

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

REPORT – FIRST NATIONAL REFERENCE GROUP MEETING - ZAMBIA

9th August, 2013

1 INTRODUCTION

CUTS International is undertaking as part of a project entitled “Competition Reforms in Key Markets for Enhancing Social and Economic Benefits in Developing Countries” (CREW Project). The CREW Project is being implemented by CUTS 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 and the two 'market' studies to be undertaken include: i) staple food and ii) passenger transport. The Project aims to develop an approach which would help in assessing impacts (welfare gains and losses) of competition reforms on consumers and producers in the two selected markets. The main focus will be to assess the impact that past and existing policy reforms, regulations, institutional arrangements and other factors have had on economic welfare of the countries. The goal of the project is: to better demonstrate measurable benefits from effective competition reforms in developing countries, for ensuring long-term support for competition.

The purpose of the meeting therefore was to discuss the project progress and planned activities for Phase I. The aim was also to discuss the research methodology with the National Reference Group (NRG) members and formulate a guideline to mould it in country specific context.

3. PROCEEDINGS

Welcome Remarks, By Joseph Simumba, Research Fellow, Institute for Policy Analysis and Research (ZIPAR)

The meeting was opened by Mr Joseph Simumba, Research Fellow, ZIPAR. Whilst welcoming and thanking participants for their attendance, he stressed that the project was being undertaken at an opportune time when the debate on growth and its impact on the livelihood of citizens was ripe in Zambia. He said that the two sectors identified under this project were key in understating the broad context of consumer and producer welfare gains hence stressing that the project was relevant to a developing country like that of Zambia.

3.1 OPENING SESSION

Remarks by Mr Rijit Sengupta, Regional Director, Africa, CUTS International

Rijit Sengupta, gave a brief introduction to the project and the meeting. Starting with the former, he mentioned that the project (Competition Reforms in Key Markets for Enhancing Social and Economic Benefits in Developing Countries – abbreviated as CREW Project) aims to develop an approach, which would help in assessing impacts of competition reforms on consumers and producers in two selected markets. He added that the main goal of the project was to demonstrate the benefits of competition

reforms so that greater attention and support can be provided to this issue. He thanked participants for agreeing to CUTS' request to be part of the NRG of the project and specifically to ZIPAR for being a research partner to the project.

Remarks by Professor Fredric Jenny, CREW Project advisory committee chairman,

Prof. Jenny began by giving an illustration on the dynamics surrounding the motivation of the study. He said there had long been a demand for a study that would pragmatically show how competition contributes to economic development. Therefore, he informed the participants that the CREW Project was therefore about evaluating the reforms which support private sector participation broadly (and competition reforms narrowly) and weighing the benefits of such reforms on consumers and producers. He stressed that Competition can conjure economic benefits in the long run but the unexplored area was on how to gauge or weigh such benefits - a gap which the CREW project envisages to address.

He cautioned that there were essentially two kinds of difficulties in assessing such reforms. He cited them as domestic reforms and the reforms that are as a result of regional and global initiatives and thus encouraged that it was important to look at all these aspects if economic performance was to be measured.

Address by Ambassador Albert Muchanga, Director Domestic Trade, Ministry of Commerce, Trade and Industry (MCTI)

Ambassador Muchanga, who represented the Permanent Secretary of the Ministry, Mr Steven Mwansa stressed that the ministry was in full support of the project. He indicated that government was open to partnerships with non-state actors and applauded the initiative by CUTS International and for inviting the ministry to be part of the National Reference Group of the project. He informed the participants that the ministry was government's nodal point in the promotion of public and private sector (competition) reforms in Zambia hence the Competition and Consumer Protection Commission and the Competition and Consumer Protection Tribunal were under the ministry. He also mentioned that the Private Sector Development Reform Programme (PSDRP) was housed at the ministry before moving to cabinet office. Therefore, he stressed that any study or intervention which could help give feedback on government programmes was always welcome to the ministry. He stressed that competition reforms were initiated in the 90s and there wasn't any study undertaken to unpack the gains and losses for producers and consumers hence welcoming CUTS initiative.

3.2 SECOND SESSION

Presentation on the Project Outline, Progress and Planned Activities (Phase 1)

This presentation was given by **Simon Ng'ona**, Center Coordinator, CUTS International-Lusaka. He re-echoed the importance, aim and the goal of the project (as highlighted in the opening session). He stressed that measuring of consumer and producer benefits in the Zambian context was a contemporary issue which could affectively inform policy choices in the time when there were a number of policy inconsistencies. He further informed the participants that the project would be implemented at three levels i.e. Phase I (Diagnostic Phase), Phase II (Design Phase) and Phase III (Validation Phase). In summarizing his presentation, Ng'ona explained the role of the NRG members. He said the NRG was a group of experts and practitioners composed of sector regulators, competition scholars, Civil Society Organisations, practitioners and sectoral experts. This group will meet periodically to discuss the project

progress and issues while also providing guidance and support in project implementation including reviewing the DCR and the framework for competition promotion (FCP).

Floor Discussions:

- **Emmanuel Chokwe** from the Competition and Consumer Protection Commission (CCPC) cautioned on the need to differentiate inter-city and intra-city passenger transport and as the two had different market characteristics.
- **Mr Dismus Banda**, from Commuter Rights Association of Zambia (CRAZ) was concerned on the geographical areas to be chosen for the transport sector study and the pricing dynamics thereof. He questioned on whether the study will look at both ordinary commuters/passengers (those going for work) as well as those in small scale businesses who depend on the same transport system for their businesses.
- **Rijit Sengupta** in response to Emmanuel Chokwe and Dismus Band explained the different approaches that will be taken in addressing the inter-city and intra-city public passenger transport. The project will look at the frequency of people using buses and the impact of the reforms that have been undertaken in these two aspects of the transport sector in order to have data which was representative of the sector. The small traders using buses for commercial purposes would not be considered. However, if they form a considerable share of the commuters on the selected routes, a case study approach can be taken at a later stage. On inter-city, the study will look at two busy routes within the city while for intra-city, two routes will be considered. For example the route between Lusaka-Livingstone and Lusaka- the Copper belt could be chosen
- **Peter Miller from Nathan Associates** added that there are two forms of barriers that affect the presence of competition in the market - namely regulatory barriers and strategic barriers. He explained that regulatory barriers are the barriers to entry which may be stipulated by law. He cited the Railway sector as an example. He mentioned that infrastructure for this sector may only provide for a few players to engage in this sector and the fewer the players the less competitive the industry would be. To explain the strategic barriers he referred to instances where entry of new players was being prevented by some dominant players in the market. These were strategies that players used in order to keep their customer base intact for themselves and were anti-competitive in nature.

3.3 THIRD SESSION

Presentation on Overall Diagnostic Country Report (DCR) Methodology: Peter Miller, Nathan Associates Inc

Miller delivered this presentation on behalf of Nathan Associates. He described in detail the three phases of the project. He explained that the first phase (diagnostic Phase) started with the selection of the four countries and two sectors for the study and the next stage in the diagnostic phase was to identify a standardized framework in which the analysis was to be conducted through the diagnostic country reports. In the design phase which was the second phase, he explained that a toolkit will be developed which will be used to conduct an impact analysis in some micro location from the project countries. The impact analysis will be done and quantified in the validation phase which would be in the third year of the project.

He explained that the current focus of the project activities is the formulation of the Diagnostic Country Reports (DCR). The DCR would include the following points:

- Firstly the report would provide a detailed background on the market structure of the two sectors including the regulatory structures using the DFID competition assessment framework to answer questions about the competitive landscape of the market through identifying markets and competitors, market structures, barriers to entry, looking for anti-competitive conduct and identifying government policies or institutions that limit competition.
- Secondly the report would identify elements of competition reforms to be examined in each sector starting with targeting reforms which are likely to have an impact on competition.
- Thirdly, after identifying the reforms, the report would provide the impact analysis framework, defining the relevant market and the stakeholders that could be affected.

Another key issue pointed out by him, was the process of framing the hypothesis. He said that the hypothesis would aid in narrowing down on the reforms that are most relevant for the research to be undertaken in the project sectors. He gave an example of the staple food sector, and highlighted that a pertinent hypothesis should ask as to what extent a reform measure affected competition in the market on the producers and consumers.

Further, the identification of variables and data to be collected was another point of emphasis raised by Miller. The variables, according to him should capture the consumer welfare such as access to goods, quality, price changes, time savings and access to financing, and benefits to producers such as free movement of goods and services, predictability of regulatory action, fair market processes, productivity gains and transparency in market.

Floor Discussions

- **Cornelius Dube**, representing CUTS commented on the definition of consumers and producers. He said it might be better if the research project looked at not only end consumers but also intermediate consumers in the upstream value chain. He gave examples of millers as being consumers as well as producers. He also suggested that there was a need to determine the extent to which the scope of the research could go in terms of passenger transport – especially in considering substitute forms of public transport e.g. rail.
- **Muyunda Illilonga** from Zambia Consumer Association, in responding to Dube’s proposal of expanding the scope of consumer cautioned that broadening this in the research would pose a risk and the actual envisaged impact assessment on the ordinary consumer could be undermined. **Peter Miller** in response to **Illilonga** agreed with his observation and cautioned on the dangers of expanding the scope of consumer in the study.
- **Brian Mtonya**, representing World Bank observed that prices of consumables such as maize were sometimes affected by regulations implemented in other countries citing how export bans of maize in Zambia affected the pricing structure in countries where there was a deficit of that commodity and vice versa. He therefore questioned on whether the project would look at such factors in determining the pricing valuable. On the passenger transport sector, he advised that there was need to look at an alternative/substitute to passenger transport and make a comparative analysis if one was to get a clear picture of the benefits or loses. In response to this, Peter Miller stated that inter and intra city transport could include rail or air transport and thereby look at the reforms in these substitute sectors.

However the research was focussed on bus transport as the aim is to gather the impact on the ordinary consumers.

- **Parret Muteto** from the Competition and Consumer Protection Commission questioned whether the study would focus on the analysis of the market structure alone or it will explore the conduct of market players as well. He further explained that conduct according to the Competition and Consumer Protection Act refers to the business strategies that the players use to ensure competitiveness in the market. In response to Muteto, Miller stated that the conduct and performance assessment can be used to analyse the impact on the consumers. However, measuring the performance of the producers may be difficult. This can be done through capturing the perception of the consumers.
- **Prof Jenny**, who chaired this session made a few pointers in response to some of the interventions. He cautioned that the hypothesis should be formulated such that it is able to direct the impact analysis. He encouraged the researchers to follow a backward approach and to think of the outcome at the beginning of the research. This would allow the research team to trace the key inputs for the research. Responding specifically to the points raised by Muteto, Jenny indicated that the study should look at the intensity of the rivalry in the market as opposed to only looking at anti-competitive practices, as this will help the research get substantial information. He also indicated that the research will not envisage to take over the competition commission's work by conducting market conduct analysis but will envisage to benefit from such analysis if available. More importantly, he stressed that the extent to which the research can be undertaken would be looked at and an analysis would be done to gauge the level of competition these reforms have been able to introduce.

3.4. SESSION FOUR

Alignment of DCR Methodology in Staple Food Sector and Passenger Transport Sector by Joseph Simumba, ZIPAR

Joseph Simumba presented the draft methodology that the Zambian research would employ before the NRG members for vetting and input. To begin with, he stressed that the identification of competition reforms that have been undertaken in the two project sectors was very critical. For instance, the study could look at the pricing structural adjustments which had taken place in the staple food sector; significant changes in marketing/procurement arrangements; spatial competitive shifts (getting near the source) or changes in supply intensity; consumer & producer relative bargaining power and what impact it had on the producers and consumers. In terms of intra-city passenger transport, reforms may include changes in price-setting arrangements, institutional arrangements and relative bargaining power; consumer and producer quality choices; In-station and out-of-station provider and consumer choices and prices.

Some of the research questions suggested by him to formulate the hypotheses in the two project sectors are as follows: What has been the impact of deregulation on producers and consumers welfare?; What has been the impact of changes in market mechanisms on producers and consumers welfare?; What has been the impact of changes in administrative protocols on producers and consumers welfare?; What has been the impact of the changes in the legislation on producer and consumer welfare?.

Simumba also pointed out that the research would adopt the following methods of data collection: literature review; analysis of secondary data, quantitative primary data acquisition discussions with competition experts; perception surveys and in depth interviews. He said that for the purpose of this

research, focus group discussions would not be used for primary data collection. However, the analysis of the collected data would include both qualitative and quantitative analysis.

Input From Experts

- **Munguzwe Hichaambwa** from the Indaba Agriculture Policy Research Institute (IAPRI) mentioned that the framework for carrying out the CREW research was good. The main areas of focus for the research therefore had to be identified so that, even when it came to implementation of the methodology in the research process, the exact issues that need to be addressed in this project will have been specifically identified.
- **Robert Mtonga** from Strategy Foresight Consult and sector expert for the passenger transport sector indicated that the methodology that had been prepared by ZIPAR was good though it needed critical input from sector experts. He pointed out that, when addressing the reforms which had been undertaken in the passenger transport sector, the issue of in-station and out of station operators had to be addressed cautiously as these are important determining factors in assessing the performance of the players in the market. He questioned whether the research would also consider looking at both the pirating operators and the registered operators? He raised this caution realising that in Zambia, and in most instances, out of station operators were unregistered operators and this also has an impact on the bus fares that the two different kinds of operators charge.

Floor Discussions

- **John Banda** from the Zambia National Farmers Union (ZNFU) mentioned that many reforms have been undertaken in the staple food sector. For instance the government is planning on implementing a policy under the Farmers Input Supply Program (FISP) called the maize/ fertilizer barter system. Under this reform, the farmers will be required to give four 50-kilogramme bags of grade A maize which will be swapped with two 50-kilogramme bags of D compound basal dressing fertilizer. And four 50-kilogramme bags of grade-A maize will be exchanged with two 50-kilogramme bags of urea top dressing fertilizer. From ZNFU's point of view this is just worsening the situation of the peasant farmer because it is clear from the system that there would be an imbalance in the process of exchange and the farmers would be at a loss. Therefore these are some of the things that this project should try to address.
- **Shreya Kaushik** from CUTS International advised that the methodology should clearly state as to which geographical regions the research will focus on for both the two subsectors.

3.5 Closing Remarks

In his concluding remarks, Simon Ng'ona, Centre Coordinator, CUTS International Lusaka observed that "assessing implications of competition reforms which have or not promoted private participation and its impact on the producer and consumer welfare was a contemporary issue which ought to be pursued for advocacy with both state and non-state actors". He thanked everyone for making time to attend the NRG meeting. He also thanked Ambassador Albert Muchanga, Director Domestic Trade at the Ministry of Commerce, Trade and Industry and for the ministry's commitment to the project.

4. KEY ISSUES

Some of the key points that ensued from the meeting could be classified as broad and specific as presented below as follows:

Broad Issues

- A note on the policies / regulations in the two project sectors would be prepared in order to identify the reforms to focus for the study.
- The hypotheses / research question would also be contained in the note. They will offer an insight on the reasons for selection of a particular reform and how it will contribute in the research.
- Certain ‘key terms’ need to be defined, so that there is consistent understanding across all project implementing actors. The term ‘consumer’ would be referred to as “End Consumer”.

Staple Food

- It was important to focus on reforms / regulations / policies that have an overarching effect. For example: The import / export bans have a huge impact on the consumer pricing structure and thereby affect the pricing in the economy as a whole.
- The impact of the reforms/programmes in the agriculture sector on the small farmers should be assessed as they are largely affected by policy changes.
- In determining the impact of reforms (and addressing the geographical coverage issues) in the staple food sector, it would also be important to look at a town where most of the activity was on the production side and a town where most of the activity was on the consumption side.
- The sampling framework should include the storage / warehouse service providers as well.

Passenger Transport

- There should be a clear differentiation between a driver and the actual operator (i.e. Service provider), as in Zambia the drivers influence the setting of fare for their vehicles. The research should analyse their influence on the market outcomes. This will entail going to Road Transport and Safety Agency and getting registered bus owners though this could affect the sample size.
- It would be important to look at how the informal regulations were affecting the welfare of the consumers and operators.