Some evidences of impact of CUTS competition projects on citizens' welfare across the developing world

A Note for DFID, UK

1. Background

1.1 Competition reforms has received unprecedented attention in the past decade or so, globally, as markets in developing and least developed countries have opened up for private participation - both from within and across borders. An outcome of greater participation would be more choice and lower prices of goods and services for consumers on one hand (consumer welfare gains); and on the other the emergence of a dynamic private sector leading to growth and economic development.

1.2 In order to facilitate the process of nurturing competition in developing country markets, governments aided by development partners and inter-governmental organisations have embarked on various processes of competition reforms across the world (by developing competition legislations and establishing agencies to regulate competition in domestic markets). More and more development partners have also engaged with non-state actors to complement government actions in evolving competitive markets.

1.3 Department for International Development (DFID), UK has been a worldwide leader in promoting competition reforms. In addition to supporting projects being implemented by national governments and inter-governmental organisations, DFID (UK) has supported work of civil society organisations for promoting healthy competition culture in the developing world, over the years. This has contributed to incorporating the otherwise *missing* 'civil society voice' on competition policy and law issues at the international level.

1.4 One of DFID's partners in its quest to evolve a healthy competition culture globally has been CUTS International. DFID and CUTS have together implemented competition reforms projects in well over 20 countries across Africa and Asia. One of the outcomes that DFID and CUTS have jointly pursued through its projects on competition policy and law issues across these countries has been to promote growth, ensure consumer welfare and promote good governance – thereby contributing towards DFID's mission to alleviate poverty.

1.5 While the extensive and intensive work done has resulted in systemic and progressive changes to promoting a healthy competition culture, this note presents few anecdotal evidences from four countries of how CUTS initiatives on competition policy and law issues (referred popularly as *7Up projects*, supported by DFID, UK) has led to achievement of specific welfare and growth impacts in them.

2. Case Stories

2.1 Through the narrative that follows, an effort has been made in this note to link outputs from CUTS initiatives in select countries to specific outcomes (reforms) vis-à-vis market competition (therein) and ultimately to lasting impacts for ordinary consumers.

2.2 Banks disciplined in Namibia!

2.2.1 The Namibian Consumer Association (NCA) led a campaign in 2006-07 pointing out how Namibian banks were charging high service charges/bank fees for the customers. This campaign of NCA (the only consumer organisation in Namibia) was strengthened by research undertaken by NEPRU (Namibia Economic Policy Research Unit), a premier think-tank in the country which provided the evidence to substantiate NCA's claim[1]. A large number of Namibians (nearly 45%) remained un-banked owing to such high charges which made banking unaffordable for the ordinary Namibians.

2.2.2 NEPRU had been implementing the 7Up3 project (project on competition policy issues being implemented by CUTS with support from DFID UK in seven countries of eastern and southern Africa) in cooperation with CUTS in Namibia over this period and highlighted a low-level of competition in retail banking (as one of the factors) contributing to high bank charges in the country (especially among the four leading banks)[2]. It was also reported that often the banks are not very clear and/or transparent about these charges. So, a large number of ordinary Namibians (using the facility of these banks) were being adversely afflicted due to such practices of the banks.

2.2.3 As a result of evidence provided by NEPRU and the constant lobbying by NCA, the matter reached the Parliamentary Standing Committee on Economics, Natural Resources and Public Administration of Namibia. The Committee recommended all banks to become more transparent while dealing with their customers and to state their charges upfront while servicing them[3]. It also expressed dissatisfaction that the Namibia Competition Commission had not become operational (Commission was established in 2003) to be able to take up investigations such as in the banking sector, for it to protect the interest of the common Namibians.

2.3 Stern action on Cement … 17 years on

2.3.1 In India, the Monopolies and Restrictive Trade Practices Commission (MRTP Commission) passed an order in February 2008, wherein it directed cement manufacturers in the country to refrain from acting in concert for raising cement prices in retail markets. This action came almost 17 years after a first case hinting at the existence of a cartel in the cement market in Delhi had been brought before the Commission in 1991. The decision then had gone in favour of the industry.

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[1] *Source*: The Namibian, 17.07.2006

[2] Refer www.nepru.org.na; and 7Up3 Country Research Report for Namibia (downloadable from http://www.cuts-ccier.org/7up3/pdf/CRR-Namibia.pdf)

[3] *Source*: The Namibian, 28.11.2006

2.3.2 Motivated by this *victory*, cement manufacturers came together under the aegis of the Cement Manufacturers Association (CMA) and started lobbying the government for high prices. There was an unprecedented rise of nearly 50% in retail prices in the year 2000. Price of cement had continued its ascent owing to a buoyant real estate.
2.3.3 In 2005-6, CUTS undertook a study of competition in various Indian markets including cement, telecom, steel, pharma, transport, etc. under the project *Towards a Functional Competition Policy for India* supported by DFID. The study raised alarm about the existence of a cartel in the Indian cement industry and recommended the government (especially the incoming Competition Commission of India) to take immediate action[4].

2.3.4 CUTS initiated a press campaign subsequently to push the government into investigating the cartel in the cement sector. Eventually in 2008, MRTP undertook the investigation as a result of mounting pressure from CUTS and others (a complaint had also been brought by the Builders Association of India), and was able to unearth the existence of a cartel among 10 major players in the cement market operating on the platform provided by the Cement Manufacturing Association. Given, MRTP Commission's inability to deal with cartels (and the dormant state of the Competition Commission of India), only a '*cease and desist'* order could be passed[5]. The manufacturers went into appeal before the Supreme Court which has not been finally settled.

2.3.5 The demand of low-income and lower-middle income housing in urban India has increased exponentially in recent times[6]. While there was no perceptible decrease in the price of cement as a result of the crack-down on the cement cartel, the prices also did not go up as was expected. Thus it has helped facilitate construction of homes for the large number of urban poor across the country - currently living in abject, unhealthy living conditions.

2.4 <u>Bringing down milk prices in Mauritius</u>

2.4.1 Mauritians have to rely on powdered milk to meet their and their children's nutritional demand as fresh milk is unavailable in the country. The powdered milk market was dominated by a handful of players. One of them enjoying 60% of the market share (clearly a dominant position) decided to raise the price of the product abruptly. The price rose to a peak of Mauritius Rupees (MUR) 190 per kilogram during the period 2004-06. The company was enjoying a profit margin of nearly 41% in the retail market, then.

2.4.2 At this point of time, as a result of CUTS project on competition policy and law issues (7Up3 project, implemented in seven countries of eastern and southern Africa,

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[4] Mehta, P.S. (Eds), "Towards a Functional Competition Policy for India", Academic Foundation, Delhi, 2001, pp 165-174
[5] http://www.baionline.in/media/data/MRTP2.pdf
[6] The Indian government aims to build 1.5 million homes for the urban poor across India by 2012 through its programme *Jawaharlal Nehru National Urban Renewal Mission (JLNNURM)*

including Mauritius, with assistance from DFID,UK) the level of awareness and understanding on competition issues in the country had improved considerably. Impact of anti-competitive practices on consumers' daily lives was being discussed in public platforms/media, etc. This was largely due to the outreach made possible by the advocacy partner of CUTS for the 7Up3 project in Mauritius, Institute for Consumer Protection (ICP).

2.4.3 Pursued by continuous lobbying by ICP, the government eventually intervened in the market and fixed the margin of profit for the sector at 14%[7]. This led to a decrease of price, which has now stabilised between MUR 90-120 per kilogram across the country. Currently, the government is also contemplating further liberalisation of the sector, which is likely to force the price down further.

2.4.4 Milk powder is a major component of the consumer basket in Mauritius, as fresh cow milk is either inaccessible or not preferred. ICP's consumer basket includes 6kg of powdered milk for a family of four persons per month, and the price of milk powder has an important share in the basket. For example, milk powder represents MUR 720 in a basket of 44 basic products worth MUR 4200.

2.5 Assisting small businesses in Zambia

2.5.1 The 7Up1 project (2000-02) noted with concern that the competition authority of Zambia was engaged mainly with big business and did not look at the problems of small businesses. The Zambia Competition Commission (ZCC) personnel felt that their law restricted it to act on business malpractices that have a significant impact on the economy. This point was debated on during the meeting of the National Reference Group (NRG), held on 22nd of November, 2001. The purpose of the meeting was to come up with recommendations, which the project would seek to have addressed by influencing the relevant stakeholders. As a result of this concern, although it was noted that the less of focus was a result of the Act, the NRG members recommended that "ZCC should address the concerns of small-scale sector"[8]. ZCC was represented in the meeting and agreed to take the issue forward.

2.5.2 Following the project, there was a noticeable change in approach of ZCC towards the small scale sector. Examples include ZCC directing a monopoly retailer (Shoprite of South Africa) to purchase farm produce from the small scale farmers rather than importing and ZCC holding discussions with the multinationals in the tobacco, cotton and poultry sectors to stop abusive practices against small scale farmers[9]. The cotton example

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[7] http://www.cuts-international.org/7up3/7Up3-enewsIV.htm

[8] CUTS, 2002, Enforcing Competition Law in Zambia page 42, a report published as a part of the 7-Up Project supported by DFID, UK.

[9] George Lipimile, Former Executive Director of Zambia Competition Commission during a presentation at the Interim Review Workshop for the project 'Strengthening Constituencies for effective competition regimes in select West African Countries', (7Up4), funded by DFID and IDRC available at http://www.cuts-ccier.org/7up4/ppt/PPT-IRM-Contribution_Of_Competition_To_Growth_And_Poverty_Reduction.ppt

can be elaborated on. In 2005, ZCC saw a report in a local newspaper, *The Post,* where women farmers in *Katete* were calling for a review of farming contracts as they were being abused by the dominant firms. Two multinationals (Dunavat and Cargill Cotton) were dominating the market with a CR2 of 83.49% and abused the outgrower scheme by charging high input prices and paying a low final price. Before ZCC's intervention, they paid a price of ZK850/kg for grade 'A' cotton while charging the input prices at ZK40,000 per pack. While investigations were still underway, Dunavat indicated that they were now reducing input prices to ZK36,000 while increasing the planting price to ZK1,000/kg. Cargill also decreased input price for the 2006 season by 28% and increased the buying price to ZK1,120/kg. According to Cargill's estimates, the changes gave an average farmer an additional net income increment of 75% compared to the previous year[10]. One can well imagine the huge multiplier effects of these systemic changes on poor people and particularly their livelihoods.

3. Concluding Remarks

3.1 The above few cases demonstrate the contribution that CUTS activities on competition reforms supported by DFID, UK has been able to make in ensuring the welfare of poor people in developing countries. Contributions made in terms of linking ordinary people with important institutions like banks, assisting small enterprises, making affordable housing available for them and improving availability of nutrition at low prices are only a few examples of how the competition reform projects supported by DFID, UK is making a difference in the lives of the poor people across the developing and least developed countries.

3.2 The other aspect also evident from the above examples is how CUTS projects across Africa and Asia are developing the capacity of the civil society organisations to emerge as credible advocates for *making markets work for the poor*, especially in countries where competition authorities have either not been established or have lacked capacity to effectively enforce the competition laws.

3.3 CUTS values its partnership with DFID, UK on competition reforms, and expects this allegiance to strengthen further over time. In addition to strengthening the capacity of civil society organizations, CUTS also recommends the need for DFID, UK to work with competition authorities and transform them into effective public institutions. CUTS lauds DFID's plans to develop the *Africa Competition Forum*, and hopes that this can be launched soon.

[10] The specific details on the prices were obtained from Kaira T (ZCC Executive Director), "The Role of Competition Law and Policy in Alleviating Poverty – The Case of Zambia" in 'The effects of anti-competitive business practices on developing countries and their development prospects', UNCTAD, 2008.