

Competition Reforms in Key Markets for Enhancing Social and Economic Welfare in Developing Countries (CREW project)

Layout of Research in India

A Note for Discussion¹

1. BACKGROUND

1.1 Developing country consumers are often victims of exploitative behaviour by business entities, which affect their ability to access goods and services in key markets, thereby adversely impacting their lives and livelihoods. Such (anti-competitive) business behaviour is either inherent in the way these entities conduct themselves in these markets, or are stimulated by policies, rules or actors. Absence of an independent and effective market regulator and stakeholders' ignorance further encourages these practices. Such business practices not only affect consumers, but other businesses also. In certain markets, dominant firms exert exclusionary pressures over suppliers and can tie them unfavourably to garner greater profits. Further, in some other markets, rival businesses agree not to compete and collude, and often prevent others (new entrants) by erecting artificial barriers to entry. So, it is in the interest of both consumers and producers that a competition law exists and is effectively implemented.

1.2 Given this background, CUTS has designed a project entitled, Competition Reforms in Key Markets for Enhancing Social and Economic Welfare in Developing Countries (CREW Project) to better demonstrate how greater attention to competition reforms in developing countries can help achieve tangible benefits for consumers and producers. The CREW project is being implemented by CUTS International since November 2012. Supported by DFID (UK), BMZ (Germany) and facilitated by GIZ (Germany), the aim of the CREW project is to develop an approach which can be applied in developing countries to assess tangible benefits of competition reforms on consumers and producers in specific product markets. The aim of the project is to provide tangible evidence to further competition reform processes in key sectors in select developing countries – and facilitate the uptake of the methodology in other countries as well.

1.3 The CREW project is being implemented in **four countries** – **India, The Philippines, Zambia and Ghana**, and in two (common) sectors – **Staple Food and Passenger Transport**, across these countries. The project activities would be implemented in three stages:

- a) The first is a **diagnostic phase**, which will start with a review of literature and experience to identify methodologies used to analyse impact of competition on consumers and producers/economy. Factors responsible for/ determining competition reforms in the two

¹ This note would be presented and discussed at the CREW Opening Meeting (India) on 28th May, 2013, New Delhi

sectors would be identified and documented in country-specific Diagnostic Country Reports (DCR). Efforts would also be made to estimate how refining / addressing some of these factors can lead to better translation of benefits of competition reforms for consumers and producers.

- b) The second phase will be the **design phase**, in which a methodology/framework will be developed in detail based on the outputs and understanding gained during the diagnostic phase for computing benefits of competition reforms for consumers and producers in two specific product markets within the broad sectors chosen in Phase I.
- c) The final phase will be the **validation phase**, in which the methodology will be applied (in some micro-locations in the countries) and adjusted to finalise a framework for analysis of impact of competition reforms.

1.4 In the project **competition reforms** has been defined as an aggregate of:

- 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

1.5 **Consumer welfare** has been defined in terms of:

- **Access:** Goods and services reach consumers in areas where they were not available earlier
- **Quality:** Quality of goods and services enhanced by firms to attract customers
- **Choice:** New firms/products enter otherwise 'concentrated' markets
- **Price:** Prices are reduced in a 'contestable market'
- **Time savings:** by consumers

1.6 Similarly, **producer welfare** has been defined in terms of:

- **Access to essential services:** Firms can easily access infrastructure networks, etc.
- **Free movement of goods & 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' is observed
- **Transparency in market:** Well laid out policies and predictable implementation processes (market regulators)

1.7 The project aims to broadly assess benefits (or the lack of it) accruing to **consumers** (consumer welfare as defined above) **and producers** (producer welfare as defined above) from **competition reforms** in the two sectors as presented in the below matrix:

	STAPLE FOOD	PASSENGER TRANSPORT
CONSUMER WELFARE	- 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.
PRODUCER WELFARE	- 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

2. PROJECT DETAILS

2.1 Goal

2.1.1 To better demonstrate measurable benefits from an effective competition policy and law regime in developing countries, for ensuring long-term support for competition reforms.

2.2 Objectives

- To enhance national and international understanding of the benefits from, and best practices in, effectively implementing competition and regulatory reforms in developing countries
- To develop and test a methodology (with indicators) for assessing the efficacy of competition and regulatory regimes in achieving impacts on developing country consumers and producers
- To advocate to national stakeholders and international development partners for according greater importance to competition and regulatory issues, in the national development agenda
- To sustain the momentum on fast-tracking competition and regulatory reforms, gained from stakeholder awareness, understanding about the benefits and participation in related process in developing countries

2.3 Outputs

- Documented evidence of social and economic benefits from competitive markets
- Dialogues and discussions with and among multiple stakeholders on benefits from competitive markets
- Strategy for capacity building of competition agencies and/or sectoral regulators in diagnostic countries on competition enforcement
- Development of a framework that guides the process of competition reforms in key markets and help measure the impacts thereof
- Generate demand from other (non-project) countries and markets for incorporating the lessons learnt

2.4 Outcome

Greater attention and impetus for competition reforms in key markets of developing countries, resulting in benefits for consumers and producers.

3. PURPOSE OF THIS NOTE

3.1 As indicated earlier, this note would be discussed at the opening meeting to be held on **28th May 2013 in New Delhi, India** to introduce this project to key actors in India and get their views on which markets in the mentioned specific sectors (Staple Food and Passenger Transport) should this research be undertaken in (given the vastness of the country) and how. It presents a rationale as devised by the project team to be used for selection of the state(s) and city(s) for undertaking groundwork in both the mentioned sectors; and to be discussed with the key actors to participate in the opening meeting.

3.2 The Diagnostic Country Report (DCR) will be prepared in each country following a common methodology, for each of the two sectors. The **purpose** of the DCRs would broadly be to:

- (i) Identify the scope of competition reforms² in each of the sectors, and institutions which are engaged in managing different elements of competition reforms (policies, legislations, statutory instruments and sectoral programmes)
- (ii) Evaluate the ability of these institutions in carrying out the competition reforms process effectively – successes and failures
- (iii) Identify problems that exist for consumers and producers in the two sectors, especially from a welfare perspective, and highlight its possible causes (through stakeholder perception/feedback)

² **Competition Reforms** as defined from the CREW project perspective comprise: a) Policies, (b) Laws (including regulations and agencies implementing them), (c) Statutory Instruments (administrative reforms) and (d) Sectoral Programmes

- (iv) Highlight factors (causes) that have direct influence on such problems pertaining to consumer and producer welfare
- (v) Assess how addressing these factors can help enhance benefits for consumers and producers, and by how much

4. METHODOLOGY FOR THE DCR

The methodology has been described in brief here:

- A. Stakeholder mapping and country consultations (Fact Finding Exercise).
- B. Assessment of implications of competition reforms to be done in two ways:
- C. Qualitative Information:
 - (a) Perception and Feedback from Key Stakeholders (identified on the basis of the Stakeholder Mapping exercise) of benefits accrued from reforms undertaken to promote competition in these two sectors. Identification of factors that facilitated the process of attaining those benefits (and challenges, in case benefits were not achieved)
 - (b) Nature of market and analysis of practices by players resulting in implications for consumers and producers.
- D. Quantitative Information:
 - (a) Any report that may have been produced by relevant national or international organisations to compute benefits of certain market reform measures for consumers/producers
- E. Perception survey of consumers and producers to understand problems they face in these two sectors, and identify most likely causes through consultations.
- F. Make suggestions about reform possibilities to address these challenges and assess what benefits can accrue to consumers and producers
- G. Extraction of methods and tools that have already been used in country-specific reports for computing consumer/producer benefits.

5. SECTOR-SPECIFIC ELEMENTS IN DCR

5.1 Staple Food

5.1.1 India being a diverse country has community specific preferences for staples. Yet wheat and rice remain the preference commodity for most of the population in India. Both these staples also play a dominant part towards food security and form a major part of the Public Distribution System (PDS). Therefore **Wheat and/or Rice** would be the main focus for the staple food study in India (depending on states that are chosen for the field work)

5.1.2 The three main components of the supply chain are: (a) Procurement, (b) Storage and (c) Marketing and Distribution.

5.1.3 Agriculture being a state subject in India, the Laws and Regulations at the level of each state play a key role in the regulation of this sector. The three key reforms (though not limiting to) that could be looked at vis-à-vis the components of the supply chain are:

a) **Procurement:** In terms of procurement, the project focusses on Agriculture Price Policy (APP)³. Within the APP the following are the key programmes to be looked at: (1) Minimum Support Prices (MSP), (2) Procurement Prices, (3) Public Distribution System (PDS) and (4) Buffer Stock.

b) **Storage:** For storage, the ⁴Warehousing (Development and Regulation) Act, of 2007 would be focussed on.

c) **Marketing and Distribution:** Since the Agriculture Produce Marketing Committee (APMC) Act of 2003 covers all activities involved in the flow of Agricultural produce from the production points commencing from the stage of harvest till these reach the ultimate consumers viz grading, processing, storage, transport, channels of distribution and all other functions involved in the process, it is the focus of study for marketing and distribution and the entire food supply chain.

5.1.4 On the basis of some internal brainstorming and discussions with sector experts, the following matrix was developed by the project team. This matrix proposes certain states for field research on staple food. The aim would be to **select 2-3 states** from the discussion in the opening meeting. Of course, other states should also be considered and short-listed from the discussion

Segment	Successful in Bringing Reforms	Not-Successful in bringing reforms
Procurement (MSP)	Punjab	UP
Storage (Warehouse Receipts)	Rajasthan M.P	Orissa
Marketing / Distribution (APMC)	Jharkhand	Bihar

5.1.5 The following states have done well in terms of overall performance and could be looked at some stage of the preparation of the DCR:

- **Punjab or Haryana** – Done well in terms of agriculture produce and productivity.
- **Madhya Pradesh** - Has expanded reforms to other commodities as well.
- **Bihar** - Agricultural growth rate has been consistently good.
- **Gujarat** – Progressive in applying reforms and infrastructure development.
- **Karnataka** - Has encouraged reforms in general in the agriculture sector.

5.1.6 Key questions for Discussion

Some of the key questions to be presented and discussed are:

- What benefits have accrued to producers from the MSP reforms undertaken in the states?
- What are some of the problems that the state is facing vis-à-vis MSP reforms?

³ Not limiting to the mentioned policy alone.

⁴ Ibid 3

- How has the experience of warehousing (under the new regime) been in the state?
- What arrangements have worked and why in managing public-private-participation (PPP) in this area?
- What are some of the outstanding challenges in procurement and storage vis-à-vis the producers? How can some of them be addressed?
- How has been the experience of consumer welfare i.e. availability of good quality staple food at low costs, in some states where APMC Act has been applied?
- What are the likely implications for private players in marketing?
- What concerns still remain?
- What are some of the ‘good practice’ (case studies) in states?

5.2 Passenger Transport

5.2.1 Transport remains a sector where the investments are high yet there are relatively less regulations in the country. Since the focus of the study in CREW project is analysis of the implications of reforms on the producers and consumers, passenger transport remains the area of focus amongst the pool of services in the passenger transport.

5.2.2 The focus of this passenger transport study would be **Bus Transport** because all the four countries have many regulatory issues and the scope of reform intervention is considerably wide. Also all the countries are seeing recent reform initiatives in the bus transport sector.

5.2.3 The Indian Bus Transport market has several barriers to competition like the unfair price setting mechanism, entry barriers for private players, lack of regulations for the private sector operations, etc. The mode of operation differs on the **intra-city** (within the same city) and **inter-city** (within two different cities) segments in this sector. The concept of connectivity in transport thrives on the fact that passenger transport vehicles are easily available both for intra-city commuting and inter-city travel. Therefore it is necessary to look at **both states and cities in the passenger transport study**.

5.2.4 The research work would involve understanding the scope of operation of the private sector in both the inter-city and intra-city segments, and its interaction with public sector operation. It would also involve an analysis of the implications of the regulatory framework already in place.

5.2.5 Some of the components of **consumer welfare** to be examined (for both inter-city and intra-city components) in this sector will include:

- 1) Price Setting Mechanism which includes:
 - What process is involved at the central / state level?
 - Who are the key actors in setting the prices / fares?
 - Transparency/inclusiveness and consistency of this mechanism.
- 2) Relation between fuel price hike and the fare prices
- 3) Safety in bus transport and what regulations/actions are there to handle it?
- 4) Certainty / availability of supply

5.2.6 Some of the elements of **producer welfare** to be looked at (in both **intra-city and inter-city segments**) include:

- Ease of availability and movement through buses for small traders for daily commuting within the city, both for inter-city and intra-city transport
- Ease of the private operators to enter the passenger transport market i.e. estimate the entry barrier, both in inter-city and intra-city transport

5.2.7 The following matrix contains the proposed approach for selection of state and cities for discussion. The aim is to **select 3 states for intercity (2 busy routes in each state could be selected) and 3 cities for the intra-city segment.**

MODEL OF SERVICE	INTER-CITY	INTRA-CITY
Private	Orissa Madhya Pradesh	Mangalore Ahmedabad/Baroda Bangalore Gujarat
Public	Gujarat Haryana Punjab	Chennai New Delhi Karnataka Punjab Haryana Bangalore
Public-Private	Tamil Nadu Rajasthan Karnataka West Bengal	Other Tamil Nadu Cities Jaipur Kolkata Indore Bhopal

5.2.8 Key questions for discussion

Some of the key questions to be considered are:

- What models of public-private-participation (PPP) have been used by states for passenger transport and how has that benefited operators and consumers?
- Is there a scientific / logical method of fare determination? How transparent / inclusive is the process?
- What effects have been done at the state / national level to improve safety and what benefits have they provided?
- Is there a set process of charging fare for small traders using passenger transport for getting to the markets from suburban areas?
- What are some of the entry barriers in city / inter-city transport for problems? Is there a way to address this?
- On inter-city routes, what is the level of choice that passengers have / can exist? What are some of the existing problems?

- What are some of the ‘good practice’ (case studies) in states?

5.3 SCOPE OF FIELD-WORK IN STATES/CITIES

5.3.1 Both quantitative and qualitative analysis of the data obtained through secondary and primary research would help in generating meaningful results.

5.3.2 **Primary data** would be gathered through **surveys** of consumers, producers, and competition and regulatory authorities on the likely costs and benefits of the reduction or complete elimination of the identified impediments. The surveys should focus on indicators, such as prices, output, quality, investment, employment, and entry/exit but also gather information about possible technological changes, or other impact of reform that can reduce or eliminate identified impediments.

5.3.3 Simultaneously, **secondary data** (desk research) would also be collected from:

- Relevant government agencies, such as national statistical bureaus, line ministries, business associations, etc.
- National / State Level Policy and reforms documents.
- Literature review of implications of policy and reforms on a state-level / national-level.
- Institutional and regulatory analysis.

5.3.4 Though, this project would be undertaken in four countries and in two markets; efforts would be made by CUTS to expand its application to other markets and other developing countries as well.

(CUTS International, 23.05.13)