Implication of Competition in Staple Food & Bus Transport Markets on Consumers & Producers in Developing Countries

1. Rationale

1.1 The process of competition enforcement is fairly weak across many developing countries, and needs to be strengthened to ensure that fair competition is promoted in key markets for citizens' welfare. Developing and least developed countries (LDCs) are often faced with resource constraints. So, while competition reform is recognised as an important element of economic governance, resources allocated to this area are often very scarce. For greater visibility and support to competition reforms in developing countries, it is necessary that impacts of competitive markets on consumers and producers are properly demonstrated and explained to policymakers and other key actors.

1.2 CUTS International is implementing a project to address this challenge and devise a strategy for greater attention to be given to competition reforms[1] in the developing world. This project entitled **'Competition Reforms in Key Markets for Enhancing Social & Economic Welfare in Developing Countries'** (referred in short as the **CREW Project**),[2] is being implemented in four countries: **Ghana, India, The Philippines** and **Zambia,** and across two common sectors: **Staple Food** and **Bus Transport**. CUTS is implementing this project since November 2012, with support from DFID (UK) and BMZ (Germany) facilitated by GIZ (Germany).

1.3 Through this project CUTS aims to develop and test a methodology, which would help assessing benefits of competition reforms on consumers and producers in key developing country sectors/markets. The project countries were selected keeping mind the need to capture contrasting impacts of competition reforms across developing and least developing countries. Similarly, the sectors (bus transport and staple food) were selected on the ground that these sectors have significant impact on ordinary citizens on a daily basis.

[1] Competition Reforms is defined under this project as an aggregate of the following elements: (i) Enabling government policies designed to facilitate a level playing field (fair competition) in a sector; (ii) Well-designed regulatory framework, adequately resourced regulatory institutions and effective actions for promoting fair competition in a sector; and (iii) Well defined competition legislation and effective enforcement mechanisms.

[2] Details of the project are available at: www.cuts-ccier.org/crew/

2. Methodology

A comprehensive methodology was developed by CUTS with inputs from the Project Advisers. It consisted of both secondary research and primary field-work and analysis.[3]

A Project Advisory Committee (PAC) consisting of international experts was formed to provide inputs to CUTS in the development and implementation of the project. Further, a National Reference Group (NRG) was established in each country comprising subject experts, scholars, representatives of relevant government departments, business associations and civil society members to ensure that the implementation was relevant and useful for the country, and that there would be better buy-in.

Country-specific activities started with a diagnostic exercise, which was aimed to identify policies and practices in the two selected markets that influenced the nature of competition in these markets and resulting implications on consumers and/or on producers. Country-specific Diagnostic Country Reports (DCR) would contain the above evidence, to be used for advocacy.

This diagnosis started with identification of relevant policies/laws/programmes/statutes based on their pro-competitive or anti-competitive elements and influence on the market. Further, to assess the implications of these policies on the ultimate beneficiaries (consumers and producers), both secondary and primary data was gathered and analysed. Guidance notes were prepared for the collection and analysis of secondary and primary data to ensure uniformity in structure of reports in the four project countries.[4] Finally, the above analysis (link between pro/anti-competitive policy reforms and their ultimate impact on consumers and/or on producers) was presented in draft DCRs,[5] which were reviewed by the PAC and National Reference Group (NRG) members.

Some of the key findings that emerged from the research and above analysis in the countries are presented in the following section.

3. Key Findings

A. *Some cases of Pro-Competitive Reforms and Implications on Producers and Consumers*

i. Seed Sector Reforms in Bihar, India

Reforms in the agriculture sector were brought in by the state government of Bihar in the year 2005 (through the Bihar Agriculture Road-map). One of its focusses was revamping the seed sector (including wheat seed) by facilitating greater private participation in the sector. Such an enabling policy led to pro-competitive changes in the wheat seed market, and has led to tangible benefits for wheat producers (farmers) in the state.

[3] Analytical Matrices for each of the two selected markets explain the overall methodological framework followed for undertaking this research and is available on the page: www.cuts-ccier.org/CREW/Diagnostic_Phase.htm

[4] Please refer Notes for Secondary Research and Primary Research available on the page: www.cuts-ccier.org/CREW/Diagnostic_Phase.htm

[5] Country-specific DCRs are available at: www.cuts-ccier.org/CREW/Diagnostic_Country_Reports.htm

Since 2005, wheat seed production has gone up seven folds and number of private players (seed companies) has increased from one to over ten, at present. Farmers surveyed under the project confirmed that they have better access to quality of seeds at lower price.

ii. **Fertiliser Reforms in Ghana**

In 2010, the Ghanaian government introduced the Plants and Fertilisers Act, whose aim was to monitor the quality of fertilisers being imported in the country. Simultaneously, the government and importers negotiated a discounted price for selling fertilisers at the retail end, with assurance by the government to bear the difference for importers.

The introduction of the above-mentioned regulatory interventions, combined with a clear-cut public-private arrangement has started showing positive impacts on farmers' fertiliser usage (average in Ghana is 40 kg/ha, one of the highest in sub-Saharan Africa) and resulting productivity gains. Nearly three-fourth of farmers surveyed under the project reported timely access to fertilisers and indicated improvements in resulting productivity.

iii. **Implementation of the Moratorium (2000 and 2003) in the Philippines Bus Sector**

Metro Manila, the National Capital Region (NCR) of the Philippines, is the seat of government and the most populous region and metropolitan area of the country. Metro Manila suffers from an over-supply of buses. Private bus operators are involved in cut-throat competition to attract commuters. Over-supply of buses can be established if one considers seat occupancy levels, which seldom touches the maximum even at peak hours. Such congestion also leads to traffic snarl, pollution and time (and productivity) losses.

The Philippines government had passed 'Moratoriums' on issuance of new licences to operators (in 2000 and 2003), aimed to regulate the number of buses (regulate entry) in Metro Manila. However, the private operators were able to find a way around the moratorium and there was no downward pressure on the bus population also due to weaknesses in enforcement by the transport regulator.

The study has estimated that strict enforcement of the 'Moratorium' on issuance of bus licences in the *Epifanio de los Santos Avenue* (EDSA – serves as an important highway in the metropolis) thoroughfare of Metro Manila (the main thoroughfare of Metro Manila covering about 24 Kms), can save over US$120mn/annually for the country.

B. Some Cases of Anti-competitive Reforms and Implications on Producers and Consumers

i. **High Consumer Losses due to Quantitative Restrictions on Rice Importation in the Philippines**

In Philippines, the staple food studied under this project is rice. In spite of insufficiency in rice production to meet the demand, the country has a Quantitative Restriction (QR) on importation of rice (till the year 2017). It has also been noticed that imported rice sells at a much lesser price at the retail level, than domestically produced rice. The National Food Authority has a monopoly as the sole importer of rice and controls influx of rice in the country. The high and unmet demand of rice has resulted in smuggling of cheaper rice in the border areas.

Research undertaken in the project has estimated that if the QR is lifted, the same would result in a consumer gain of over US$3bn. The QR is in place till 2017, and once it is lifted, the domestic rice industry will face competition from imports coming from Vietnam and Thailand. So, the government needs to develop a strategy to help farmers (especially small) cope with such a scenario post-2017.

ii. **Cost of Monopoly Public Sector Undertaking in Bus Service in Ahmedabad City (Gujarat state, India)**

The Ahmedabad Municipal Transport Service (AMTS), which is a public sector undertaking (PSU) enjoys monopoly in city bus transport in Ahmedabad (state of Gujarat in India). The only option for private operators to get engaged in the city bus transport industry is to attach their fleet to AMTS. This happens when AMTS opens up its fleet procurement process for interested private players to bid for it. In effect, nearly half of the bus fleet in the city is provided by private operators.

This arrangement (maintaining the PSU's monopoly in the city) had cost the Gujarat state government dearly. The study finds that this set up has been resulting in considerable losses over the years, with the most recent figures as per 2013 statistics being in the tune of approx. US$28mn/year.

iii. **Monopoly of Gujarat State Road Transport Corporation (GSRTC) in Gujarat (India) Promoting 'Rent Seeking' Behaviour Huge Losses**

In Gujarat, intercity stage carriage bus transport is monopolised by the Gujarat State Road Transport Corporation (GSRTC). However, as the demand for stage carriage[6] has increased over the years private operators have swarmed in to meet the demand. This is illegal as per the prevailing policy, which grants GSRTC a monopoly right as the only operator on the inter-city routes in Gujarat. However, due to high operational cost and reduction in the fleet size of GSRTC, it has not been able to meet the demand alone on inter-city routes. Further, the private players have been able to secure a 'blind eye' from the state administration for their 'illegal' operations by paying 'rents'. This has led to the increase in rent seeking behaviour and large private players have been able to benefit from the situation and dominate the profitable routes.

Official figures indicate that the state government is bearing considerable losses in running GSRTC (INR 300 crores in 2012-13). So, a review of the policy is suggested by the study – which will not only help curb the corruption in the system – but also help the state government recover some of the losses that is currently incurring.

[6] Stage carriage is a mode of licence under which the bus operator can charge fares stage wise i.e. on per kilometer basis. Under this licence operators can pick and drop passengers anywhere on the route and charge them accordingly.

iv. **Farmer Input Subsidy Programme in Zambia**

Zambia's 'Farmer Input Subsidy Programme' (FISP) is one of the biggest fertiliser subsidy programme in sub-Saharan Africa. The Zambian government has been spending a considerable amount on FISP with the objective of enhancing the accessibility and availability of fertilisers. It has resulted in improved production, increased demand for fertilisers and possibility of economically viable network, reduced food insecurity, etc. However, the instances of revenue leakage and loss of fertilisers from the supply change are in plenty. The impact of FISP *vis-à-vis* the investment has not been realised as was envisaged.

Further, the competition agency of Zambia is currently investigating a case wherein the big importers of fertilisers are alleged to have been engaged in bid-rigging.

4. Way Forward

As indicated earlier, the above are only some of the selected cases where the research under this project has been able to establish the power of pro-competitive policies in these (key) sectors in providing benefits for ordinary consumers and small producers.

Further, it has also been able to highlight the role that sector regulators have in promoting fair markets, the need for sector regulators and competition agencies to work together in developing such markets. Both subsidies and monopolies not only affect the level of competition in markets, but also create considerable financial pressure on the government. Further, they are not often most efficient means of providing benefits to people, as the case is often made out to be. Private sector can be gainfully engaged in some segments, and policymakers need to find ways to do that but monitor their behaviour closely.

One of the other lessons emerging from these cases and indeed the study is in enhancing understanding about the concept of competition. Some of the cases highlight how cut-throat competition can be harmful to society, while in others the pressure is on governments from maintaining monopolies.

CUTS and its partners in each of the countries are finalising the country specific 'advocacy plans' to help achieve changes in policies and practices which will consolidate the positive impacts that can be derived from competition by citizens, and reduce the negative impacts.

For further information:
Shreya Kaushik (shk@cuts.org) and Neha Tomar (nt@cuts.org)
CREW Webpage: www.cuts-ccier.org/CREW