is expected that this ‘guidebook’ (which is a mix of relevant tools, methods, empirical evidence and existing literature) will help proponents of competition reforms understand and plan the process of competition reforms in important sectors (especially those which impact a large number of citizens, particularly the poor). State and non-state actors are encouraged to use these steps to plan and initiate interventions and choose tools/methodologies from this ‘guidebook’, depending on their ground realities. Given the differences across various developing countries and sectors, it is expected that this methodology will subsequently be further refined and adapted through its application in specific sectors and countries.

2
Brief Overview of the Methodology

The proposed methodology to establish the linkage between competition reforms and welfare is simple, yet detailed and takes into consideration the unique characteristics[10] of developing and LDCs. This section presents a brief overview of this methodology. It starts by breaking down the phrases: **competition reforms** and **producer/consumer welfare**. It then explains how competition reforms can be linked with producer/business welfare and with consumer welfare. This helps in clarifying the conceptual framework that forms the foundation of the above 'linkage'.

Competition Reforms

Enabling government policy

+

Well-designed and implemented regulatiions

+

Effective competition enforcement

Definition and Conceptual Clarity

(i) ***Competition Reforms:*** are an aggregate of the following three components:

- *Policies*: Enabling government policies designed to facilitate a level playing field (fair competition) in a sector. In addition to national/sectoral policies, this can also be facilitated by statutory instruments, sectoral programmes and even administrative orders/ordinances at the sub-national/provincial levels
- *Regulation*: A well-designed regulatory framework with an adequately resourced regulatory agency that promotes healthy development of the sector and aims to promote competition in it, either as explicitly stated in the legislation that established this agency or through its actions
- *Competition regime*: Presence of a competition law with effective enforcement mechanisms (enforcement agency and associated processes) to curb anticompetitive behaviour

[Similarly, the OECD considers two main policy ingredients necessary for developing growth-enhancing competition environment: (i) ***Product Market Regulation*** *should be set in a way that does not hamper competition; and (ii) Effective* ***Anti-trust Frameworks*** *need to be in place to safeguard level playing field among firms. OECD has developed set of* ***indicators*** *for both these policy areas, see:*
http://www.oecd.org/economy/growth/indicatorsofproductmarketregulationhomepage.htm]

(ii) Consumer Welfare: The key indicators used to explain consumer welfare are:

- Access to goods and services in terms of ease of access and availability of goods and services for more consumers and/or for consumers in newer locations
- Assurance of quality goods and services, i.e. better quality goods/services are available without any significant upward movement of prices
- Better choice to consumers as a result of more firms to choose from for the good/service and/or more varieties of goods/ services being available in the market
- Competitive prices which may be lower than the prices that are charged when competition is either absent or limited in a market
- Time savings for consumers resulting from firms in a contestable market which are obliged to serve their customers in the lowest possible time

(iii) Producer Welfare: Producer welfare can be explained using the following indicators:

- Access to essential services and inputs like labour, capital, technology, communication infrastructure, essential facilities and raw materials for producers
- Ease of entry and exit in the market, i.e. low barriers for firms to enter and exit a market
- Level playing field for all firms, by removing elements of nepotism/favouritism in policy and/or legislation
- Growth enabling conditions in the market for businesses, for instance, absence of regulations that may restrict growth of firms such as production quotas
- Potential to attract investment, given the pressure on firms to constantly innovate and therefore a need to attract investments for research and development
- Potential to save operating, legal and other administrative costs due to efficiency in both inputs and outputs markets

Using the above elements, *the linkage between competition reforms and consumer/producer welfare* can be better understood as presented below:

Figure 1: Linking Competition Reforms with Consumer/Producer Welfare

Competition Reforms (components)

- Enabling government policies at all levels
- Well-designed Regulatory Framework and Institution
- Competition Law and Enforcement

Indicators of Consumer Welfare

(Access, Quality, Choice, Price, Time-saving)

Indicators of Producer Welfare

(Access to Inputs, Entry, Level-playing field, Growth-enabling conditions, Investment, Cost savings)

Conceptual Framework

From the experience of the CREW project, the following **two perspectives** of the relationship between *components of competition reforms* and *indicators of public (producer and consumer) welfare* emerge:

- *A pro-competitive government policy in a market can help producers/businesses enter a market easily and operate efficiently deriving certain benefits*

Figure 2: Perspective One:
Linkage between Competition Reforms & Public Welfare

Pro-competitive government policies in a market help producers/businesses enter a market easily and operate efficiently deriving certain benefits

Components of Competition Reforms

Enabling government policies

Indicators of Producer/Business Welfare

- Access to inputs
- Entry
- Level-playing field
- Growth
- Investment
- Cost savings

- *Indicators of consumer welfare (in terms of access, cost, quality and choice) are achieved if regulatory interventions (including competition enforcement) are properly designed and uniformly applied to all producers/businesses in the market*

Figure 3: Perspective Two
Linkage between Competition Reforms & Public Welfare

Indicators of consumer welfare (in terms of access, cost, quality and choice) are achieved if regulatory interventions (including competition enforcement) are properly designed and uniformly applied to all producers/businesses in the market

Components of Competition Reforms

- Well-designed Regulatory Framework and Institutions
- Competition enforcement

Indicators of Consumer Welfare

- Access
- Price
- Quality
- Choice
- Time Saving

Therefore, any exercise to assess benefits of competition reforms on producer/business welfare and on consumer welfare should aim to gather evidence that corroborates the above-mentioned **perspectives** of this linkage. Some of the leading questions that can be used by practitioners to develop a preliminary idea in the selected sector/market are provide here:

Producer/ Business Welfare	Questions: How do government policies, laws, programmes impact indicators of producer welfare such as entry of new participants, private investment, cost savings, level playing field across public and private participants?
Consumer Welfare	Questions: Whether uniform application of regulatory interventions is done in the market? What benefits accrue to consumer from such actions in terms of access to goods/services, price, quality, choice and time-savings?

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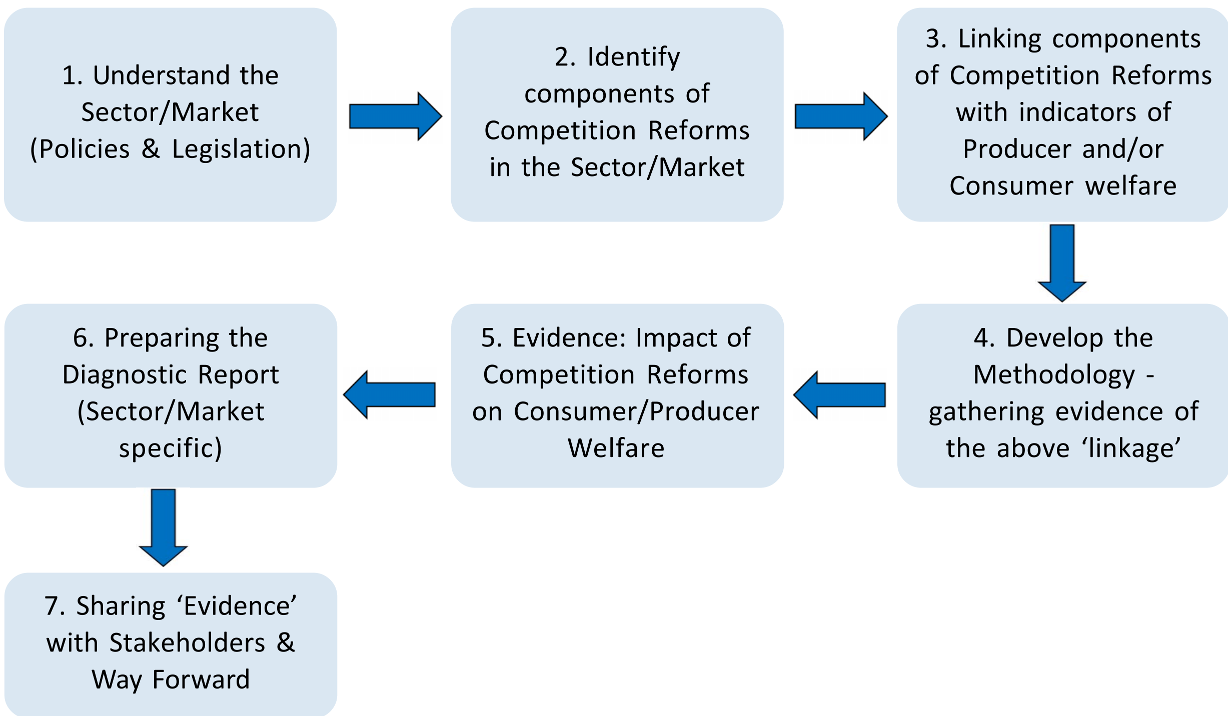
3
Applying the Methodology: 7 Steps

This section explains the application of the methodology developed by CUTS in a **step-wise** manner (using experience and illustrations from the CREW project) to help users of this 'guidebook' in its application. Successful application of the methodology will help practitioners gather hard evidence (from the ground) on the need for promoting competition reforms and engage with decision-makers effectively to convince them for such needs, especially in developing/LDCs.

Specifically, it first creates **a framework** to link components of competition reforms and indicators of consumer and producer welfare based on thorough assessment of sectoral policies, legislation and their anticipated or actual implications. Subsequently, this linkage is validated by collecting ground-level evidence. The following flow-chart summarises these steps in brief:

Figure 4: Seven Steps for Implementing the CREW Methodology



Step 1: Understanding the Sector/Market (Policies, Legislation & related Information)

Aim: Form a basic yet comprehensive understanding of the sector in terms of its policies, laws, regulation, government programmes and gather relevant studies/data/information

The first activity would be to gather various existing (and relevant) policies, laws, regulations, statutes and programmes in the selected sector or market. In case of sectors/markets with regulations at different levels (federal, state, and local) or with a complicated regulatory regime, discussions with relevant stakeholders and/or review of previous studies on the sector in the country, would help the practitioner identify relevant regulations/policies better.

[A list of relevant policies and regulations related to the bus transport sector in Zambia is provided in Table 1]

Table 1: List of Relevant Policies and Regulations Related to the Transport Sector of Zambia
• Road Sector Investment Programme (ROADSIP), 1998-2015 • Transport Policy of 2002 • Road Traffic Act No. 11 of 2002 • Public Roads Act No. 12 of 2002 • The National Road Fund Act No. 13 of 2002 • Markets and Bus Stations Act No. 7 of 2007 • Competition and Consumer Protection Act No. 24 of 2010 • Industrial and Labour Relations Act, Cap 269 • Minimum Wages and Conditions of Employment Act, Cap 276 • Zambia Revenue Authority Act, Cap 321 • Workers' Compensation Act No. 10 of 1999

A detailed *stakeholder mapping* exercise is undertaken in order to identify the key stakeholders in each sector; including relevant government department(s), regulatory agencies, business associations (general and sectoral), trade/professional associations, academic institutions/experts, civil society organisations, etc. A thorough stakeholder mapping is necessary and crucial if a long-term plan for promoting competition and regulatory reforms is planned – so that a select group of experts, scholars from this larger group can be cultivated as champions of competition and regulatory reforms for the sector in the future.

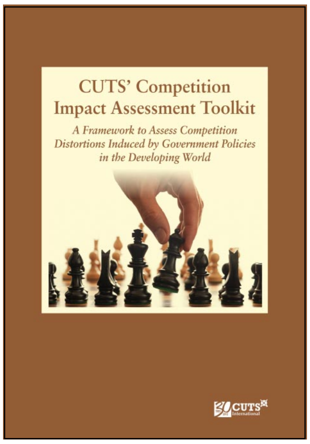
[A list of relevant stakeholders from the bus transport sector of The Philippines is provided in Table 2. This list is dynamic and often requires review and revision]

Table 2: List of Stakeholders in the Bus Transport Sector of The Philippines
Select List of Relevant Stakeholders
Regulatory Agencies • Department of Transportation and Communication (DOTC) • Land Transportation Franchising and Regulatory Board (LTFRB) • Land Transportation Office (LTO) • Metro Manila Development Authority (MMDA) • Department of Public Works and Highways (DPWH) • National Economic Development Authority (NEDA) • Department of Justice, Office for Competition (DOJ-OFC)
Operators • Alliance of Concerned Transport Organizations (ACTO) • Metro Bus Operators Association (MBOA) • Provincial Bus Operators Association (PBOA) • Bus Owners/Drivers
Passengers/CSOs • Consumer Associations, Think-Tanks • Normal Passengers

Since the regulations/policies governing the sector may go back to various years, the practitioner may choose to focus on regulations which were undertaken in the last 10-15 years. Further, additional secondary information/data from the selected sector/market should also be gathered, specifically those providing the following information:

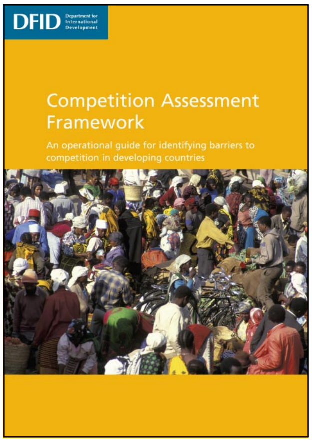
- Evolution of the sector over time (10-15 years, if possible) with trends observed in prices, production, customers, imports, exports, contribution to gross domestic product (GDP), etc.
- Profiles of major suppliers and consumers in the sector/market
- Understanding of the supply chain and/or value chain actors in the sector/market
- Report/information providing views of producers and/or consumers in the sector/market
- Any other relevant data from the sector/market

Step 2: Components of Competition Reforms in the Sector/Market



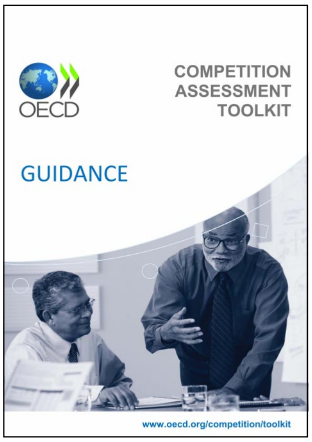
Aim: Identify policies, laws, statutes, programmes that either promote or impede competition in the sector/market

The next step would be to identify policies, legislation, programmes that have pro-competitive or anti-competitive impact(s) on the sector/market (components of competition reforms). This can be done by using any of the methods suggested in this section (below), depending on the preference of the person performing the exercise.



One of the references that can be used is the CIAT[11] developed by CUTS. CCIAT was developed to specifically cater to the need of the developing world, which had not been adequately done in other existing toolkits. This toolkit provides a list of questions (below) that can be employed to undertake this exercise:

- Does the policy discriminate between the state owned enterprises (SoEs) and the private players?
- Does the policy limit the entry of foreign players into domestic markets?
- Are procedures and rule time bound, transparent, fair and non-discriminatory? Are the licensing and authorisation conditions imposed for starting business too onerous or arbitrary?
- Do the standards set for product quality provide an unfair advantage to some suppliers over others?
- Is there a 'grandfather clause' that treats incumbent firms differently from new ones in a manner that raises costs of production of the new players and creates entry barriers?
- Does the policy deny third party access to essential facilities?
- Does the policy create geographical barriers?
- Does the policy limit free flow of goods and services?
- Does it encourage exchange between suppliers or publication of information on prices, costs, sales or outputs?
- Does it grant exclusive rights for a supplier to provide goods or services?
- Does it allow for firms to use incumbency advantages to create strategic entry barriers for new players?
- Is there a restriction on the products that can be supplied?
- Is there a restriction on the production process used or means of supply?
- Is state aid proportionate to what is required to achieve the intended objective? Does it offer an unfair advantage to the beneficiary *vis-a-vis* its rivals? Does it promote soft budget constraints and operational inefficiencies?
- Is the government enjoying benefits from opposing reforms?



Is the government sharing the high profits through taxes etc. that dominant players may be able to make if they are allowed to maintain such position in the absence of competition in the market?

The other tool that could be used is the OECD Competition Assessment Toolkit.[12] *It provides a list of similar questions in its 'Competition Checklist' as enumerated in Box 1.*

Box 1: Competition Checklist (OECD Competition Assessment Toolkit)

(A) Limits the number or range of suppliers

This is likely to be the case if the policy/law/programme:

1. Grants exclusive rights for a supplier to provide goods or services
2. Establishes a license, permit or authorisation process as a requirement of operation
3. Limits the ability of some types of suppliers to provide a good or service
4. Significantly raises cost of entry or exit by a supplier
5. Creates a geographical barrier to the ability of companies to supply goods services or labour, or invest capital

(B) Limits the ability of suppliers to compete

This is likely to be the case if the policy/law/programme:

1. Limits sellers' ability to set the prices for goods or services
2. Limits freedom of suppliers to advertise or market their goods or services
3. Sets standards for product quality that provide an advantage to some suppliers over others or that are above the level that some well-informed customers would choose
4. Significantly raises costs of production for suppliers relative to others (especially by treating incumbents differently from new entrants)

(C) Reduces the incentive of suppliers to compete

This may be the case if the policy/law/programme:

1. Creates a self-regulatory or co-regulatory regime
2. Requires or encourages information on supplier outputs, prices, sales or costs to be published
3. Exempts the activity of a particular industry or group of suppliers from the operation of general competition law

(D) Limits the choices and information available to customers

This may be the case if the policy/law/programme:

1. Limits the ability of consumers to decide from whom they purchase
2. Reduces mobility of customers between suppliers of goods or services by increasing the explicit or implicit costs of changing suppliers
3. Fundamentally changes information required by buyers to shop effectively

Alternatively, questions drawn from DFID's Competition Assessment Framework,[13] can also be used for this exercise, as provided under:

- Do SoEs receive any benefit/s or preferential treatment not available to other firms which appear to have the effect of limiting competition in the selected sector/market?
- If the government is a major buyer in the selected sector/market, does it appear that government procurement policies have adequate safeguards for competitive bidding, for transparency and for fairness?
- Are firms in the sector/market subject to any restrictions on the ways in which they may conduct their business, such as the types of products they may produce, the prices they may charge, or the ways in which they may advertise or otherwise market their output?
- Are there limits to the number of firms permitted to enter the sector/market?
- Are there barriers resulting from restrictions on raising project finance?
- Are there any trade or industrial policies that appreciably restrict competition in the sector/market?
- Do any firms in the market suffer from the unequal application of laws or regulations?

[A number of such policies were identified from the four CREW project countries. Some of these have been provided in the Table 3]

Table 3: Pro-competitive or Anti-competitive Policies in Selected Sectors

Country	Pro-competitive OR Anti-competitive Policy (some examples)
The Philippines	Quantitative Restriction (QR) on rice imports obtained from the World Trade Organisation (WTO) till 2017
India	State Government of Gujarat's Gazette order of 1994 (under the Motor Vehicles Act, 1988) granting monopoly rights to Gujarat State Road Transport Corporation (GSRTC) to operate buses on 'inter-city stage carriage' routes
Ghana	In 2010, the Ghanaian government introduced the Plants and Fertilisers Act, to regulate (monitor) the quality of fertilisers being imported in the country
Zambia	Under the National Transport Policy (NTP) of 2002, the Markets and Bus Stations Act No. 7 of 2007 was passed for regulation of markets and bus stations in Zambia

Understanding Political Economy

To complete the understanding of the sector/market and analysis of policies, institutions and agents therein – an assessment of 'political economy' issues in the sector/market is necessary. 'Political economy' involves a study of political institutions, political environment and economic systems. A country's political set up and institutions influence the direction and the likelihood of success of any reform – and hence is a critical issue to be examined. Many development partners now consider political economy factors to be the most critical determinant of business enabling reforms – and have devised various methods to analyse them.[14]

In the theory of political economy developed by Anne Krueger[15] and Gordon Tullock,[16] the authors argue that in many market oriented economies, especially developing countries, governmental restrictions upon economic activity are pervasive facts of life. These give rise to a variety of forms and people often compete for the rents. Sometimes this is perfectly legal, for instance lobbying, but at other times it takes the form of policy distortions.

Given the above, could be three possibilities of how political economy factors might influence a sector/market:

(i) a reform that a sector/market has been crying out for is never introduced; or
(ii) a reform was introduced in the sector/market in the form of a policy/legislation but never implemented; or
(iii) a policy was introduced but the implementing institution was starved of resources (financial and/or human).

In all these cases, factors/drivers supporting *status quo* would have overpowered factors/drivers demanding change.

[The following three types of political economy factors been witnessed across the CREW countries have been provided in Table 4]

Table 4: Political Economy Factors in Bus Transport Reforms

Categories of Political economy factors	**Illustrations (from countries)**
A reform that a sector is crying out for is never introduced	The transport regulatory regime in the state of Gujarat (**India**) after the 1994 Gazette order, is a good example. The stakeholders in the state are well aware of the monetary and operational losses incurred to the state government on account of the above policy. Further, it has also led to 'rent-seeking' behaviour in the sector, yet the state government has not removed this order. Various reasons could be attributed to this, viz. institutionalising of the regulation due to its long history of implementation, influence of trade unions, limited technical capacity, etc.
A reform was introduced in the form of a policy/ regulation, but never implemented	According to the LI 2180 of 2012 of **Ghana**, the private informal bus operators are required to operate under defined management structures by tendering on competitive fares, service levels, safety, etc. for sole operation on specific routes. However, this regulation is not effectively enforced in Ghana. The old method of issuing permits by the Metropolitan, Municipal or District Assemblies (MMDA) for the whole licence area is still operational. Since, the old regulatory system provides for the scope of cherry picking of profitable routes by the operators, LI2180 has faced a lot of opposition and has not taken off.
A policy/regulation was introduced, but the implementing agency was starved of resources	In order to manage the unregulated entry of new buses in an already congested bus market (in Metro Manila), **The Philippines** government passed a moratorium on the issuance of new franchises for provincial buses in 2000, followed by a nationwide moratorium in 2003 on the issuance of new licenses and franchisees on all buses. However, this policy has been bypassed, especially on account of a weak enforcement regime. The reasons for such a weak implementation regime could be due to various institutional challenges faced by the Land Transportation Franchising and Regulatory Board (LTFRB) and some of the other relevant institutions.

A detail account of how a comprehensive political economy analysis was undertaken in one of the CREW project countries is presented in Annexure 2.

Step 3: Linking Competition Reforms with Producer/Consumer Welfare

Aim: Ascertain possible consumer/producer welfare impacts stemming from specific components of policy/law/regulation/programmes in the specific sector/market

This step would guide the practitioners to explore the linkage(s) between components of competition reforms and indicators of producer/business welfare and/or consumer welfare. Experience of the CREW project reveals the following **two perspectives** of the relationship between *components of competition reforms* and *indicators of producer/consumer welfare*:

- *A pro-competitive government policy in a market can help producers/businesses enter a market easily and operate efficiently deriving certain benefits*
- *Indicators of consumer welfare (in terms of access, cost, quality and choice) are achieved if regulatory interventions (including competition enforcement) are properly designed and uniformly applied to all producers/ businesses in the market*

This step will help identify parameters that can be used to determine the impact of each component of competition reforms (policy, law, regulation, statutes, programmes) on indicators of producer/business welfare and/or consumer welfare. Discussions with stakeholders and/or review of studies on the sector/similar studies will also help identify these parameters.

Pro-competitive government policies in a market help producers/businesses enter a market easily and operate efficiently deriving certain benefits

The following guiding questions can be used to identify parameters of this perspective of the 'linkage' between competition reforms and public welfare:

- Does the government policy have implications on the producers' ability to access inputs (capital, labour, technology, etc.)?
- Is there a level playing field? Does government policy discriminate between the state-owned enterprises and the private players?
- Does government policy act as barrier to entry (or exit) for producers in the market? Are licensing rules transparent, time-bound and non-discriminatory?
- Do standards set/requirements sought provide an unfair advantage to certain firms over others?
- Does the policy deny third party access to essential facilities?

Pro-competitive government policies in a market help producers/ businesses enter a market easily and operate efficiently deriving certain benefits

Indicators of consumer welfare (in terms of access, cost, quality and choice) are achieved if regulatory interventions (including competition enforcement) are properly designed and uniformly applied to all producers/businesses in the market

- Do government policy/rules create geographical barriers?
- Do government policy/rules encourage exchange of information between client and their suppliers on price, cost, sales or output?
- Does government policy/rule grant exclusive rights to a supplier of goods or service?
- Does government policy subsidise the incumbent (state aid) at the cost of other players in the market?

Policy	Implication on Producer
Seed Reforms under the Bihar Agriculture Roadmap 2006	Seed sector reforms were one of the key deliverables of the 'Agriculture Road-map' adopted by the State Government of Bihar (India) in 2006. It created an environment that encouraged private seed companies to enter and bolster their presence in the seed sector in the state. Over a few years (2004-2010), the number of private seed firms in the state increased from 1 to 10. Increased level of contestability in this market saw the seed firms improve their outreach and quality that ultimately helped the farmers get access to good quality seeds at low costs – and thereby improve their production. Productivity of wheat increased from 18-20 quintal/hectare in 2008 to 38-40 quintal/hectare in 2013.

Indicators of consumer welfare (in terms of access, cost, quality and choice) are achieved if regulatory interventions (including competition enforcement) are properly designed and uniformly applied to all producers/businesses in the market

The following guiding questions can be used to identify parameters of this perspective of the 'linkage' between competition reforms and public welfare:

- Is the regulatory framework well developed (in terms of its structure)?
- Do players in the market have clarity about the structure and function of the relevant regulatory institution in the market?
- Does the regulatory law have consumer protection as one of its objectives? What steps and actions have been taken to ensure this, and the effectiveness thereof?

- Have regulatory actions ensured availability of goods and services in areas that were otherwise not served by players in the market?
- To what extent have grievance redressal mechanisms been effective?
- Have regulatory actions ensured that goods and services are more easily available for consumers/users?
- What actions by regulatory agencies have kept prices market-based and affordable to consumers?
- What measures have been taken to improve the quality of goods and services provided by the players in the market (without unnatural increase in the price of such goods and services)?
- How have actions of the regulatory agencies helped improve options of goods and services for consumers in a market?

Policy	Implication on Consumer
Plant and Fertiliser Act 2010, Ghana	Liberalisation of fertiliser import had been done in Ghana in the '90s. However, there has not been considerable increase in the volume of fertiliser imported into the country and its resulting use, as users had alleged poor quality of the imported stock.In the year 2010, the Government of Ghana adopted the PFA 2010 – which empowered the Ministry of Food and Agriculture to monitor the quality of fertiliser being imported into the country.Since then, there has been a marked increase in the importation of fertilisers into the country as farmers have started benefitting from good quality fertilisers – thereby increasing the demand for the commodity among the farming community.

Step 4: Methodology for Gathering Evidence of the 'Linkage'

Aim: Plan an exercise to gather evidence from the ground to validate how competition reforms impact public welfare

A methodology to establish the 'linkage' using evidence from the ground would be developed once specific parameters have emerged from the earlier step. It will also include an assessment of the kind of data required for each of the parameters. Table 5 should be filled up for each component of competition reform (policies, laws, statutes, programmes) by selecting specific consumer and/or producer/business welfare indicator(s) that need to be looked at for each of the components.

Table 5: Planning the Analysis[17]				
Component of Competition Reform	**Impact on Consumers OR Producers**	**Indicators**	**Data Source**	
Policy, Law, Programme			**Secondary Data**	**Primary Data**
	Impact on Consumers	Price/Cost	-	-
		Quality	-	-
		Access	-	-
		Choice	-	-
	Impact on Producers	Entry	-	-
		Investment	-	-
		Growth	-	-
		Access to inputs	-	-
		Equal opportunity (level playing field)		-
		Cost savings		-

Based on the data required to link the component of competition reform with each (relevant) indicator of producers/consumer welfare, the practitioner will identify to what extent the information needed is available from secondary sources. The following are some points that would assist the practitioner:

- Data available in national/sectoral databases,[18] etc. should be screened for possible data sources. Additionally, discussions with stakeholders and leading research institutions, academia may also assist in identifying possible sources of data[19]
- Data should be collated for a period before and after the reform(s) (at least 5 years before and five years after) to assist in comparison
- Both quantitative and qualitative data would have to be included in the process of data collection[20]

Once availability of secondary data is established, critical *data gaps* that need to be filled through primary data collection shall be ascertained. At this point, the practitioner must make a strategic decision to collect primary data/information (primary data field in the above table) through surveys, focus group discussions or one to one interviews. In order to undertake the primary research, the following steps must be undertaken:[21]

- A sampling frame of the targeted beneficiaries (consumers and/or producers) and other stakeholders (government officials, local agencies involved in the market, etc.) must be developed
- The sample size must be estimated to ensure statistical robustness of the survey

- A questionnaire must be designed to collect the information required to assess the impact (taking into consideration the gaps in secondary data and any points highlighted in the stakeholder consultations)
- The survey and/or focus group discussions (FGDs) should be conducted to verify the information collected, and collate it all together in a cogent manner

Step 5: Evidence – Impact on Competition Reforms on Welfare

Aim: Use the data gathered from the ground to create evidence of actual impacts of specific policies, laws, regulation, programmes on public welfare (ex-post) or of anticipated impacts *(ex-ante)* from them

Once the primary and secondary data highlighted in the analytical framework are collated, the practitioner must analyse the data using existing methods to create a comprehensive evidence base that would help effectively engage with decision-makers. For the CREW project, the country partners were guided by a list of applicable methodologies listed in the paper, "Measuring Impact of Competition Reforms in Developing Countries: a Survey of Possible Approaches and Selection of Countries and Sectors for the CREW Project."[22] This paper broadly suggested exploring the following approaches methodologies to ascertain their application in specific sectors/markets:

- *Time series variation* – Comparing outcomes in the market before and after reform
- *Spatial variation* – Comparing outcomes between similar markets one that operates under a specific policy/law/ regulation and another where such a policy/law/regulation is absent
- *Difference-in-Difference analysis* – Comparison between two similar markets with and without a specific policy/law/ regulation/programme over two different points in time
- *Structural estimation/simulation models* – Developing an econometric model with a policy reform variable to stimulate what the effects of the policy reform has been or could possibly be (in future)
- *Cost-benefit analyses* – Comparing the costs of introducing the reform with the expected benefits (quantitative and qualitative) from the same
- Case studies

The methodologies which were used in the CREW project by the partners/researchers in the staple food sector are provided in the Table 6 for easy reference.

Table 6: Tools and Methods Applied by the CREW Country Research Teams

Project Country	Establishing the Linkage	Tools Used	
		Qualitative	Quantitative
Philippines Staple Food Sector (Rice)	Cost and benefits from reducing / eliminating quantitative restrictions on the import of rice assessed through parameters such as price of rice.	x	Calculated the **consumer and producer surplus based on assumptions of the elasticities of demand and supply**
India Staple Food Sector (Wheat)	Impact of regulations in the seed, agricultural marketing and procurement segments of the agriculture sector assessed through parameters such as participation of the private sector in the above areas, and the farmers' access to affordable and quality inputs such as seeds	**Structured interviews/surveys**: information was gathered from the beneficiaries (farmers) and analysed	A limited **time-series variation** method was applied to compare data on indicators like Seed Production and Seed Replacement Rate[23] over time
Ghana Staple Food Sector (Maize)	Impact of liberalisation of fertiliser import on agriculture sector in the country assessed through parameters such as entry of private players and quality of fertilisers	**Farmers survey** to assess the ease of availability and quality	Comparing **time-series** data for indicators like: volume of fertiliser imported, number of importers, maize productivity (before and after 2010)
Zambia Staple Food Sector (Maize)	Impact of Food Reserve Agency's (FRA) monopoly in the procurement market on maize prices over time	Farmers survey to ascertain access to FRA for selling maize, price realisation and payment terms	**Counterfactual study** (Mason & Myers, 2011): simulate prices that would otherwise exist in the absence of FRA and compare them with the prices that existed in the presence of FRA

Step 6: Preparing the Diagnostic Report[24] (Sector-/Market-specific)

Aim: Proper documentation of the evidence in the form of a 'Diagnostic Country Report' which is robust yet presents the evidence lucidly and is not too long

Once the information gathered from the secondary and primary research is collated and analysed, a sectoral Diagnostic Report should be prepared by the practitioner to highlight the key findings, disseminate the evidence and engage with policymakers and other stakeholders. The components (chapters) of this report include:

- Background of the sector
- Literature on the impact of competition related policies on welfare (relevant to the chosen sector)
- Relevant policies governing the sector and reforms
- Pro or Anti-Competitive elements in policies, laws, regulation, programmes in the selected sector/market
- Methodology undertaken for assessing impact of policies, laws, regulation, programmes on public welfare
- Impact of the competition reforms on public (producers and consumers) welfare in the selected sector/market
- Conclusions and policy recommendations

The steps undertaken to assess impact of competition reforms in the Philippines rice sector under the CREW project have been outlined briefly in Box 2.

Box 2: Assessing Competition Reforms in the Philippines Staple Food (Rice) Sector

Step 1: The rice market in the Philippines is regulated by the National Food Authority (NFA) under a highly interventionist regime aimed at food security and price stabilisation.

Step 2: NFA enjoys a monopoly over rice imports in Philippines by way of imposing quantitative restrictions (QRs) on rice imports, which over the years has resulted in domestic price of rice being higher than the import price. In 1995, The Philippines acceded to the World Trade Organization (WTO), which implied conversion of QRs into equivalent tariffs. QRs on importation of rice resulted in market closure for potential foreign exporters especially from neighbouring countries like Thailand, Vietnam etc, who might have supplied to the country given rice production in Philippines is unable to meet the domestic demand. The restriction of rice importation has benefitted large local rice producers, while it has affected the local consumers, as they have to pay high price for domestically produced rice. The abolition of the QR will also impact the small farmers, so a discussion on abolition of import quota would have to be accompanied with a consideration to protect the interest of small farmers. Else, there will be little political buy-in for abolition of QR (pro-competitive reforms) in the rice market

Step 3: QR on rice acts as an entry barrier for additional supply (import) of rice beyond the permissible quota. In the absence of competitive forces in the domestic market, the price of domestically produced rice remains high, thereby harming domestic consumers (mainly the poor). Whatever rice comes into the country (part of the quota) sells at much cheaper price than the domestically

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produced rice. A competitive market (abolition of the quota) will help force retail prices of domestic rice down, thereby benefitting the consumers of rice in Philippines

Step 4: Secondary data was collected to demonstrate current competition distorting policy/ regulation in Philippines rice market (as stated above). Parameters such as NFA support price and selling price, monthly domestic wholesale price, etc. were looked at. The overall supply chain of rice in The Philippines was also developed. The analytical matrices developed under the CREW project for the staple food sector can be seen at: http://www.cuts-ccier.org/CREW/pdf/Draft_Analytical_Matrix-Staple_Food_Sector.pdf

Step 5: In order to assess impact on consumers and producers of rice in Philippines, the study developed a model for economic surplus analysis, called the Total Welfare Impact Simulator for Trade (TWIST). The model is derived from the Welfare Impact Simulator for Evaluating Research (WISER), described in Briones and Galang (2012). It follows the same framework in Roumasset (2000) and runs in General Algebraic Modelling System (GAMS). The impact of abolition of QR was linked with the benefits likely to be derived by rice consumers, for different quota bands – to create the evidence base for a discussion on this issue.

Step 6: The evidence was documented in the Diagnostic Country Reports (DCR) of The Philippines, available at: http://www.cuts-ccier.org/CREW/pdf/Diagnostic_Country_Report-Philippines.pdf

Step 7: An advocacy plan was developed using the evidence in The Philippines DCR and based on the discussions with key policymakers and experts to pursue pro-competitive reforms in the country's rice market. Considerable importance was accorded on the need to balance the interest of the small and marginal farmers with such a reforms plan to ensure its political buy-in, especially in the wake of the impending general elections in the country.

Step 7: Sharing the 'Evidence' with Stakeholder & Way Forward

Aim: Use the evidence presented in the 'Diagnostic Report' to convince key decision-makers in favour of competition reforms, citing tangible public welfare benefits or losses as the case may be

Finally, the evidence of the linkage between components of competition reforms and implications on indicators of consumer and/or producer welfare contained in the 'Diagnostic Report' is shared with key stakeholders. This stakeholder outreach is planned strategically keeping in view the political economy issues in the sector as well. The evidence of the linkage is used to sensitise policymakers and decision-makers on any or all of the following:

(i) to promote pro-competitive policies (which might have been thwarted); or

(ii) to remove competition-distorting elements in policies (which might have resulted in unfavourable outcomes for producers/ businesses or consumers); or

(iii) to strengthen the regulatory enforcement and agency responsible for the same to help move the reforms forward

Annexure 1

Some Existing Literature and Methods

(linking Competition Reforms with Social and Economic Benefits)

Researchers from across the world are taking greater interests in developing and employing various approaches/methods to establish the impact of competition reforms on public (producer and consumer) welfare.

Table 7[25] provides a brief overview of some existing literature can be used as references for ascertaining the most applicable tools while undertaking the analysis in countries/sectors.

Table 7: Various Approaches to Assess Impact of Competition on Indicators of Producer and Consumer Welfare	
Approach and Findings	**Author(s)**
Effects of competition on productivity and growth	
The most competitive firms experienced productivity growth rates 3.8 - 4.6 percent higher than the least competitive. "A 25 percent increase in market share leads to a 1 percent fall in total factor productivity in the long run."	Nickell, 1996
More competition (e.g. resulting in a 10 percent reduction in mark-ups) could increase productivity growth in South Africa by 2-2.5 percent per year	Aghion et al, 2008
In a comparative study of transition economies, firms facing less competition (20 percent higher markups) had lower productivity (Total factor productivity/ TFP 1.2 percent lower). Reforms generated 12-15 percent increases in TFP, through stronger competition	Ospina and Schiffbauer, 2010
Effects of competition on welfare	
Welfare loss from monopolised products is 150 percent higher in poorest, rural decile, than richest urban decile, in Mexico	Urzua, 2013
A one standard-deviation decrease in product market regulation would generate a long run gain of 1.1 percent in the employment rate in France	Flori et al, 2012

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Approach and Findings	Author(s)
Reduction in costs for local players, or increase in cost for a foreign player trying to enter a market, is affected by domestic policies having a distortionary effect (using sugar and cotton markets as examples)	Singham, Rangan & Bradley (2014)[26]
Welfare loss associated with monopoly is 46 percent higher for the poorest 10 percent Australian households as compared to the richest. Uses household survey to estimate elasticities and welfare effects using consumer surplus	Creedy & Dixon (1998), also (2009)[27]
Land and market reforms in Vietnam led to dramatic increases in paddy rice productivity in rice growing areas. Uses dataset on total factor productivity (TFP)	Kompas et al (2009)[28]
80 to 100 percent of the fertiliser subsidy paid by the Indian government from 2011-2 would, in fact, finance monopolistic rents from the Potash fertilise cartel. Uses projected prices and production figures from the Conference Board Report on Potash	Jenny (2012)[29]

Annexure 2
Undertaking Political Economy Analysis for Promoting Competition

Often, implementation of pro-competitive reforms is affected by impediments stemming from **political economy factors** which affect the realisation of welfare benefits of competition reforms by the intended beneficiaries. Under such a scenario it is critical to understand who the '**Winners**' and the '**Losers**' of the *status quo* are, and strategically engage with them to increase chances of welfare gains being derived by intended beneficiaries of reforms. Identifying the winners and losers of policy *status quo* is a simplistic approach that helps in identifying the actual impact (or impediments) of a policy that limit competition by its very design.

The example of the 'Monopoly status of Gujarat State Road Transport Corporation (GSRTC) on inter-city stage carriage routes' has been presented in this section to highlight how such a political economy analysis exercise for promoting competition reforms should be undertaken.

Case Study: Analysing Winners vs. Losers

Monopoly status of GSRTC on intercity stage carriage routes granted by 1994 Gazette Order by Government of Gujarat

- ### Under *Status Quo*

[Describe the current situation and history of sector in country]

Gujarat State Road Transport Corporation (GSRTC) was formed in 1960 under the provisions of the Road Transport Corporation Act and Motor Vehicles Act, mandated with providing inter-city bus services both within Gujarat and neighbouring states. Taking advantage of these provisions in 1994 Government of Gujarat reiterated its stance and reserved the stage carriage segment in the inter-city routes for GSRTC by a Gazette Order (state-level policy). Providing the state owned enterprise an upper hand through policy was a common practice in most of the Indian states at that point of time and even now in some states.[30]

This legal monopoly creates entry barrier and reduces the size of the market for private operators. Absence of competitive rivalry, assured availability of budgetary support delinked from any minimum performance requirements, absence of any comparative benchmark, etc. also leads to embedded systemic inefficiency in the SRTUs.

Losers under status quo

[Consider the general public, levels of businessmen and entrepreneurs that are hurt by the existing policy or lack of policy. Consider whether these are aware that they suffer under the existing status quo or not]

– Private Entrepreneurs
  Continued monopoly of GSRTC, despite its inability to service the market fully is imposing additional transaction costs on the private operators in the form of fines, bribes, and legal bills for operating stage services. According to interviews[31] with private bus operators, they estimate that they spend ₹110,000-₹120,000[32] specifically on bribes per bus. The total amount that they have to spend per bus per year for these 'additional transactional costs' is approximately about ₹600,000. They noted that these costs are ultimately passed on to the users/commuters.

– Government Budget
  The loss of government revenue can be broken into two categories: (i) Cost of subsidising the increasingly poor financial performance of GSRTC, and (ii) Lost tax revenue from forcing private operators to act illegally. GSRTC registered a revenue deficit of ₹3 billion (approx.) in 2012-13 alone. It requires increasingly large subsidies overtime to meet the gap between profits and costs.

– Bus Passengers on Busy Routes
  This gradual decline in GSRTC fleet has resulted into a gradual build-up of excess demand in stage carriage service in the state, being fulfilled by the clandestine entry of private operators in the stage carriage market. ¾ of respondents find the fare of private bus service to be marginally more or sometimes even less than that of GSRTC. Therefore the whole argument of subsidised services does not hold good.

Winners under status quo

[Consider classes of voters or the general public, vested interests such as business/bureaucrats/ politicians that gain from the existing policy or lack of policy]

– Bus Passengers on Remote Routes
  Passengers who live off of major routes benefit from the current status quo in which GSRTC operates buses to villages that are not profitable. In particular, GSRTC buses provide service to tribal areas and these routes are mostly loss making due to low passenger density. In 2011 almost a quarter of GSRTC routes were in tribal areas. Without GSRTC these villages would not be served.

– Concessional Bus Passengers
  Almost one-third of passengers (eligible for concessions) on GSRTC buses are paying reduced fares because of government concessions.[33] Of these concessions a large percentage are for students. GSRTC provides service to 296,000 rural female students who are given a full concession, i.e. they pay nothing for service. GSRTC provides service to another 528,000 students who receive subsidised fares operates 6,365 routes exclusively for students.[34]

– Workers in SRTUs
  GSRTC has a large unionised workforce. As of 2010, there were 40,000 organized workers in three recognised GSRTC unions.[35] In that year, unions threatened to strike in order to win prompt payment of wage arrears and a dearness allowance. The strike was called off after the

Chief Minister of the state intervened and guaranteed all union demands would be met. In February 2013 GSRTC workers across the state went on a two-day strike with other public sector unions over rising prices, end of PSU disinvestment and raising the minimum wage.[36] The fact that the union went on strike over issues that do not directly affect GSRTC workers highlights the level of organisation and willingness to strike.

• Policy Recommendation to Improve Competition:

[What does the intervention recommend as an ideal policy to improve on the existing status quo?]

Reviewing the relevance of the 1994 policy (Gazette order) is needed, as it does not accommodate for the current dynamic market. If the abolishing of this order takes place, the market could be opened in a phased out manner. Some of the following measures could be looked at:

- A negotiated performance based contract model may be followed with such SRTUs, tying state budgetary support to target fulfilment.
- Benchmarks may be decided based on the performance of the other private/public operators plying under identical/similar service environment.
- Possibility of development of an 'Intercity State Transport Regulator', in lines with the draft Road Transport and Safety Bill, 2014 could be explored.

• Incentives for Policy Change

General Public

[Is the general public aware that the status quo is sub-optimal? Are there visible complaints about the existing status quo? Is it an issue that the public has mobilized on in the past or has it affected elections in the past?]

Civil Society

[Consider domestic NGOs; international NGOs such as Consumers International, CUTS; domestic activist groups and networks like INCSOC[37]]

Politicians

[Are there politicians or political parties who have attempted to change the status quo? Are there any politicians or parties that have publically spoken about the current?]

The perception survey under the diagnostic study indicated that most respondents were in favour of public sector services. This essentially does not mean that they support the monopoly status of GSRTC, but it indicates support to public operators. A careful consideration of winning public support would have to be thought of.

Efforts to reform the inter-city bus transport system in Gujarat have failed due to differing beliefs about the appropriate policies to fix the system and because of opposition from vested interests – primarily from GSRTC labour unions.

Private operators and their associations stand to gain from the policy change, as most of the costs incurred due to rent seeking would be reduced. The private operators agree that the costs towards taxes may increase, but there would be a considerable reduction in the harassment that they face due to the state-level policy of 1994 (Gazette order).

• Why has the recommended policy not been implemented?

[Consider whether the winners under the status quo are more powerful than the losers under the status quo. Have the winners been able to organise themselves more effectively to maintain the status quo?]

The primary opposition to any reform of GSRTC's monopoly status will come from the GSRTC Union. As discussed earlier, the GSRTC Union is powerful as a large and organized voting block that politicians need, but more importantly as a group with the potential to strike. Moreover, there has been a lack of structured effort by private operators and/or their associations in lobbying with the ministers and bureaucrats. This could have been partially due to the fact that there has been no pressure from the consumers as they do not understand the implications of this monopoly.

• How could opposition to the correct policy be overcome?

Compensation

[Could the Government provide compensation to the winners under the status quo so that they do not block a policy change? For example, could they receive payments or be promised that existing policy will not take effect for a certain time period?]

Public Awareness

[If the general public would benefit from a policy change why have not they mobilised for one? Are they aware of the failures of the status quo? If they were aware of the inefficiencies would they be able to effectively mobilise? Could a policy change become an electoral issue that politicians would have incentives to take up?]

Timing

[Is there an ideal time period when a policy change could be implemented so that opposition was lowest? Is there period at which a policy change would be less damaging to the winners under the status quo? For example, when the price of oil or food is low, subsidies may be removed with less opposition]

From the above discussion, the two main impediments to reform of the status quo are:

(i) Potential opposition from the GSRTC Union – some form of compensation to workers in the union could help win over the union as a whole or at least divide some workers from the union;

(ii) Lack of sustained pressure from interests that would benefit from reform – a structured effort by private bus operators' associations to lobby with the government officials could be undertaken. The government is already aware of the cost of continuing with this monopoly, but is unable to decide on the right reform measure. With active lobbying, the private operators hold better chances of advocating for services that they are willing to provide, which otherwise the government would ignore (as they may assume that private operators would only look at profit making).

Endnotes

1. A number of other studies find a positive relationship between competition and efficiency including – Caves and Barton (1990), Green and Mayes (1991), Caves et al. (1992) (these show that increasing concentration reduces efficiency) and Haskel (1990), Nickell, Wadhwani and Wall (1992) which find a positive relation between competition on levels and growth of productivity
2. Competition can also contribute to growth in other ways. By bringing down costs through 'within firm' and 'across firm' effects and by driving innovation, competition also reduces inflation rates, both at the sectoral and aggregate levels, creating a more stable macroeconomic environment (Przybyla et al., 2005). Crucially, competition acts against vested interests and protectionism, contributing to the opening up of markets to new entrants, and increasing the attractiveness of a country as a recipient of foreign direct investment (with potential associated spillovers in the form of novel techniques and management systems)(OFT,2011)
3. This study reveals that competition generally improves *innovativeness*. The main reason is that markets with high competition intensity drives firms to innovate in order to 'escape' the effect of competition on their profit (*escape competition effect*). Perhaps this is the most significant factor in the effect of competition on growth
4. Refer to http://documents.worldbank.org/curated/en/2015/07/24756300/export-competitiveness
5. Also refer to Annexure 1 for more reference of literature linking competition reforms with social and economic welfare
6. Also highlighted in: http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1303327122200/VP331-Competition-Policy.pdf
7. The CREW project has used a working definition of **competition reforms** as an aggregate of the following components: (i) Enabling government policies designed to facilitate a level playing field (fair competition) in a sector, (ii) Well-designed regulatory framework, adequately resourced regulatory institutions & effective actions for promoting fair competition in a sector, (iii) Well defined competition legislation and effective enforcement mechanisms. Five elements of competition reform were considered: Policies, Laws, Statutory Instruments, Sectoral Programme and Practices
8. CUTS CIAT available at: http://www.cuts-ccier.org/Compeg/pdf/CUTS_Competition_Impact_Assessment_Toolkit-A_Framework_to_Assess_Competition_Distortions_Induced_by_Government_Policies_in_the_Developing_World.pdf
9. For principles of 'Competition Policy' see 'Competition Principles Agreement' (1995) at https://www.coag.gov.au/node/52
10. Some of these characteristics being: presence of government as a service provider in key markets, absence of data and/or centralised databases, high level of political influence in sectoral decision-making, limited stakeholder understanding, etc.
11. CUTS CIAT available at: CUTS Competition Impact Assessment Toolkit (CCIAT, see: *www.cuts-ccier.org/Compeg/pdf/CUTS_Competition_Impact_Assessment_Toolkit-A_Framework_to_Assess_Competition_Distortions_Induced_by_Government_Policies_in_the_Developing_World.pdf*
12. OECD Competition Assessment Toolkit is available at: http://www.oecd.org/competition/assessment-toolkit.htm
13. DFID's Competition Assessment Framework available at: http://www.oecd.org/daf/competition/reducingregulatoryrestrictionsoncompetition/46192459.pdf
14. DCED (2011) "Political Economy of Business Environment Reforms: An introduction for practitioners", pp 17-18, provides an overview of these methods (refer: http://www.enterprise-development.org/download.ashx?id=1715)
15. Anne O Krueger, "The Political Economy of the Rent Seeking Society" American Economic Review, Vol 64, No 3, June 1974

16. Gordon Tullock, "The Economics of Special Privileges and Rent Seeking", Kluwer Academic Publishers, Massachusetts, USA, 1989
17. The analytical matrices developed under the CREW project for the ***staple food*** and ***bus transport*** sectors can be seen at: http://www.cuts-ccier.org/CREW/pdf/Draft_Analytical_Matrix-Staple_Food_Sector.pdf and http://www.cuts-ccier.org/CREW/pdf/Draft_Analytical_Matrix-Passenger_Transport_Sector.pdf.
18. Data could be obtained from specific Ministries responsible for the sector/market, Sectoral Agencies, Central Statistical Offices. Further, some development partners (like World Bank) also gather data on certain parameters which could be used
19. Note that data might not be readily available in one place in developing countries – and needs to be captured/extracted from wherever they are stored
20. Refer to the 'Note on Secondary Research' under the CREW project for detailed guidance on how the above mentioned framework for analysis should be constructed in the selected sector/market: http://www.cuts-ccier.org/CREW/pdf/Draft_Note_for_Secondary_Research.pdf
21. The 'Note on Primary Survey' under the CREW project for undertaking the primary work for the two sectors is available at: http://www.cuts-ccier.org/CREW/pdf/Note_for_Primary_Research.pdf
22. Available at: http://www.cuts-ccier.org/CREW/pdf/Background-Paper.pdf
23. SRR: It is the percentage of good quality, certified seeds over the total volume of seeds used by a farmer for the total area sown by him
24. The four Diagnostic Country Reports (DCRs) developed under the CREW project are available at: http://www.cuts-ccier.org/CREW/Diagnostic_Country_Reports.htm
25. OECD (2014), "Factsheet on how competition affects macro-economic outcomes", available at: http://www.oecd.org/daf/competition/2014-competition-factsheet-iv-en.pdf
26. http://www.enterprisecities.com/Concurrences%204-2014_Law%20&%20Economics_S.%20Singham%20et%20al.pdf
27. Understanding and Communicating benefits of Competition Reforms, presentation by Tania Begazo, World Bank Group at the CREW International Conference organized in Bangkok, Nov 19, 2014 (available at: http://www.cuts-ccier.org/CREW/International_Conference_Presentations.htm)
28. *Ibid*
29. *Ibid*
30. Refer CUTS Policy Option Note (2011), "Anti-competitive provisions in the Motor Vehicles Act 1988: Case of Private Bus Operators in Nathdwara, Rajasthan", available at: http://www.cuts-ccier.org/pdf/Anti-competitive_Provisions_in_the_Motor_Vehicles_Act-1988-Case_Study_of_Private_Bus_Operators_in_Nathdwara.pdf
31. Focus Group Discussions of private bus operators conducted by CUTS as part of the Political Economy Study
32. According to www.xe.com, 1US$ = ₹64 (approx.) on 11th August 2015
33. "An analysis of Perceptions of Commuters at GSRTC" Patel and Kothiya
34. Road Transport: Connecting Lives" Presented at Vibrant Gujarat Global Summit 2015, 11-13 January 2015
35. http://archive.indianexpress.com/news/gsrtc-unions-withdraw-strike-call-after-settlement-over-arrears/673136/
36. http://timesofindia.indiatimes.com/city/ahmedabad/The-trade-union-strikes-back/articleshow/18602619.cms
37. INCSOC network, www.incsoc.net