

## Outline of the Diagnostic Country Report (DCR)

### CREW Project

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#### 1. Introduction

1.1 The project entitled, ***Competition Reforms in Key Markets for Enhancing Social and Economic Welfare in Developing Countries*** (CREW project) is being implemented by CUTS with support from DFID (UK) and BMZ (Germany), facilitated by GIZ (Germany). Two sectors would be studied under the CREW project: (i) ***staple food*** and (ii) ***passenger transportation***, across four countries: ***Ghana, India, The Philippines and Zambia***.

1.2 The purpose of the project is to assess the state of competition in the selected sectors and countries, especially focusing on the impact that past and existing public policies, regulations, private sector business practices, institutional arrangements and other factors have had on consumer and producer welfare. Specifically, the goal of the project is: *to better demonstrate measurable benefits from effective competition reforms in DCs, for ensuring long-term support for competition.*

1.3 Further, the project would be implemented guided by the following objectives:

- Enhance understanding of benefits from competition reforms in DCs (consumers & producers)
- Develop & test a methodology to assess efficacy of competition reforms in benefitting consumers and producers in specific markets
- Advocate to key actors (National & International) for greater support to competition reforms in key markets
- Sustain momentum on competition reforms and take it forward

1.4 The term ***competition*** as defined in the project refers to the nature and extent of actual (and potential) rivalry, between firms in the marketplace for the patronage of customers. Through the process of competition, firms confront pressures to offer products and services at lower prices, and provide greater choice and quality to consumers, while lowering costs through more efficient use of resources. It is widely accepted that ***competition*** is importantly determined by (a) ***structure of industry*** - such as the number and size distribution of firms, concentration levels, barriers to entry, and the nature and type of

business conduct firms engage in; and (b) **range of government policies and regulations** impacting on the “business environment” - those dealing with domestic and foreign investment, establishment of firms, prices, licensing, technology, among other factors. These two sets of factors will need to be analyzed in conducting the ‘competition assessment.’

1.5 **Competition Policy** refers to government policy to maintain and promote a competitive environment among market players. It includes measures such as *competition law* to rectify and deter anticompetitive business practices, and *competition advocacy* which entails identifying impediments to competition arising from government policies and regulations, and constructively suggesting corrective reforms to lower the regulatory burden and cost of doing business. In support of the development process, various government policies and regulations, and private business behaviour need to be coherent and consistent with the principal objectives of competition law and policy in order to foster competition and competitiveness, efficient allocation of economic resources, investment and sustainable broad based economic growth and development.

1.6 The project has derived a working definition of **competition reforms**, as an aggregate of the following components:

- Enabling **government policies** designed to facilitate a level playing field (fair competition) in a sector
- Well-designed **regulatory framework**, adequately resourced **regulatory institutions & effective actions** for promoting fair competition in a sector
- Well defined **competition legislation** and effective **enforcement** mechanisms.

1.7 Not all the four countries selected have competition law and policy in place. Some countries such as the Philippines, has in the past failed in enacting a comprehensive competition law and policy and is in the process of drafting and re-introducing legislative proposals. Ghana has enacted a competition law which has yet to become operational. Compared with India, Zambia has been administering its competition law and policy for more than a decade. Since the length of time, experience, content and administration of

competition law and policy differs between the selected countries, it provides a basis for drawing useful comparisons and lessons.

1.8 **Consumer welfare** effects would be examined using the following indicators:

- Access: Goods and services reach consumers in areas where they were not available earlier
- Quality/Price: Better quality goods and services are available for consumers without any appreciable increase in prices of such good/services
- Choice: New firms/products enter otherwise ‘concentrated’ markets, for the benefit of consumers
- Price: Prices are reduced to the relief of consumers
- Time savings by consumers

1.9 Similarly, **producer welfare** would be assessed on the basis of the following:

- Access to essential services: Firms can easily access infrastructure networks, etc.
- Free movement of goods and services: Mobility not affected by policies, practices (inputs & outputs)
- Predictability of regulatory actions: Legislations enforced by autonomous yet accountable institutions
- Cost savings: Effective implementation of strategies to reduce costs, e.g. improved application of ICT tools
- Fair market processes: Easy entry and exit in markets; considerable ‘ease of doing business’
- Level-playing field: principle of ‘competitive neutrality’ observed
- Transparency in market: Well laid out policies and predictable implementation processes (market regulators)

## 2. Sectors

2.1 The sectors have been selected because of their relative importance in the consumer budget, especially the poorer segments of society, and in the economy generally. While the studies will be focused on the selected sectors, the research-analysis will also examine the nature and extent to which certain policies and regulations may have a broader ‘systemic’

impact, that is affect other related sectors and the economy as a whole. Sector or market specific studies often provide a window on broader set of issues and problems that may be confronting the economy, and adversely affect investment, output, growth and economic welfare. These issues and problems may unnecessarily impose costs on 'doing business' and raise issues of rent-seeking and governance, thereby undermining public support for the government and its policies, and for a market driven economic system.

### Staple Food

2.2 The purchase and consumption of food forms a large part of the family budget and daily life of any household. It bears directly on the health and well-being of society. It is important to ensure that food related products are efficiently produced, processed, transported and distributed. In the food 'value-chain' there are a number of economic players from the farm gate to the retail level. Lack of competition at any one stage, whether upstream or downstream can have a negative ripple effect, the costs of which are ultimately in part if not completely borne by the final consumers. The lack of effective competition, as suggested above, can arise from anti-competitive business practices and/or from government policies and regulations which need to be reconsidered and reformed.

2.3 Three components of supply chain will be examined in the staple food sector, i.e.: **i) procurement, ii) storage and iii) distribution/marketing**. Country-specific markets have been selected on the basis of the discussions in the countries with key stakeholders and experts. In **Ghana** it would be either **maize/rice** since rice is becoming equally popular in the country. In **India** it would be **wheat/rice** depending upon the states selected for the study (the field research would be undertaken in 3 states of India). In **The Philippines** it would be **rice** as that is the staple food of the country. In **Zambia**, **maize** is the selected staple as it is preferred in both forms coarse and processed. Further, in some countries, staple food processing entities (millers) constitute an interesting segment of the value-chain and would be examined both as a sub-market and also for implications on consumers (quality, choice and price – mainly).

### Passenger Transportation

2.4 Passenger transportation is an important sector for **inter-and intra-city** travel, bringing consumers, labour and also sellers/SMEs to markets. A competitive passenger transportation sectors broadens and increases size of markets, competition, productivity and employment among other benefits.

2.5 The analysis is expected to identify policies, regulations, business practices, institutions, and other related factors, have/have not contributed to the objectives of providing consumers, especially the poor, with affordable staple food and passenger transportation. Also to provide insights, comparative experiences and lessons from the selected countries to address identified problems and issues and, to better formulate and administer relevant policies and regulations in this regard.

2.6 In the passenger transport sector the focus would predominantly be on **bus transport** in all the project countries as this market has direct impact on the consumers and producers/traders on a day-to-day basis. This sector also has a good scope of private intervention and operations. In case of **inter-city bus transport**, the research would analyse consumer and producer welfare in **two busy inter-city routes** each in case of Ghana, The Philippines and Zambia. In India, **one busy inter-city route** would be examined in **three states**<sup>1</sup> of the country. In case of **intra-city bus transport**, the situation in **one city** would be examined in Ghana, The Philippines and Zambia. While, in case of India, this examination would be undertaken in **three different cities**.

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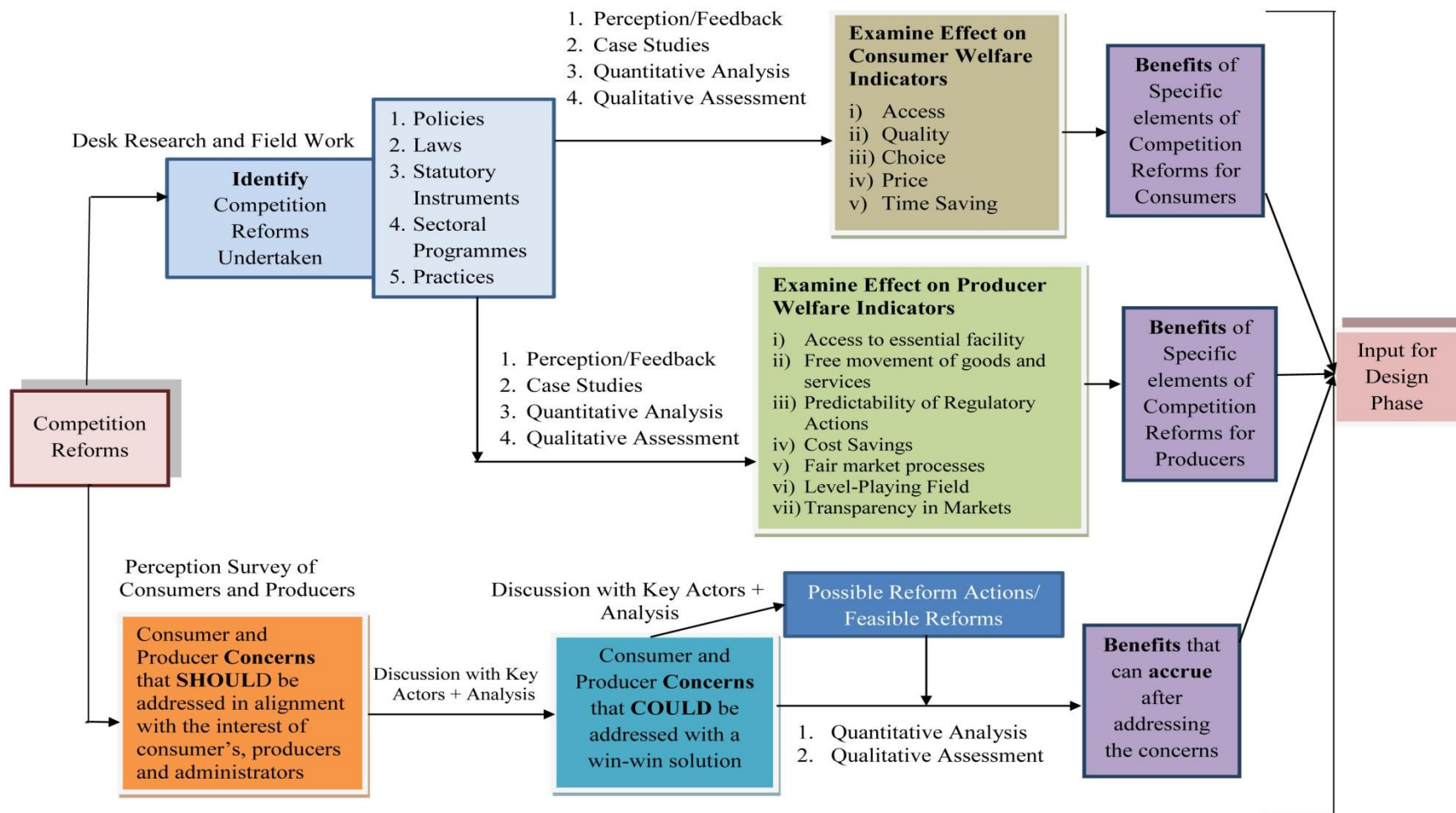
<sup>1</sup> Indian states have followed three main models of service provision, when it comes to bus transportation: (i) largely public, (ii) largely private and (iii) public-private.

2.7 On the basis of initial research and discussions with experts and practitioners, consumer welfare and producer welfare in the two sectors have been defined as in the table below:

	STAPLE FOOD	PASSENGER TRANSPORT
<b>CONSUMER WELFARE</b>	Availability of good quality staple food at right prices for ordinary consumers	Availability of good quality transport services to ordinary consumers at right prices within city (intra-city) to get to workplace, markets, college/university on a daily basis & also on busy inter-city routes
<b>PRODUCER WELFARE</b>	Participation of private entities in procurement, storage and distribution of staple food and how they benefit  Right price and fair terms for producers (and their groups) in : both inputs and outputs markets	Ease of entry of 'new players' (an operator) in a specific geographic market for providing such services  Fare and terms of service in case of Inter-city Transport services for small traders travelling to nearest market town to sell their produce

### 3. Conceptual Framework for the Phase I

3.1 The conceptual framework for the Phase I is presented below. It provides an idea of how the project envisages collection of relevant information from the sectors/markets and using the same for developing the DCR.



#### 4. Diagnostic Country Report (DCR)

4.1 The DCR is the first deliverable of the CREW project. On the basis of the discussions at the Inception Meeting of the project held in March 2013 in Jaipur (India) and consultations with ‘partner organisations’ it was decided that a first round of exploratory visit (*Fact Finding Mission*) would be undertaken in the countries to familiarise the project implementation team with key institutions, important issues in the two sectors and existing literature/information pertaining to the overall state of competition in the countries, and specifically about the two sectors.

4.2 These Fact Finding Missions (FFMs) proved extremely important for the project team and helped refine the idea about the components of the DCR. These **components** have been enumerated below:

- Identify **elements** of competition reforms (policies, legislation, statutory instruments and sectoral programmes) to be examined in each sector
- Identify **institutions** with the responsibility to carry out these reforms – assess performance & analyse challenges
- What were the objectives of these reforms and were they achieved? How or Why Not?
- Assess **implications** of these reforms on consumers and producers – benefits and losses
- Highlight **concerns** that consumers and producers still have in spite of these reforms and isolate **factors**
- Estimate how addressing some of these causes can help **overcome** these concerns

#### 5. ToR of DCR

5.1 In this section, we provide an overall idea about the Terms of Reference (ToR) of the DCR for a particular sector. The ToR would consist of the following six sections.



## **Section A: Identification of components of Competition Reforms in a Sector**

### **Key Questions**

- What do we mean by competition reforms<sup>2</sup> in the transportation sector?
- Specifically, identify components of competition reforms in the transportation sector from among the following:
  - (a) Policy:
  - (b) Legislation:
  - (c) Statutory Instrument:
  - (d) Sectoral Programme:

### **Methodology**

- Desk Research & Analysis
- Mapping of Key Stakeholder(s) in the sector
- Personal communication with key stakeholders

## **Section B: Competition Reforms and impact on Market Structure**

### **Key Questions**

- For each of the components of competition reforms as identified above, assess:
  - (a) What was the objective of each component of reforms?
  - (b) What was the nature of the market<sup>3</sup> (and players) before each reform was undertaken, at the time when the reform was undertaken and after a specific reform has been undertaken?

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<sup>2</sup> **Competition reforms** is aggregate of the following components:

- Enabling **government policies** designed to facilitate a level playing field (fair competition) in a sector
- Well-designed **regulatory framework**, adequately resourced **regulatory institutions & effective actions** for promoting fair competition in a sector
- Well defined **competition legislation** and effective **enforcement** mechanisms

<sup>3</sup> Nature of market analysis would be done using Michael Porter's (1985) "Five Forces" framework

Component of Competition Reform Undertaken	Objective of the Competition Reform Action	Nature of Market and Players (Analysis to be done using Michael Porter’s “Five Forces” framework)		
		Before the reform was undertaken	At the time the reform was initiated	After the reform was undertaken

**Methodology**

- Desk Research & Analysis
- Information gathering from reliable data sources

**Section C: Examination of Implication of Competition Reforms**

**Key Questions**

- Examine what implication did a particular component of competition reforms have on the consumer (using the indicators of ‘consumer welfare’ to assess the implications)?
- Examine what implication did a particular component of competition reforms have on the producer (using the indicators of ‘producer welfare’ to assess the implications)?

**Methodology**

- Perception Survey (Consumers and Producers)
- Review of secondary data sources that may provide idea of the implications
- Case Study
- Quantitative methods (ex-post) – using tools/methods that have already been used for such analyses

## **Section D: Assessment of 'consumer and producer concerns' in the sectors**

### **Key Questions**

- What 'concerns' existed for consumers and for producers before the competition reform actions (those identified above) were undertaken?
- What 'concerns' still remain, even after the competition reform actions have been undertaken?
- Why do these concerns still remain?

### **Methodology**

- Perception Survey (of Consumers and of Producers)
- Review of secondary data sources that may provide idea of the implications
- Case Study

## **Section E: Dealing with 'residual concerns' of consumers & producers**

### **Key Question**

- What further reforms are required to deal with the 'residual concerns' faced by consumers and producers, even after reform actions were undertaken?

### **Methodology**

- Qualitative information - Focus Group Discussions (with Consumers and/or their representatives)
- Qualitative information - Focus Group Discussions (with Producers and their associations)
- Feedback from policymakers about what reform actions are feasible and policymakers might be convinced about?

## **Section F: Benefits from possible reforms**

### **Key Question**

- Estimate what benefits can accrue to consumers and to producers if the above-mentioned reforms are undertaken to deal with the 'residual concerns' in these two sectors?

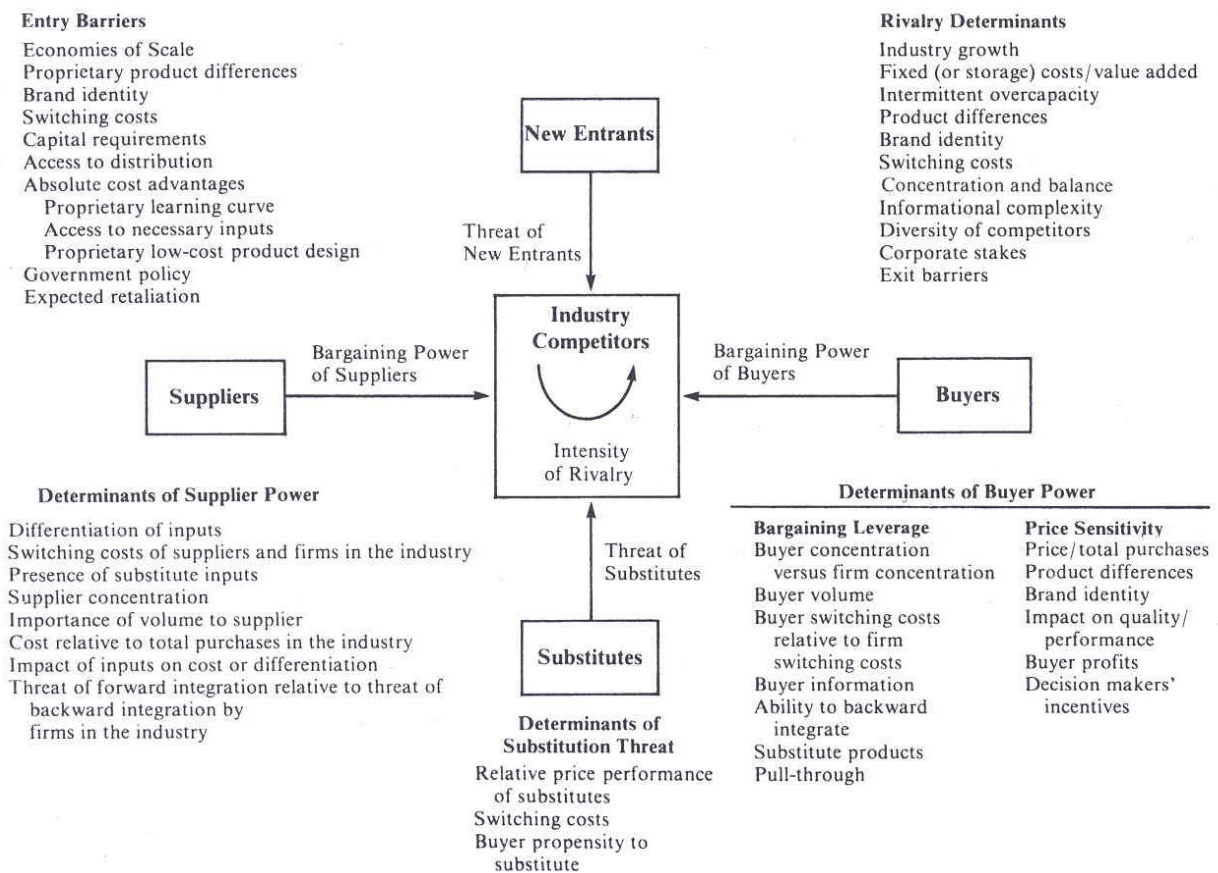
### **Methodology**

- Qualitative information - Focus Group Discussions (with Consumers and/or their representatives)
- Qualitative information - Focus Group Discussions (with Producers and their associations)
- Quantitative information – using existing tools that have also been used by competition agencies/others

## Annex I

### The Determinants of Market Structure and Competition

The determinants of market structure and competition are numerous and multi-dimensional. These are succinctly illustrated by Michael Porter (1985) in the following diagram which is quite self-explanatory. The diagram often referred to as “Five Forces” provide a framework for conducting competition assessments of industries and markets.



Elements of Industry Structure

Source: “Competitive Advantage” by Michael Porter (1985), Free Press, New York (p. 6)