

## 7Up4 Project

### ***Research Methodology Note***

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*The following issues are to be covered by the research to be undertaken under the 7Up4 project for the development of the Country Research Report (CRR)*

- Characteristics of the macro-economy (size and structure of the economy, trade, financial sector etc.);
- Government policy (internal and external liberalisation, privatisation and national ownership, regulatory policies, consumer policy etc.) that impinges on competition;
- Progress (if any) made by national governments with regard to operationalising competition regimes in project countries;
- Political-economy constraints in implementing competition regimes in the project countries;
- Interface between sectoral regulation and competition in select sectors;
- Investigation of existing competition abuses and distortions at all levels; and
- Identification of cross-sectional (business, consumers and government) perceptions on competition concerns.
- Assessment of the implication of natural monopolies on competition, especially from the perspective of economic development and consumer welfare.
- In-depth assessment of competition a particular sector (agricultural products market) and impact on welfare, growth and poverty reduction.

*This note elaborates on the above **Nine Research Issues** to guide researchers in their activities envisaged under the 7Up4 project.*

### **1. Characteristics of the macro-economy:**

- Geographical location, population and other geographical characteristics
- GDP and economic structure and other economic characteristics
- Brief analysis of post-independent social, political and economic history
- Any other relevant information.

### **2. Government policy that impinges on competition:**

This section would undertake a thorough assessment of the social and economic policies of the government that affect competition. It would cover the following:

- Development policy:
  - Structural Adjustment Programme (SAP) and its consequences for competition and regulatory reforms
  - Poverty Reduction Strategy Paper and its possible implications for competition, consumer welfare and regulatory reforms
  - Any other national (development) policy/strategy of the government that would have a bearing on the market economy
  - Civil Society organisation (CSO)/NGOs and their (noteworthy) development initiatives
- Agriculture Development Strategy:
  - Major crops and recent changes in production patterns
  - Agricultural contribution to economic activity
  - Major agricultural imports and exports
  - Agricultural products imported
  - Policy frameworks: Marketing and Pricing regulation
  - Political economy and social stratification issues affecting agriculture
- Industrial policy:
  - Policies/National programmes to boost the industrial/ manufacturing sector
- Trade Policy:
  - National Trade Policy – analysis of the national trade policy from the point of its impact on domestic competition
  - impact of WTO issues on competition
  - unilateral trade liberalisation process and its possible consequences for competition
  - Economic Partnership Agreements – handling of competition issues in negotiations, and related implementation issues including capacity building
  - Competition as an element of Regional Trade Agreements (RTAs) – ECOWAS, WAEMU.
  - Other Bilateral/Regional Agreements and possible competition effects.
- Privatisation & Regulatory Reforms:
  - Private Sector Development Strategy (PSDS) – what have been the overall policy directives for privatisation (any policy?); what have been the objectives of the privatisation exercise; how has the process of privatisation progressed in the

- country (including plans in the pipeline/future of the programme?); and how has the privatisation programme affected competition in specific markets (explain with case studies, if available).
- State Owned Enterprises (SoEs) – which are the sectors where SoEs exist? Provide any record/evidence of government policies favouring SoEs to the detriment of private sector enterprises (i.e., ‘absence of competition neutrality’, favouritism to SoEs, etc.).
  - Regulatory Reform Programmes – discuss any specific reform programme undertaken by the government that might have a bearing on competition.
  - Investment Policy: Provide a brief analysis of the impact of investment policy/promotion on the state of competition in the economy, segregated under the following heads:
    - Investment Laws
    - Investment Promotion Policy/Agencies
    - FDI norms/rules
    - Sectoral composition of FDI (sectors receiving FDI, FDI Projects...)
    - TNCs and their activities
    - Tax or other incentives provided by the state for investment
  - Government Procurement Policy: Process of government procurement (agencies, procedure, any incidence of bid rigging, etc.). Discuss the incidence of corruption in public procurement. How is the possibility of corruption in public procurement handled? Does corruption in public procurement lead to significant anti-competitive forces?
  - Labour Policy: Labour laws and their possible impact on competition in the labour market
  - Consumer Protection policy: Existing consumer protection law, state of its implementation, consumer awareness and existence of consumer organisations etc; do consumer laws facilitate or impede the attainment of objectives of competition policy?
  - Any other policies affecting the level of competition in the market

### **3. Progress (if any) made by national governments with regard to operationalising competition regimes in project countries;**

- Assess governmental plans for operationalising its national competition regime through specific interviews with key stakeholders (policymakers, government officials, experts) and a survey of press releases, news items and articles
- Assessment of the importance attached by the government to competition policy reforms in the economic reforms agenda.
- Review of the state of Competition legislation

### **4. Political-economy constraints in implementing competition regimes in the project countries**

Developing countries are at different stages as far as the adoption and implementation of competition law is concerned. Some are yet to adopt the laws; others have adopted the laws but are not implementing them, while others are implementing the laws at a very

slow pace due to various constraints placed on competition authorities. This is due to various economic, social and political reasons, including lack of appreciation and capacity constraints.

Decision making is generally a result of a complex political process in which stakeholders have diverging objectives and are guided by a variety of motives. Such reasons include self interest, ideological aversion to certain policies and inadequate understanding of the relationship between policies and outcomes.

Issues that need to be addressed (through research):

- **Countries with no competition laws**
  - Is there any plan to enforce the law? Have there been any attempts to draft the law? Which groups are in favour of having the law, and which groups are against? What are the reasons given?
  
- **Countries with competition laws but are not being implemented**
  - How was the process of the competition law initiated? By Whom? Who participated in the drafting process? How long did the process of drafting last? What are the conflicting issues? How are these issues being resolved?
  - If the law exists but has not yet been implemented, what are the reasons? (It is important to catalogue points of view of various stakeholders: the government officials, sectoral regulatory agencies, trade unions, consumer organisations, independent economists and lawyers).
  
- **Countries with competition laws but are not adequately enforced**
  - As the law is being implemented already what is the state of enforcement? Does the competition authority enjoy effective independence? What are the sources and adequacy of its financial and human resources?

### **5. Interface between sectoral regulation and competition in select sectors**

The need for coexistence between sector regulators and competition authorities is an issue that has been widely recognised in developing countries. There is a lot of confusion among the stakeholders in various countries as to which authority to approach for regularising deals; the sector regulator, the competition authority or both. There are also instances where the decision by one authority is in conflict with that of the other authority, thereby causing tension, not only among the stakeholders but also among the two sets of regulators. The tense environment is also worsened by the fact that in most cases the sectoral regulators came first, and they were given the mandate to cover some competition issues. In later years when the competition authority came into being the sector regulators had to relinquish part of their 'authority' (in matters relating to competition regulation), which was generally not welcome.

Issues that need to be addressed (through research):

- **Countries with no active competition laws**

- In select sectors such as telecom, financial sector, electricity and investment regulation, are the regulatory authorities empowered by their respective legislations to regulate competition in the market? Do the laws regulate mergers and acquisitions? Are there provisions for punishing abusive behaviour of one company in the sector against its competitors? Are the companies authorised to form associations to discuss marketing strategies?
- **Countries with competition laws and history of implementation.**
- Do the two sets of legislations allow for cooperation between the authorities? What are the views of the competition authority and the sector regulator regarding the separation of functions between them? Have there been any reported cases of conflicts, where for instance, the decisions of the two clashed and one was overridden? Do the regulators consult each other in their decision making process? Does the competition agency collaborate with the sector regulators or vice-versa? What are the mechanisms for such collaboration?

#### **6. Investigation of existing competition abuses and distortions at all levels**

- Information on prevailing anti-competitive practices at the micro-level and their adverse impact on the consumers and/or the economy to be obtained through targeted interviews and analysis of press releases and other news items and articles

#### **7. Identification of cross-sectional (business, consumers and government) perceptions regarding competition concerns**

- Administering questionnaire surveys (questionnaires to be prepared by CUTS, and shared with partners for views before finalisation) to get an idea of perceptions regarding the state of the competition regime in the country and identify areas requiring immediate attention
- Use a sample of 200 respondents drawn from government, business, civil society, (especially consumer groups and business associations), relevant lawyers and quasi-governmental bodies ( regulators, public utility heads, competition authorities etc)

#### **8. Assessment of the implication of natural monopolies on competition**

A natural monopoly is defined as a market that can be served at a lower cost by having only one producer rather than many producers. The normal justification for natural monopolies are the **very large "economies of scale"** relative to existing demand i.e per unit costs are declining in quantity produced.. This is due to the requirement for **extremely large fixed capital investments to set up business but very low variable costs i.e very low additional costs are required for increasing output once the fixed capital is in place.** . For consumers, natural monopoly is good as it lowers per unit cost and thereby prices. However, monopolistic power also leads to price mark-ups over cost and encourages inefficiency. The total impact on consumers is ambiguous. Usual examples include local telephone services, natural gas supply and electrical power distribution.

In such industries, heavy initial investments in networks of telephone lines, electrical lines and gas lines that are involved. However, once the firm has attained a monopoly position, there is the **likelihood that it will abuse its dominance in the market to maximize its profits** by restricting output (raising prices) below (above) competitive levels

Situations of TRUE "natural monopoly" tend to be extremely rare. The majority of existing real world monopolies are not "required" by economies of scale but have been politically driven. Where "natural monopoly" situations do exist, technological progress seems to create opportunities for new competitors, as has happened in the telecom and electricity sectors. Thus it follows that natural monopolies are not justified indefinitely.

#### Requirements for researchers

In order to assess the impact of natural monopolies, researchers can do the following tasks:

- Identify existing monopolies;
- Of these monopolies, list those qualifying as 'Natural Monopolies'?
- What are the reasons provided by the authorities for their existence?
- What may be the real reasons behind their existence?
- How do these "natural monopolies" behave in terms of pricing and output decisions and quality of production?
- Are there any regulatory agencies that monitor them? How can their performance be assessed?
- Are there cases of transition from 'monopoly' to 'competition' in any sector? What were the reasons for the transition and effects of such transition?
- To what extent can such transition be replicated in other sectors for which we still have monopolies?

### **9. In-depth assessment of competition in a particular sector (Agriculture Products)**

Agriculture is a key sector in most West African countries, as it contributes heavily to GDP and employs a large proportion of the labour force. Agriculture plays a significant role in terms of food security, poverty alleviation and political stability. It is with this reason, therefore, that a thorough analysis to understand the competition characteristics of the sector is being recommended

#### Requirements for researchers

Researchers should try to find out the following:

##### *a) Agricultural production levels and trade patterns*

- ✓ Production characteristics of major crops in terms of
  - Cultivated acreage
  - Quantities produced
  - Crop yields

- Revenues generated
- ✓ Trade patterns
  - Major agricultural imports
  - Major agricultural exports
  - Total value of imports
  - Total value of exports

b) Agricultural policy

- ✓ Its purpose
- ✓ Its instruments (subsidies, exemptions, guaranteed prices, trade measures, role of SOEs)
- ✓ Marketing policy and regulation if any

c) Analysis of value chain of two main crops

*For a given crop analyse:*

**I. Market structure of producers of the crop**

- Number of producers
- Size of plots
- Distribution of plots
- Productivity
- Role of cooperatives
- Role of SOEs

**II. Market structure of suppliers of inputs (upstream)**

- Identification of the main suppliers
  - Suppliers of seeds/stock
  - Suppliers of fertilisers
- Market structure
  - Number of players (e.g. many, few, very few, with some names being mentioned)
  - Size (e.g., big, small, medium and corresponding approximate percentages)
  - Concentration (CR4 or CR3, based on the identification of the leading companies and their estimated market shares)

*(N.B. The information on estimated market shares can based be obtained by asking the companies themselves or their association or regulators)*

- Role of SOEs
- Prevailing anti-competitive practices (in seed and in fertilizers in turn)

- Abuse of dominant position
- Horizontal agreements
- Vertical agreements

*(NB Information on prevailing anticompetitive practices can be extracted from interviews with companies, as they are the ones affected.)*

- Possible effect of anti-competitive practices
- Action taken, if any, to stop the practices.

### **III. Market structure of customers (downstream)**

- Identification of the main customers, eg
  - Agro food industries
  - Government
  - Domestic distributors
  - International distributors
- Market structure in terms of:
  - Number
  - Size
  - Concentration
  - Role of SOEs
- Prevailing anti-competitive practices
  - Abuse of dominant position
  - Horizontal agreements
  - Vertical agreements
- Effect of anti-competitive practices
- Action taken, if any, to stop the practices.