

Planning Meeting Report
**Competition Reforms in Key Markets for Enhancing Social and Economic
Welfare in Developing Countries (CREW Project)**
November 8th-9th, 2012, Bonn

1. Welcome remarks

Welcome remarks were given by GIZ, through Mr Eiko Kauffmann who also took the opportunity to introduce GIZ and outline their main areas of focus, which is where the CREW project would fit in. DFID, through Mr Miguel Laric then highlighted the purpose of the meeting, which was to brainstorm on the implementation modalities of the project. He also pointed out DFID was interested in assessing impact on investment climate issues, hence the interest in the CREW project. An interactive session, which involved a presentation of the CREW project by CUTS, through Rijit Sengupta then followed. The following are some of the issues that came out from both the presentation as well as contributions from the participants during the presentation.

2. Presentation of the CREW project

It was presented that the goal of the project is to better demonstrate measurable benefits from an effective competition regime in DCs, for ensuring long-term support for competition reforms. The objectives of the project would include the following:

- Enhance understanding of benefits from effective competition regimes in DCs
- Develop & Test a Methodology to assess efficacy of competition reforms in benefitting all
- Advocate to key actors (National & International) for greater support to competition reforms in DCs
- Sustain momentum on competition reforms and take it forward.

The project would be implemented in four countries; two countries each from Africa and Asia. In addition two sectors would be chosen for analysis across the project countries. Expected output from the project would include documented evidence of benefits from competition reforms in key markets and dialogues involving multiple stakeholders on benefits of competition reforms in the project countries. In addition, identifying a strategy for capacity building of competition agencies and sector regulators as well as instituting a framework that guides the process of competition reforms are also expected outputs from the project. These outputs would in turn be expected to lead to greater attention and impetus for competition reforms in key DC markets, resulting in consumer and producer benefits. The theory of change framework, which was also introduced to participants, would be used as the basis to trace impact and outcome.

3. Discussions on the presentation

3.1 General

During the discussions, it was pointed out that the project is very timely and indeed very needed. However, there are some few issues which have to be carefully thought of since the project was challenging, especially when it comes to measuring the benefits for both consumers and producers. For example, while electricity sector competition promotion would result in benefits, the issue would be due to regulated sector effects rather than the intervention of the competition authorities. Thus the

measurement criteria to be used should not be only confined to competition authority activities, as there could be competition without the law, or a law without competition.

In addition, quantitative indicators only could be difficult to develop for the purpose of measuring the benefits due to data limitations. Perception-based measures of benefits of competition, encompassing both quantitative and qualitative variables could be used. By triangulating them, one can create quantifiable benefits using regression analysis with dummy variables, using multiple indicators. This technique has been used by the World Bank in a study on the performance of competition law in Russia. Instead of analysing data on output and other economic indicators, researchers conducted surveys businessman etc. There is already some discussion in the OECD which could result in such indicators, hence the project could also benefit and utilise them once they are identified.

It was also pointed out that price as a variable could also be affected by other considerations. For example price increase for regulated products are higher than for unregulated products, an example was given from a study in Canada, where regulated products experienced more rapid price increases than market based products, with the consumer basket skewed towards regulated products. Thus a broad-based assessment using disaggregated CPI could work for the project.

Caution was given that systemic issues from sectoral focus would emerge reflecting sector heterogeneity. This implies that some issues become more relevant for some sectors but not for others; hence these systemic differences need to be kept in mind while implementing the project. Sectors such as electricity, which are characterized by a state monopoly that needs to be broken up, act differently compared to sectors where competition only needs to be improved.

It was observed that until now, competition policies have mostly been too abstract, complicated and too ideological, which could explain some reservations in some countries. A focus on the benefits might thus be a very promising attempt as it can be explained and justified easier to governments.

It was also mentioned that the project would focus on measurement of intermediary benefits (prices quality) and representative benefits for beneficiaries (average poor) rather than disaggregating them across individuals. A decrease in the price of a certain good for instance will be taken as positive. It will not be further investigated who benefits most from this price decrease. Determining how the average consumer benefits is thus helpful, especially with regards to convincing governments.

It was also pointed out that advocacy, which is described in the proposal as taking place at the same time as research should be moved towards the end of the project. Although engagement with stakeholders ought to happen throughout, advocacy cannot be done without concrete results. Therefore there is need to add a phase IV for advocacy.

3.2 Challenges to be observed

It was also highlighted that the project has a lot of challenges, which need to be carefully managed. These include the following:

- Benefits indicators for consumers and producers might be difficult to establish. It would be easy to quantify benefits based on past experience than making future impact projection.
- Competition benefits are long term and timing is a critical element for the project. Some benefits from competition reforms might take long to materialise such that the time at which they are measured would affect the findings. The project thus needs to be conscious about that.
- Since advocacy is also a critical component of the project, it is important to reach to the relevant stakeholders. Thus identifying the drivers for change in a society as well as mapping strategies on how they should be approached is also important.
- The extent to which the methodology to be used under the CREW project can be replicated in future can be considered as a key value of project. Since the project is limited to only 4 countries, the findings could be relative to the choice of countries.
- Political economy dimensions of competition reform could also be some challenges towards measuring benefits.
- Identification of winners and losers may change over time: time inconsistency problem and its complexity have to be managed.

3.3 Country selection criteria

Although preferred countries had been mentioned, it was agreed that a table of countries will be provided by CUTS from which four countries would be chosen based on the following criteria:

- CUTS history of engagement in the country;
- Availability of local research capacity;
- Availability of partners;
- Availability of data
- Existence of competition regimes and enforcement mechanisms;
- Acceptability and absorption of reforms;
- High impact on the poor;
- Two countries each from Africa and Asia;
- Donor priority countries;
- Membership of SADC and ASEAN

In the discussions, possibilities of having a country without competition law in the country sample were also made. It was also pointed out that the mere existence of competition law is not necessarily a precondition for the existence of competition. It was also felt that choosing countries in which the project could have most changes would enhance its visibility.

3.4 Sector Selection Criteria

An extensive discussion was also done on the criteria for selecting sectors. It was suggested that one of the criterion could be that this should be the sector where the conclusion could lead to increased welfare. As a result 'public pain' could be a factor in selecting sectors, especially since such a sector increases urgency for government

to act. In addition, a sector with government benefits, especially a sector that contributes more towards government revenue could also result in buy-in.

It was also suggested that the two sectors should consist of a sector regulator market complemented by non-sector regulated market. A suggestion was made that synergy with other projects could be an important consideration, for example already there are some studies that have been done on sugar, rice, cooking oil and fertilizer. In addition, a sector that is more likely to have data available would do well for the project. The environmental dimension could also be kept in mind during the process of selecting a sector. In that regard, the following sectors were suggested as possible focus areas:

- Electricity
- Cement
- Transport
- Kerosene and LPG gas
- Mealie-meal
- Beverages
- Cooking oil
- Pharmaceutical
- Grain
- Fuel distribution
- fertiliser

3.5 Possible indicators:

In the presentation, CUTS pointed out four general indicators that would be used to assess consumer benefits as access, quality, choice and price. Access indicators are those that ensure that goods and services reach consumers in areas where they were not available earlier, while choice would be reflected when new firms/products enter markets that used to be highly concentrated. The quality dimension would measure the enhanced quality of products due to the desire to attract customers as a result of competition. Prices would be expected to be reduced in a contestable market.

The presentation also outlined the general framework through which benefits to producers would be measured. For example, the extent to which the field has been levelled, with the principle of 'competitive neutrality' being observed when competing with public sector firms is a benefit of competition. Access to essential services, where firms get easy access to infrastructure networks and other raw materials due to removal of rigidities is a benefit from competition. If the policies and practices that exist promote free movement of goods and services to enable company performance, competition benefits would be said to exist. More importantly, if regulatory actions are predictable, business would also enjoy some benefits, especially if enforcement of the regulations is done by independent institutions.

In the discussion, it was pointed out that the quality dimension might not reflect benefits since quality could also result in a price increase. Thus the increase in the quality-price ratio could reflect competition benefits better.

It was also pointed out that producer benefits must be carefully assessed since there are always winners and losers due to competition. Thus paying attention to fairness would cater for those that lose out due to fair means. In the same vein, it was felt that the free movement of goods is not a benefit itself but rather a condition for very beneficial new markets. Access to inputs and services as well as access to output markets are also some producer benefits from competition which need to be looked at.

Some few examples were given on how producer benefits can be measured such as how mobile telephony reforms helped fisherman in Kerala and Thailand.

3.6 Role of Project Advisors

In the presentation, the roles of project advisors (Shyam Khemani & Fred Jenny) were given as the following:

- Point out relevant techniques, methods
- Guide in developing ToRs of reports, etc.
- Advise on sources of useful information
- Secure useful reports, data
- Help draft and re-draft parts of reports
- Play an active role in outreach
- Get involved in capacity building activities

In the discussion, it was pointed out that the quality control role is vague and there is need to explicitly state it as one of their roles.

3.7 Capacity Building

It was agreed that the capacity building component of the project should have its framework built into the OSN, which would state clearly how it would be done and the capacity building components involved. Thus CUTS should prepare a draft version of how to go about capacity building which will be refined at a later stage of the project.

3.8 Project Management Issues

It was pointed out that that it is important to link with other organisations involved in similar work. Such organisations should be engaged through mapping and prioritization based on interest and alignment.

It was also agreed that a progress report would be produced every quarter, for which CUTS is expected to share an outline with both DFID and GIZ. Regular short-term reports on some findings and outcomes could also enhance the project due to the complexity of measuring all the benefits.

It was also felt that more donors could be involved if a presentation is made to the donor community on the project framework. Donor mapping is thus needed for this to be taken forward.

3.9 Immediate Action Points:

The meeting concluded with some action points being outlined, especially for outstanding issues.

- CUTS should prepare a note on how the countries and sectors would be selected;
- CUTS should prepare a Gaant Chart which should include an extra more specific chart for important inception phase to be submitted by end of November;
- The first draft of OSN should also be prepared by end of November.
- CUTS should prepare the TORs of the Project Advisory Committee (PAC);
- Background work for the project should start;
- Preparations for the inception meeting should start, which would also include identification of the country in which it would be held;
- Framework for project implementation should be finalised, which include explaining the FCPs and how they work;
- Project organogram and project workflow should be prepared, which would include inputs of project advisors (synthesis report writing);
- VFM discussions would be held between GIZ and DFID and then communicated to CUTS