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COMPETITION AND POVERTY REDUCTION

Contribution from Namibia

-- Session I --

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COMPETITION AND POVERTY REDUCTION

-- Namibia* --

1. Introduction

1. This submission explores the link between Competition and Poverty Reduction from the Namibian perspective. The Namibian experience of Competition Policy enforcement is relatively very new, since 2009 only. In addition not much empirics are available investigating the link between poverty reduction and competition policy in Namibia. As a consequence this paper explores the current status quo in terms of the country. It aims to highlights areas that could be strengthen to solidify Competition impact on poverty reduction. The paper is thus structured as follows. Section 2 explores poverty and its causes in Namibia. Section 3 explores the theoretical link between poverty reduction and competition. Sections 4 and 5 explore the current Namibian setup in terms of competition and poverty reduction. Section 6 concludes and offers some recommendations.

2. Poverty in Namibia: A profile

2. Namibia's poverty's profile is adequately captured in the 'Namibia 2011 Population and Housing Census: Preliminary Results', 'Namibia Household Income and Expenditure Survey 2009/10' and 'Fourth National Development Plan:2012/13-2016/17' official publications. Poverty and extreme poverty remain endemic in the country, coupled with high levels of income inequality. Around 9.6% of all households are classified as Severely Poor in Namibia, whilst those classified as Poor Households are 19.5%. The Namibian poverty definition follows the Basic Needs approach. The causes of poverty in Namibia are numerous and include factors such as low skills base, low agricultural productivity, climate change variability and high income inequality with a Gini Coefficient of 0.59. In Namibia poverty is also masked by regional and urban-rural divides. Around 27% of households in rural areas are poor, and the highest incidence of poverty is in the Kavango region, where 43% of households are poor.

3. Theoretical Linkages of Competition and Poverty Reduction

3. Ellis Singh (2010) explores the theoretical linkage between Competition and Poverty Reduction. The benefits of competition are many and varied such as reduced prices –which positively affect the poor's capacity to consume, improved choice and quality for consumers, greater business and managerial efficiency (especially for smaller businesses in enhancing their capabilities), and incentives to innovate which contribute to growth. Competition also plays a fundamental role in determining the impact of business on the economy, the allocation of resources between consumers and business, and the balance of power between business and the state.

4. A lack of competition that results in higher prices and higher profits implies a transfer of resources from consumers to the owners of the companies that produce the goods. In other words, a transfer of resources from the poor to the rich. Competition and competition policy – and here it is defined

* Contribution compiled by the Research and Development Division, Namibian Competition Commission.

quite broadly to include all policies affecting competition, including trade policy, regulation, privatisation, industrial policy, and competition law – play a crucial role in disciplining business, and preventing excess profits and unfair business practices designed to keep out new entrants. The existence of a good competition policy framework allows new firms to enter the market, and helps to create a level playing field between firms, which is important for attracting investment and developing the private sector and especially the local SME sector.

5. The extent of competition is crucial in determining the impact of globalisation on development, where large multinationals with considerable market power are entering small underdeveloped economies which desperately need the products, investment capital, and know-how that they bring, but which wants to avoid the repatriation of excess profits, and the unfair suppression of domestic business. Thus sound competition policy is an important accompaniment to globalisation and liberalisation processes, to ensure that developing countries achieve the expected benefits. Competition also helps to challenge the dominance of the economic ‘elite’ that is so often observed in developing countries, where well-connected or closely allied politicians and business people cooperate to extract the economic rents from productive activity, at the expense of society as a whole. This is one of the main reasons why economic growth does not always result in poverty reduction. Competition allows new entrants to gain a foothold and gives them the opportunity to undercut or outcompete the incumbents, undermining the cosy relationship enjoyed by the few, and reducing the power of cronyism and the returns to corruption. So competition plays an important role in creating economic opportunity for new firms, contributing to private sector development and enabling more people to engage in markets and contribute to economic growth.

4. Poverty Reduction and Competition: Some Namibian issues

6. The Namibian Competition Commission (NCC) has been in existence since very late 2009. It has thus been pre-occupied with configuring its systems and formal set-up whilst meeting and working through issues of merger control, restrictive business practises and market studies. As a consequence it still has to immerse itself in the broader sphere that would entail a national competition policy. It is thus at this juncture not surprising that competition issues are absent in the National Poverty Reduction Action Programme of 2005 nor in the 2012 Draft National Rural Development Strategy. In addition, the country is still investigation the correct institutional configuration of Consumer Protection, thereby leaving the NCC slightly inept at handling issues and complaints arising from poorer consumers and the general consumer at large.

7. In the absence of a national competition policy, the NCC is currently not able to explicitly review government controls/interventions in terms of their impact on market competition. Except with industrial policy designs such as Infant Industry Protection where the NCC may offer some advice to the government. However as a NCP is formally absent, the process is not wholly formalised and given the recognition it deserves.

8. Similarly when it comes to small businesses and job seekers, the NCC attempts to ensure that these interest groups are best served through merger control, public interest reviews and remedies.

5. Framing the Issues Further

9. In framing the issues further, we attempt to adequately capture what the issue is affecting the three groups of interest-poor consumers, small business and job seekers. We then attempt to define the possible action/plan that the NCC could undertake to help defray the issue.

Table 1: Poor Consumers

Issue	NCC Action/Possible Response
Excessive Pricing of Goods adverse effect on poor/Consumer Complaints	Consumer Protection institutionalisation/Market Studies in certain sectors
Government Policy such as Infant Industry Protection	National Competition Policy and Regulatory Impact Assessment
Government Interventions for Pro-poor	Review of Zero VAT-rating of Goods, carry out Market Studies in certain sectors
Effects of Cartels	Corporate Leniency Policy, Restrictive Business Practices investigations.

Table 2: Small Businesses

Issue	NCC Action/Possible Response
Directed Competitive enhancement schemes for Small business	Regulatory Impact Assessment
SME Policy and Investment Act targeting certain economic sectors for small businesses	National Competition Policy and Regulatory Impact Assessment
Protection of Small business sector from large acquisitions effects elsewhere in the economy or in same sector	Merger Control and Public Interest Reviews

Table 3: Job Seekers

Issue	NCC Action/Possible Response
Directed Competitive enhancement schemes for Small business	Regulatory Impact Assessment
SME Policy and Investment Act targeting certain economic sectors for small businesses	National Competition Policy and Regulatory Impact Assessment
Protection of Small business sector from large acquisitions effects elsewhere in the economy or in same sector	Merger Control and Public Interest Reviews

6. Recommendations and Conclusion

10. Although the explicit link between poverty reduction and competition policy is evolving in Namibia, in terms of the assessment in (4) and (5) above, the following recommendations may be made:

- A major weak point is the absence of an explicit national competition policy that can enhance the mainstreaming of the NCC's work in other major governmental regulations and policies such as Industrial Policy, Poverty Reduction Action Plans and Rural Development Strategy. The existence of a NCP will enable rigorous regulatory impact assessment of major governmental programmes and help in assessing the impact of those on poverty reduction.
- In its current work of curbing anticompetitive practises, the NCC should establish a comprehensive Monitoring and Evaluation Framework to help track the impact of its output on national interest groups such as poor consumers, small businesses and jobseekers.
- As the impact of cartels on the poor is very severe, the work of the NCC should go beyond the adoption of a Corporate Leniency Programme. In Southern Africa, there is a prevalence of regional cartels, especially in the Southern African Customs Union (SACU) and SADC by extensions. The NCC could assess along with its sisters organisations in the region the feasibility of a Regional Competition Fund along the lines of the suggested Global Competition Fund to help defray the impact of cartels behaviour on the poor.
- Finally, the NCC should ensure that poverty reduction as a strategy is adequately mainstreamed in its Public Interest Policy.