

Competition Reforms in Key Markets for Enhancing Social & Economic Welfare in Developing Countries (CREW Project)

REPORT – NRG I MEETING, INDIA – JULY 24, 2013

INTRODUCTION

CUTS is undertaking a project entitled “Competition Reforms in Key Markets for Enhancing Social and Economic Benefits in Developing Countries” (CREW Project). The Project is being implemented with the support from DFID (United Kingdom) and BMZ (Germany) facilitated by GIZ (Germany), over a period of three years (November 2012 October 2015) in four countries: Ghana, India, The Philippines, and Zambia across two common sectors: i) Staple Food and ii) Passenger Transport.

The CREW project aims to develop an approach (with a suggested combination of indicators, metrics and tools), which would help in assessing impact of competition reforms on consumers and producers in two selected markets.

The purpose of this study is to assess the state of competition and competitiveness 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 economic welfare broadly defined.

PURPOSE OF THE MEETING

The purpose of the meeting was to mark the first interaction of the project implementation team with the National Reference Group (NRG) members. The NRG is composed of multi-stakeholder experts and practitioners from various groups of competition scholars, and sectoral stakeholders comprising of 15 members in each of the project country. The aim was to discuss the project progress and the country specific methodology for undertaking research in Phase I.

PROCEEDINGS

INAGURAL SESSION

The meeting started with the inaugural address by Pradeep S. Mehta, Secretary General CUTS International. He emphasised on the fact that this project would bring forth a comprehensive assessment tool to measure competition. He went on to say that even though this project is being implemented in four countries, large number of CUTS’ projects, undertake a comparative analysis of the lessons across the project regions.

This was followed by opening remarks made by Shyam Khemani, Senior Advisor, CUTS International. Shyam stated that Competition cannot be looked at in isolation. It takes into account service, entry and exit of players etc. but measuring the impact of this competitive process is a challenge. He further emphasised that competition not only takes into account the interaction within the firms, but also looks at the interaction within the governments.

Shyam highlighted that this project would bring forth interesting insights as both the project sectors see high public sector involvement in its operation. The project aims to identify the methods to promote competition that can be extended beyond the two project sectors and the four project countries.

SESSION I – PROJECT ACTIVITIES AND PLANNED ACTIVITIES IN PHASE I

Raksha Sharda, Assistant Policy Analyst, CUTS International delivered a presentation by introducing the CREW Project to the NRG members, outlining the goals, objectives and outcomes. She also highlighted the country-specific activities in Phase I and planned activities till the 2nd NRG Meeting and finally what are the expectations from the NRG members.

The initiative would be undertaken in a phased manner:

- i. Phase I (Diagnostic Phase): This is a Research and Consultation phase. In this phase, the assessment of implications of competition reforms in specific markets would be undertaken; the benefits and causes of existing consumer & producer concerns would be identified.
- ii. Phase II (Design Phase): This is a design and consultation phase. In this phase, a composite methodology would be designed to quantify (actual & potential) benefits of competition reforms.
- iii. Phase III (Validation Phase): This is an advocacy and public education phase. In this phase, the veracity of this methodology would be tested in some micro-locations in project countries; and the results would be used for advocacy.

The CREW project actors is two tiered 1) **Programme level** at the Headquarters consisting of implementation team and the Project advisory Committee (PAC) and 2) **Country level** consisting of country partner organization, National Reference Group (NRG) and national entities. The role and expectation from the NRG members include:

- Guidance & support in project implementation
- Inputs in designing components of research
- Review important project documents - Diagnostic Country Report, Framework for Competition Promotion (FCP), etc.
- Access to country-specific network of institutions for data (literature, statistics, market environment, etc.) and project application tools
- Participate in project meetings
- CREW findings would help them in their own work agenda

The main activity of Phase I comprises of preparation of the Diagnostic Country Report (DCR). The DCRs would provide the input for designing the Framework for Competition Promotion (FCP) which would be developed in Phase II of the project and subsequently validated by applying the same in micro locations within each of the four countries in Phase III. Country partner organisations have been identified in order to oversee/manage the process of implementation of the project activities in the countries. In India, Indicus Analytics, would be responsible for undertaking the research work for Phase-I in consultation with the sector experts.

The project progress and planned activities was also discussed during the presentation. They are summarised below:

- **Inception Meeting:** The aim of this meeting was to select the Countries and sectors for the CREW Project.
- The review of literature for the reforms in the two sectors ensued to identify the key stakeholders to be engaged during the course of the project.
- **Opening Meeting & Fact Finding Mission (FFM) in project countries** (April to May, 2013) – These meetings took place in each of the project countries in collaboration with the country partners. The aim of the opening meeting was to orient the country specific stakeholders about the project and its activities. The objective of the FFM was to get an overall idea of both the staple food and passenger transport sector in the Philippines, to identify the whole set of reforms and from it filter it to competition reforms and what has been the implication (benefits/losses) of such reforms on both the consumers and producers.
- The market to be studied under staple food and passenger transport sectors were finalized after the opening meeting. It has been illustrated below:

Countries	Ghana	India	The Philippines	Zambia
Staple Food	Maize/Rice	Wheat	Rice	Maize
Passenger Transport	Bus Transport in all the project countries focusing on two sub-sectors: (i) Inter-city bus transport and (ii) Intra City bus transport			

- **Outline of Diagnostic Country Report (DCR)** –The outline of the DCR was formulated and this would serve as a common template for the DCR across the project countries.
- **DCR Research Methodology** – The common DCR methodology, containing the suggestive research approach for the CREW Project, was then developed by Nathan Associates. This DCR methodology would then be moulded to the country specific context and further refined.

FLOOR DISCUSSIONS

TCA Srinivas Raghavan, Editorial Adviser to CEO, Kasturi and Sons, questioned the selection of bus transport as the chosen sector. CUTS team explained that there is higher scope of private sector participation in this sector and therefore, the scope of measuring consumer and producer welfare through competition is more. The discussion further went on to stress the need to look at the cities in India differently as each state has its own regulatory and tariff structure.

S. Sriraman, Professor of Transport Economics, University of Mumbai and also the Sector Expert for Passenger Transport for the CREW Project in India, added that there are two kinds of facilities in the transport sector. One is the fixed facility such as the roads, railways etc and the other is a mobile facility such as the buses. In mobile facilities the investments needed are lower and therefore they have a better scope of intervention from the perspective of competition. One important point highlighted was the clear differentiation between stage carriages and contract carriages for the purpose of the study as in India the line of difference between the two is very thin.

Arvind Kumar, Senior Fellow, CUTS Institute for Regulation & Competition (CIRC) further emphasised the issue of differentiation between contract and stage carriages. He pointed out that India has unique regime for bus transport. Most of the private operators act as contract carriages. In bigger cities the auto rickshaws run as stage carriages. Therefore, it would be critical to understand the differentiation between the two modes.

Chittaranjan Dass, Secretary General, All India Confederation of Goods Vehicle Owners' Association stated that transport sector is developing in a moribund manner. The project would prove to be an essential input to the government to review the transport policy in India. Mostly the State Road Transport Units (SRTU) is running heavily under losses. This project would provide a good point of analysis for the capacity of the routes. On the point of differentiation between goods transport and passenger transport, he added that passenger transport operates on the point to point basis.

KL Thapar, Chairman, Asian Institute of Transport Development added that in the context of both passenger transport and India, care should be taken to identify the sample location. He suggested three segments for the sampling 1) locations where SRTU's have a primary role, 2) States where there are multiple state transport operations and 3) States where private sector has a major function.

Rijit Sengupta, Director, CUTS International pointed out that the focus of the project is the ordinary consumer. Intra-city bus transport is complex in India as different states have different dominant players. But the project focuses on three other countries that use local / mini busses for transport. Therefore for the sake of cross comparison, it is best to focus on bus transport.

Pradeep S. Mehta, Secretary General, CUTS International summarised the discussion by highlighting few insights from the discussion: 1) It is not mandatory that there would be a presence of competition in the bus transport sector, 2) There is a regulatory deficit in the states in both the sectors and the sectors face implementation challenges and 3) If the time frame allows, the study could also focus on the impact reforms in the related sectors have on staple food and passenger transport sector. For e.g. how does the change in fuel prices affect the availability of passenger transport for the end consumer.

Shyam Khemani, Senior Advisor, CUTS International, pointed out that there is a suggested framework by way of Porter's Five Forces Model. The nature of competition and market structure are defined in the model. In order to assess the state of competition and the market practices, it is important to identify the different forces prevalent in the market.

SESSION II: OVERALL DIAGNOSTIC COUNTRY REPORT METHODOLOGY

In this session a presentation on the overall research methodology for the Diagnostic Country Report was made by Ram Tamara, Principal Economist, Managing Director, Nathan Associates Inc. and Kristen Harkins, Associate Advisor, Nathan Associates Inc. With a brief introduction about the project, the presentation explained in detail the conceptual framework for Phase-I, objectives of the Diagnostic Country Report (DCR), steps involved in the DCR, identification of stakeholders for both staple food and passenger transport sector, determination of hypothesis, identifying the variables and various sources of data collection, sampling methodology and type of analysis (qualitative and quantitative) and finally the potential issues related to the overall DCR. Some of the main points brought forward during the presentation were:

- Use of the terminology consumer and producer benefit instead of consumer and producer welfare.
- There is a need to identify the regulatory landscape, business practices that are applicable for both the sectors and then shortlist the ones that has led to competition or competition enhancing reforms.
- Both the reforms that have taken place and reforms which could take place and promote competition should be studied in this project.
- Though identifying competition reforms can be a challenge in this project, but the OECD's Competition Assessment Toolkit will act as a guide for selecting the reforms.

Shyam Khemani, the chair for the session stated that the overall DCR methodology provides a roadmap to undertake desk research and field work in the project countries (Ghana, India, The Philippines and Zambia) and a thorough analysis of the topography of the countries is essential as it will facilitate in finalising the country-specific research methodology for the DCR.

India specific research methodology was presented by Indicus Analytics (research partner) highlighting in detail the methodology for undertaking research and sampling framework for both staple food and passenger transport.

FLOOR DISCUSSIONS

- As pointed out by **K.L. Thapar**, there is a need to emphasize on societal benefits and not only consumer and producer benefits. There are various problems emerging due to the structure of taxation in India and a thorough analysis of the same is essential for this project. Further, defining the parameters of quality is crucial which is one of the indicators of consumer welfare, stated by **Poonam Pandey**, Technical Adviser, GIZ India. Also, some of the reforms might be in the initial stages of implementation and there might not be enough data available, thus it is important to define the norms against which the CREW project is looking at the welfare as suggested by one of the NRG members **V.C Mathur**, Principal Scientist & Professor Division of Agricultural Economics, Indian Agricultural Research Institute.

- While discussing on the states and cities to be finalized in India for both staple food and passenger transport, **Rijit Sengupta** brought forward a useful comment made by the PAC members that what would be the usefulness and impact of using the difference-in-difference analysis. In majority all the NRG members agreed upon looking at difference in difference analysis while finalising the states and cities for India. As suggested by **Ram Tamara**, two states in the staple food can be looked upon, one where sufficient reforms have taken place and the other where there are no reforms as this provides useful insight and will be easier to relate the outcomes as a result of reforms. It is important to study the past and the present situation of the states, the progress/failure in terms of the reforms undertaken and reasons behind the same will provide useful insights to this project.
- Since some of the major states have shown rapid progress *vis-à-vis* some states which have not made any progress so far in the staple food sector, APMC act and the Model APMC act should be thoroughly examined. Also, the existence of collusive practice in the agricultural market and regulation in this market is very important and can be highlighted through this project stated **Rajesh Chaddha**, Senior Fellow, National Centre for Agriculture Economics and Policy Research. He also added that a recommendation can be made to the Government of India (GoI) for a Model Act for the method of taxation in the transportation sector on similar lines of the Model APMC act.
- In terms of data availability, **B.K. Durai**, Sr. Principal Scientist & Head, Planning, Monitoring and Evaluation Division, Central Road Research Institute stated that their institute has done a lot of research work on studying the impact of fluctuation in price of diesel and petrol on the fare prices and data availability will not be a problem. Further, corruption and taxation issues in the transportation sector impede the development of this sector and unless there are any significant reforms in the taxation system much cannot be achieved, highlighted some of the NRG members.

COMMENTS BY THE SECTOR EXPERTS

- Some of the main comments made by the sector expert (staple food) **Prof. P. G. Chengappa** is:
 - Matrix analysis (policy analysis) is important and should be developed.
 - Emphasis should not only be on output market but also on input market. Though the GoI is encouraging private banks to lend to the priority sectors, but the banks hardly give loans to these sectors and as a result they are being fined by the Reserve Bank of India (RBI).
 - Labour market analysis is crucial and critical since in the present scenario there is shortage of labour in the agricultural sector.
 - Inter-locking of markets is essential; Research & Development (R&D) effect across all countries should be examined as it provides useful cross-country analysis.
 - The level of technological support and private participation and how is it affecting this sector should be examined.
 - The focus should be more on the small farmers and the linkage between the small farmers and the market.

Finally, sampling framework should also include banks, commodity exchanges, NGO's and the role played by them.

- Comments made by the sector expert (passenger transport) **Prof. Sriraman** during the NRG meeting is summarised below:
 - Bus transportation sector requires analysis both from the access and environmental perspective.
 - Various committees have been set up since 1960 for the taxation issues, but this sector has not witnessed any major changes.
 - Since road transport is a state subject in India, there is a need to look more carefully if the Model Act would work efficiently.

- The Motor Vehicles Act (MV Act) is still the regulatory framework for road transport and examining this act in detail will provide valuable insights to the CREW Project.
- In terms of the state and city selection some of the suggestions made by him were: Orissa because of huge private sector intervention in this state; Karnataka has gone through a lot of reforms, Bangalore as a city for intra city analysis is a good case.
- Simple regression analysis will be a better method of analysis than two stage least square (2SLS) method.
- Finally, he added that labour shortages, backward bending supply curve and elasticity in the transport sector is crucial. Various research works has been done on this sector and can serve as the literature review, however it is important to define the time frame of this study.

CONCLUDING REMARKS

In his concluding remarks **Udai S. Mehta**, Associate Director CUTS stated that all the inputs from the floor discussions and comments made by the sector expert will be collated in localising and finalising the DCR (India specific). He further added that the CREW Project is not an academic exercise instead it is one such study which aims at gathering and quantifying evidences to demonstrate gains from competition reforms and use the outcomes for advocacy and generate awareness among various stakeholders.