

Remarks at CCI Workshop, 14 March 2007, New Delhi

by Roger Nellist¹

Dr Khemani, CCI colleagues and members of the Advisory Committee, Researchers, distinguished participants.

As the first speaker at this Conference from the UK Department for International Development (DFID), let me start by saying that we are very pleased to be co-sponsoring this event - and indeed the whole project, of which the sector studies of course assume centre stage.

I am joined by two other DFID colleagues from London - John Preston (DFID's Competition Consultant) and William Kingsmill (who heads our Growth and Investment Group).

For us, this Conference represents the near-completion of a two year joint programme with FIAS and the CCI. But for CCI it represents just the start of their journey. I hope that it might be possible for DFID to continue to partner some of their work.

In **this session**, John and I **want to do two things**: First, briefly share with you our overall reaction to the recent drafts of the Indian sector studies; and Second, share with you our own Team's thinking on how one can assess the state of competition in an

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economy, and especially to identify the main obstacles to competition. We are calling this approach a “Competition Assessment Framework”, or CAF. This proposed CAF builds on the Indian sector studies, the work of others (including the World Bank), and on DFID’s own experience of supporting a range of competition policy programmes over the last few years.

We’ve heard from the inaugural speakers why competition and competition policy is important. So I don’t need to repeat that now.

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[Those of you who also participated in the March and November Workshops last year will have heard me say why we regard competition as so important for development. Fair competition delivers productivity and efficiency gains for an economy, through a more vibrant private sector that creates jobs, income and growth. Fair competition also means a better deal for consumers, and is especially important for the poorer members of society. We believe that fair competition will help deliver the higher rates of economic growth that are essential for poverty reduction. There is quite a lot of evidence now to support this understanding.

The private sector needs a good overall investment climate in which to operate. If the investment climate is poor, as it still is in many countries and still is in some states in India, the extra costs and risks to business are inevitably passed on to us, the consumers.

An essential element of a good investment climate is a sound, transparent regulatory regime. And, an effective competition policy regime is an important component of a good overall regulatory environment.

As some of you will know, about five years ago India was among the first countries to have a World Bank Investment Climate Assessment undertaken. One of the big conclusions from that ICA was that *“if each Indian state could attain the best practice in India in terms of regulation and infrastructure, the economy should grow about two percentage points faster. The gains would be particularly large in the poor investment climate states”* - yielding more than three percentage points extra in the growth rate.]

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[So,] we know that fair competition is important for development. A good business regulatory regime matters. And competition policy has a role to play, in helping to establish and maintain a level playing field.

Yet, we all know that anti-competitive practices abound - to the detriment of many. In recent years, we have come to appreciate two things:

First: the public sector - government, and its agencies - is as much to blame for this as are private businesses and individuals. There are many policies, laws, regulations and administrative practices that thwart fair competition, at both the national and sub-national levels; and

Second: in order to get to grips with the problem we have to recognise that it is not just technical, legalistic or economic matters that have to be addressed, but there are wider - and sometimes fundamental - institutional, political-economy considerations that matter just as much. In some cases, strong vested interests have to be overcome - whether commercial, institutional or private individuals. In recent times, DFID has been paying increasing attention to these sorts of governance issues. Last year, our Department published a third White Paper - on the theme of "Eliminating World Poverty: Making Governance Work for the Poor". As I said at the Workshop here in Delhi last November, this White Paper emphasises the three pillars of public Capability, Accountability and Responsiveness. It also highlights the role of vested interests in blocking reforms and holding back development. These governance concepts apply to the competition policy world, just as much as they do to anything else.

The Draft Competition Assessment Framework that John and I want to speak about tries to get to grips with these two points - as indeed do the Indian sector studies, to varying degrees. And all of our work demonstrates, I think, what others have termed the 'cross-roads' that competition policy finds itself at. We are all trying to make progress with something that is at the junction of the private sector and the public sector; of actions by institutions, businesses and individuals; of law and economics; of technocratic challenges and ones of governance; and also of processes at the national and sub-national levels, and often too at the national and international levels.

We accept that this is not easy. Having had an opportunity to look at many of the latest drafts of the **Indian sector studies**, we are pleased that most - but it seems not all - have really got to grips with these matters. Some of the studies are excellent, and our view is that all of the studies have made significant progress since CCI's Workshop last November. But a few are still not addressing some key political economy constraints to competition. Some could benefit from focusing even more sharply on the real competition issues in the sectors. And it would be helpful, if those that presently do not, could make more explicit their advice and recommendations for CCI follow-up. In one or two cases, we feel that the overall structure and presentation of the papers does not do justice to the wealth of well-researched information that is included.

That is our overall reaction to these papers, and let me leave it at that for now. We have noted that some of the studies are still labelled as 'Drafts', so presumably more work is to be done to finalise them. We would be happy to share with the authors our more detailed comments, either during the sessions today and tomorrow, or in writing.

Turning now to **DFID's proposed Competition Assessment Framework**. The draft CAF that has been included in the participants' pack is still 'work in progress'. It is a consultative draft, and we have already had some helpful suggestions on it from Dr Khemani and other colleagues at the World Bank. We want to finalise it soon, and we hope that the discussions here over the next two days will contribute to that process. We would welcome

your comments and suggestions, either now or subsequently in writing. Please do send them to us directly at DFID, or via the CCI.

This CAF stems from a recognition that in many developing countries there is limited capacity to address the sorts of fairly complex competition issues I was just referring to, though increasingly governments are devoting more resources to doing so. The competition bodies in the OECD countries already have their own methodologies and now, the OECD itself, is in the process of developing a framework for looking at the regulatory constraints to competition. We have had discussions with the UK Office of Fair Trading, and some of the draft CAF reflects their approach. But we think that the OECD country approaches cannot readily be transplanted to most developing countries; the methodologies are “too Rolls Royce”, as we say in the UK, sometimes perhaps even for our own countries.

So what we are seeking to create is an operationally user-friendly diagnostic tool that can be used by senior policy makers who have responsibility for economic and competition issues in developing countries, to help them identify and address anti-competitive arrangements and practices in both the private and public spheres.

The CAF could also assist others who are interested in the impact of anti-competitive practices, including consumer-oriented NGOs. It might be useful to donors too, to help them identify areas where technical assistance could be provided.

The proposed Framework is intended to be a flexible tool that proceeds by posing a series of questions. These start by focusing on how sectors should be selected for a competition assessment, and then follow-up with questions designed to help analyse the state of competition in the chosen sectors. i.e. identifying the markets and the competitors, examining the market structure, considering vested interests, looking for barriers to entry, looking for anti-competitive conduct, and identifying government policies, laws or institutions that limit competition. A competition assessment should obviously conclude with a view on whether there are competition problems in the sector that require correction and, if so, give an indication what the most appropriate remedies might be.

In each section of the CAF there are a limited number of headline questions, followed by more detailed ones. And for those who wish to probe even deeper, there will be some Appendices (which are not yet completed) and a guide giving web links to further sources of information.

As I said, the Framework builds on ideas from a number of sources. For example, from here in India it reflects the sort of considerations made by the CCI and Dr Kelkar's Advisory Committee in selecting the market studies to be conducted. It also reflects the dual emphasis on examining both public sector and private sector constraints to competition, and governance ones as well as purely technocratic ones - as we have emphasised the need to do during the conduct of the Indian studies. And it reflects

in various ways the Porter five-forces model that Shyam Khemani and his World Bank colleagues reminded us of last year.

We also hope to draw on the Indian studies to provide, in Appendix C, a checklist of typical competition concerns that governments should be aware of in particular sectors.

Because India is now well advanced in this work, we wanted to give you all an opportunity to respond to what we are developing. Hopefully, the CAF will be of interest to the CCI and to those researchers - both now and in the future - that will be assisting CCI with market studies.

When we have finalised it, our intention is then to work with the World Bank, and possibly others, to pilot the CAF in a number of African countries. So far, we have received expressions of interest for doing so from three countries in Eastern, Southern and Western Africa.

So, having just explained what we are doing and why, I would now like to ask my colleague John Preston to present more on the substance of the proposed CAF.

Thank you.