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COMPETITION POLICY, POVERTY REDUCTION AND PRIVATE SECTOR DEVELOPMENT

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The Mission of the World Bank Group

- Until 2012

  Poverty Reduction

- Now

  Poverty Eradication

  +

  Shared Prosperity

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Mission I: Ending poverty

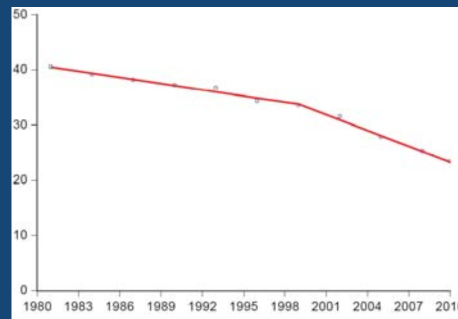
Today

- 1.3 billion people live below $1.25 per day.
- 2.7 billion live between $1.25 and $4 per day.

Our Target: reduce poverty rate through

- Growth and job creation
- Mitigation of risks
- Provision of services and infrastructure
- Voice and participation

Poverty rates for developing world outside China (Headcount Index, % below $1.25 a day)



Growth Rates for the Developing World as a Whole Required for Various Target Poverty Rates

Target poverty rate for 2027 ($1.25 a day)	(1) Required annual growth rate in household consumption per capita at 2008 level of inequality	(2) Required annual growth rate in household consumption per capita at 1999 level of inequality
1%	7.6%	6.1%
2%	5.5%	4.0%
3%	4.5%	3.4%
4%	3.7%	2.8%
5%	3.3%	2.3%
6%	2.9%	2.0%

Data source: M. Ravallion 2013 (World Bank Working Paper)

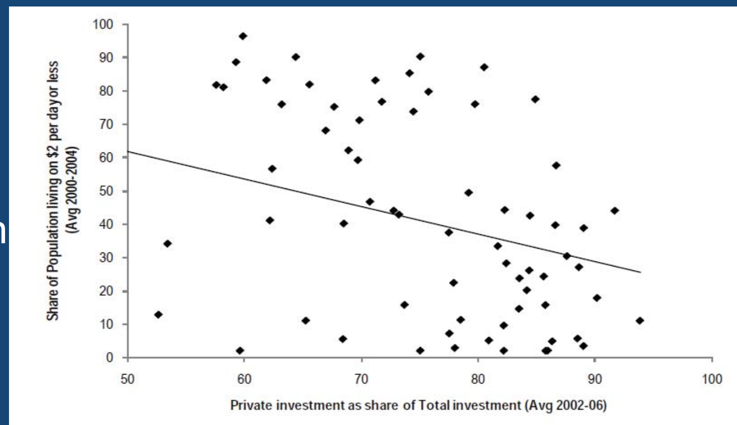
Mission II: Shared prosperity

- Focus on economic growth
- But not any growth—what matters is the **growth among the less well-off**

One means: Private Sector Development

- Jobs, opportunities
- Role of micro, small, and medium enterprises (MSMEs)
- Contribution to human development
- Investment in infrastructure
- Source of innovation

Private Investment and Poverty Rates



Source: World Bank Development Data Platform.

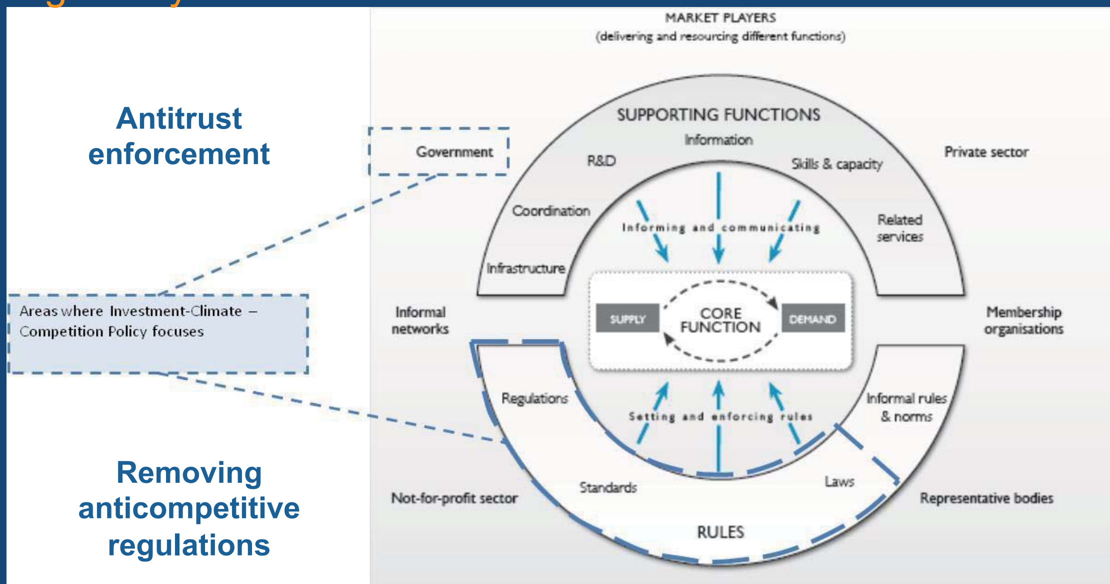
EIG report on "The private sector and poverty reduction" April 2012

One tool: Promoting market competition

- Leveraging the private sector to accelerate growth has the potential for both rewards and risks.
- Competition Policy can be used as a tool to mitigate risks and ensure redistribution of rewards to the poor both as consumers as well as producers.

Competition policies can ensure well functioning markets

Through Governments setting and enforcing adequate regulatory frameworks



Adapted from DFID, SDC (2008), A Synthesis of the Making Markets Work for the Poor (M4P) Approach, p.28.

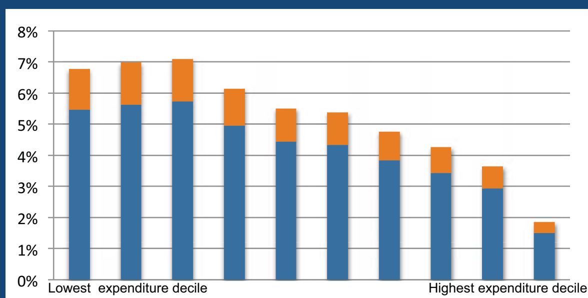
Effective competition rules allow markets to work for the poor

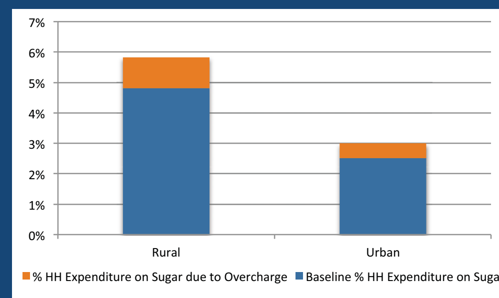
Consumers	• **Discourage and eliminate bad market practices and regulations that hinder competition in markets that affect poor consumers (e.g. food, fuels, cement)**
Producers	• **Prevent anticompetitive practices and regulations that increase the costs of important inputs for businesses (e.g., transportation, fuels, telecommunications, professional services)**
Workers	• **Open markets to competition and eliminate restrictions to investment opportunities creating jobs for poor people and opportunities as producers in interlinked markets.**

Combating cartels in food markets

Improved anticartel enforcement → Reduction of consumer prices (elimination of overcharge) → **Savings and possibility to consume other goods**

- Simulation for the Kenyan sugar market
  - Overcharges have a larger negative effect on the poorest.
  - Taking into account the lower level of price elasticity, rural households' wealth is affected more than twice as much as urban households' wealth.





Source: World Bank, Competition Authority of Kenya, Forthcoming

Eliminating anticompetitive behavior and regulations that increase input costs

Improved anticartel enforcement and elimination of restrictive regulations → Reduction of input costs for farmers and microenterprises → **Higher profitability and access to more quality goods and services**

- Implementation of new freight transport regulations in the East African Community is expected to reduce cost for transporters in transit routes at about 20%.
- Reform in the registration of pesticides in Honduras has started to increase product availability and reduce prices in favor of farmers.
- The breakup of the Lao PDR trucking cartel and the opening of transit to all Thai truckers on Bangkok–Vientiane route generated a reduction in logistics costs of 30%.

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Elimination of entry restrictions

Elimination of legal restrictions to the maximum number of producers or bans to private participation → Expansion of existing markets and/or creation of new markets. → **Job opportunities in the industry and business opportunities in interconnected markets**

- **Pyrethrum in Kenya:** allowing for private investment in markets controlled by government commodity board.
  - Kenya lost over 75% of world market share to Australia and Tanzania in the past 30 years.
- With reform:
  - ~ 40,000 farmers would benefit from increased demand and value of exports (~ USD 4 million per year)
  - Labor income for workers in agriculture activities would increase by ~ USD 1 million per year.
  - Prices and productivity would increase due to better husbandry practices under contract farming

Approach for more effective competition policy

Opening markets and removing anticompetitive market regulation	Enforcing competition rules
Remove statutory monopolies, restrictions on the number of firms, or bans on private investment	Tackle cartel agreements that raise the costs of key inputs and final products
Eliminate controls on prices and other market variables that increase business risk	Prevent anticompetitive mergers
Guarantee a level playing field and nondiscriminatory treatment of firms	Strengthen the antitrust framework to combat anticompetitive conduct
	Control state aid to avoid favoritism

Characteristics of the WBG approach to Competition Policy

- Focus on key sectors: market-specific competition constraints and economy-wide issues that affect key sectors. In countries with weak/no competition agency the approach is primarily at the sector level.
- Focused on improving laws, regulations, guidelines and policies to increase effective enforcement and open markets to competition, and not only on enacting Competition Laws and creating Competition Agencies.
- Competition policy assessments are linked with effects on key economic variables for the country in order to raise the profile of the topic.
- Rapid assessment tools (checklists) replace extensive and descriptive market diagnostics studies and allow moving directly to implementation of recommendations to increase competition.

Competition agencies and poverty reduction:

Increasing effectiveness in shaping market functioning

- **Concentrating enforcement efforts on key markets for the poor :**
  - **"Be strategic and build demand for competition work"**
- **Integrating the CA work into broader government microeconomic policies:**
  - **"Be bold and expand their scope "**
- **Telling compelling stories:**
  - **"Identify, measure and communicate"**

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Pro-competition reforms are necessary to make markets work in benefit of the poor