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LONG TERM CONSULTANCY CONTRACT TO PROVIDE INTERNATIONAL
CONSULTANCY SERVICES IN SUPPORT OF THE PSD-HUB PROGRAMME IN ETHIOPIA

BASELINE SURVEY ON COMPETITION AND MARKETS IN ETHIOPIA

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Addis Ababa, 20 May 2009

THE PROJECT IS FINANCED BY
THE SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY (SIDA).
THE LONG TERM CONSULTANCY CONTRACT IS BEING MANAGED BY
BKP DEVELOPMENT, SWEDISH DEVELOPMENT ADVISERS, ECONOMISTI ASSOCIATI AND SOGEROM.



OBJECTIVE AND NATURE

- Project aimed at providing a first assessment of the level of competition prevailing in the Ethiopian economy
- Relatively small assignment (2 consultants with a total of 60 days). Some interviews, but largely based on secondary sources
- Follows earlier PSD Hub work on legal and institutional aspects of competition policy (end 2008)



METHODOLOGICAL APPROACH



- Primary focus on **structural factors**, which contribute to determine the level and intensity of competition, such as the presence of state-owned or endowment enterprises, the level of concentration and the relevance of barriers to entry

Market	Dimensions of competition distortion (1)						TOTAL Score	Distorted Competition Rank
	I. Market Share of Leading Operators	II. Asymmetry among Operators	III. Presence of State - Endowment Operators	IV. Presence of Vertically Integrated Operators/ Privileged Relations	V. Economic & Technical Entry Barriers	VI. Presence of Regulatory Obstacles		
<i>Market X</i>	2	2	1	1	1	1	8	9
<i>Market Y</i>	5	4	5	4	4	2	24	2

- Instances of (alleged) **anticompetitive practices** (price fixing, hoarding and exclusive distribution agreements) also analyzed



COVERAGE

Analyzed **14 markets** (sectors), representing a wide range of conditions, namely:

- **Consumer Goods:** flour milling, beer, soft drinks/mineral water, sugar, edible oil
- **Agriculture and Related Inputs:** cereals, fertilizers
- **Manufacturing:** textiles and apparel, cement
- **Financial Services:** banking, microfinance, insurance
- **Transport Services:** road freight transport, road passenger transport



KEY FINDINGS – STRUCTURAL CONDITIONS



- **Monopolized/highly concentrated markets, dominated by state-owned or endowment enterprises.** These include **fertilizers** and **sugar**, plus the special case of **microfinance**. In these markets, basically there is no competition to speak of and state-owned/endowment entities are fully in control
- **Highly concentrated markets with a dominant but declining state/endowment presence.** Include the markets for ‘standard’ financial services, **banking** and **insurance**, and for **cement**. In these cases, state-owned enterprises are still largely in command, but their position has been gradually eroded by private competitors



KEY FINDINGS – STRUCTURAL CONDITIONS



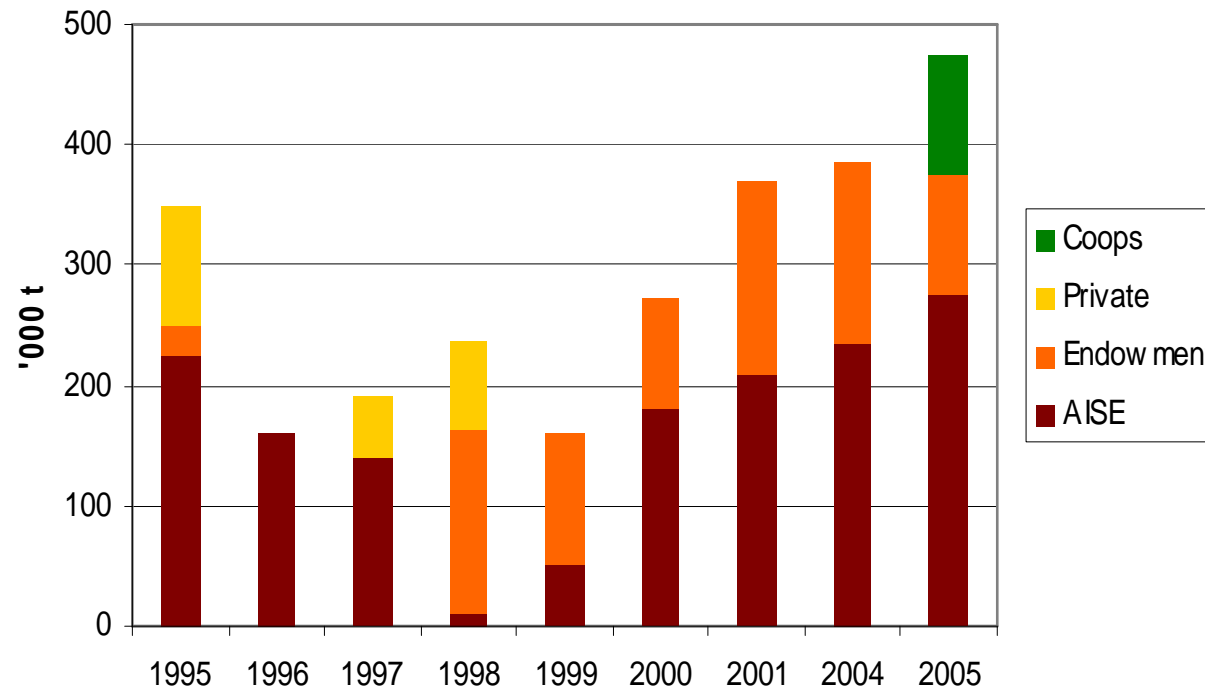
- **Highly concentrated markets with private sector dominance.** Include the markets for manufactured consumer goods, such as **beer** and **soft drinks/mineral water**. Here, large private companies play a dominant role but competition among operators, albeit imperfect, is indeed present
- **Low-moderately concentrated markets with private sector dominance.** Include the markets for basic food items, such as **cereals, edible oil** and **flour**, for **textiles and apparel**, and for **road transport services**. The situation may not be always ideal (some degree of dominance may exist in specific local markets), but overall competition appears to be fairly effective



KEY FINDINGS – STRUCTURAL CONDITIONS - EVIDENCE



Private operators virtually eliminated from the import of fertilizers

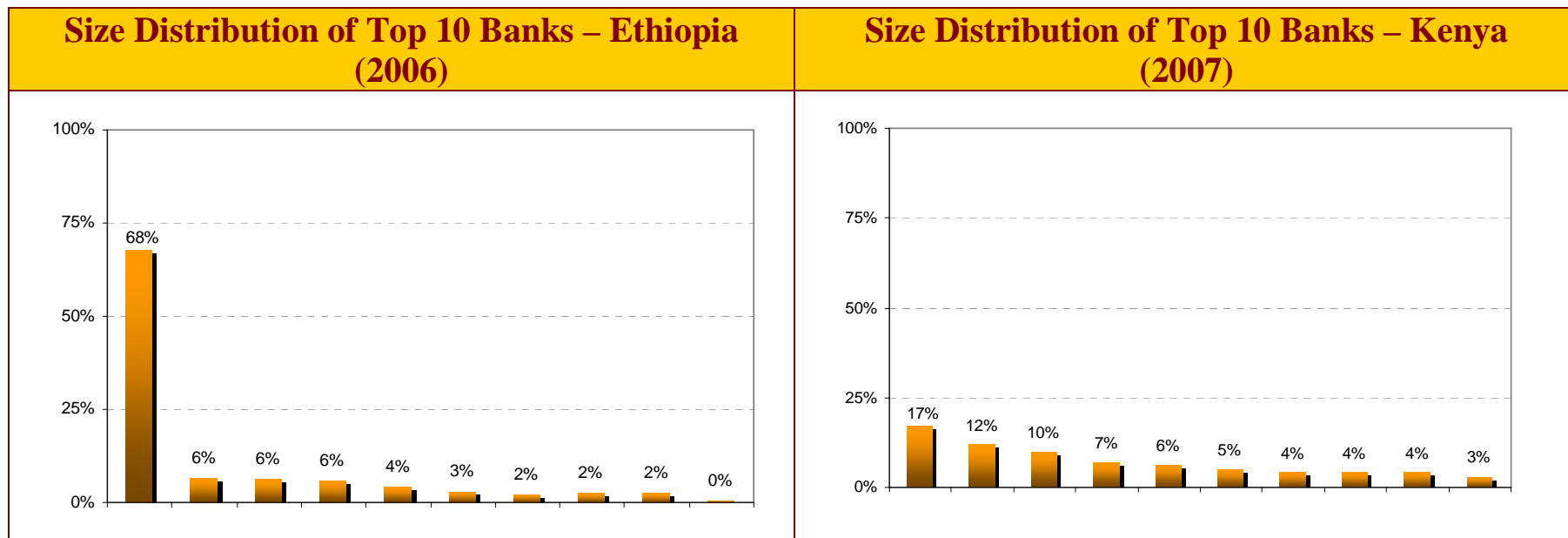


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SOME EVIDENCE

A highly concentrated banking sector...

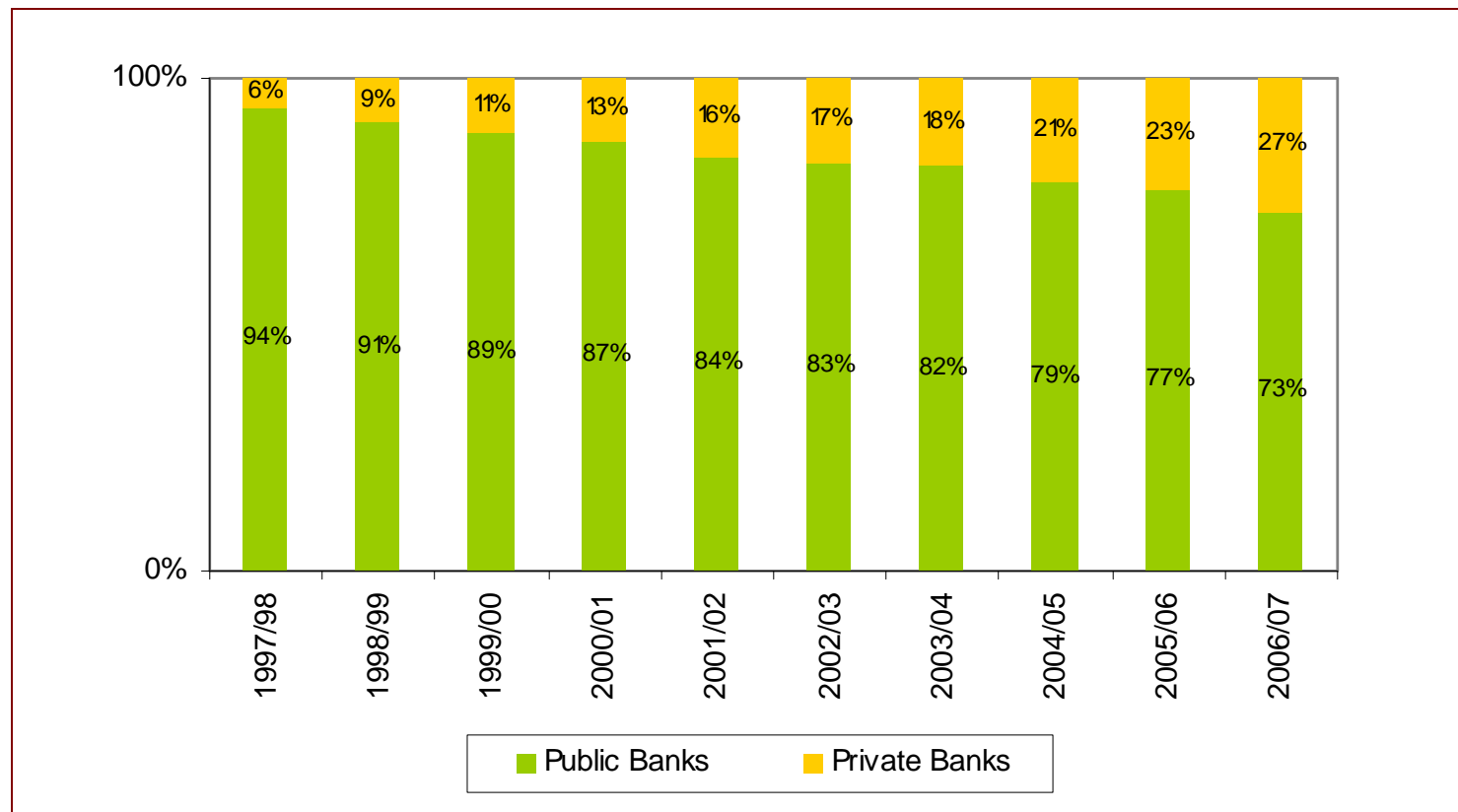


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SOME EVIDENCE

.... But the importance of state-owned banks is declining

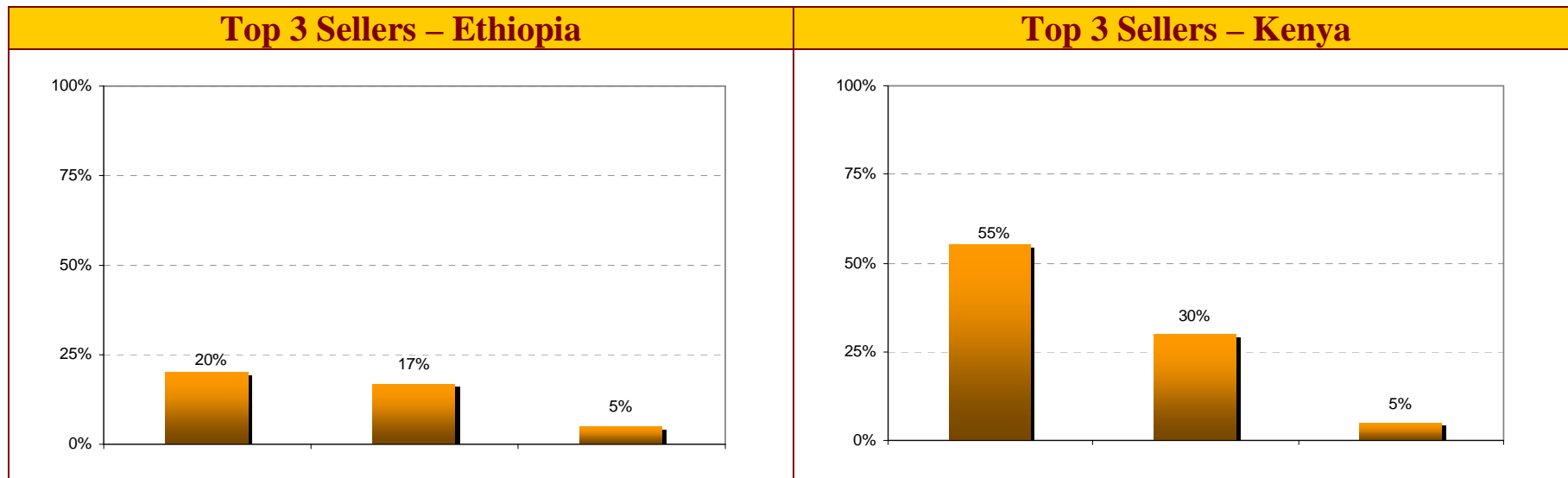


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SOME EVIDENCE

Cement is often regarded as ‘monopolized’, but this does not takes into account imports



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KEY FINDINGS – ANTICOMPETITIVE BEHAVIORS

- **Price fixing** (i.e. instances where producers/sellers combine in order to collectively raise prices). An example of alleged price fixing is represented by the nearly simultaneous increase in prices implemented by **breweries** at the end of 2007/beginning of 2008 (but raw materials also more expensive..)
- **Hoarding** (i.e. situations in which stocks of goods are deliberately withheld from trade in order to achieve higher prices). Accusations of hoarding are quite widespread in Ethiopia, especially in the case of agricultural products (e.g. **cereals**) and basic commodities (e.g. **flour** and **sugar**), but rarely rigorously substantiated,



KEY FINDINGS – ANTICOMPETITIVE BEHAVIORS

- **Predatory behavior**, whereby producers try to enforce exclusive distribution arrangements by refusing supplies to retailers who also carry competing products. Commonly found in branded goods (e.g. **soft drinks**)
- **Improper dealing with related parties**. Accusations of favoritism are particularly widespread in the **financial market**, where state-owned/endowment banks and insurers are often accused of benefiting from privileged relations with other state-owned and endowment enterprises
- **Unfair competition**, often blamed on importers ('contraband'), whenever they are more competitive than local producers



SOME EVIDENCE

Evidence regarding anticompetitive behavior is more often than not **ambiguous**, and does not allow to reach clear cut conclusions

See the case of alleged ‘contraband’ in edible oil

Period	Type of Oil	Tigray	Amhara	Oromya	SNNP	Addis
		<i>Unit Price (ETB per liter)</i>				
<i>August 2005</i>	Imported	12,12	11,9	12,51	12,89	12,89
	Domestic	11,59	12,05	11,25	11,20	11,78
<i>September 2006</i>	Imported	11,81	12,40	12,79	13,67	13,45
	Domestic	13,89	12,83	11,48	11,65	13,23
<i>August 2007</i>	Imported	16,73	17,07	17,22	17,77	17,30
	Domestic	19,30	21,09	18,66	17,87	22,21
		<i>Price Ratio (domestic/imported)</i>				
<i>August 2005</i>		96%	101%	90%	87%	91%
<i>September 2006</i>		118%	103%	90%	85%	98%
<i>August 2007</i>		115%	124%	108%	101%	128%



RECOMMENDATIONS



OVERALL APPROACH

- **Reconcile development policy and competition policy.** The benefits of competition have been too often sacrificed to the achievement of other policy objectives. Also, it appears that this has been done without performing a careful analysis of the pros and cons of the various policy options
- **Adopt measures capable of bridging the supply – demand gap and of stabilizing expectations.** Certain anticompetitive behaviors can only take place when there is a marked unbalance between supply and demand and/or when economic operators' expect dramatic changes in fundamental parameters (e.g. exchange rate). In turn, this is often due to Government policy.



RECOMMENDATIONS



POLICY, INSTITUTIONAL AND LEGAL

- **Accelerate privatization** (but not always easy, and not a panacea either)
- **Promote entry of new market participants** (was done in cement, could be done in fertilizers)
- **Remove barriers to the entry of foreign operators** (most important in the financial sector & telecoms)
- **Strengthen the TPC** (more investigative powers and resources)
- **Adopt a tough attitude towards exclusive distribution arrangements** (to be considered illegal *per se*)



RECOMMENDATIONS

OPERATIONAL AND TECHNICAL MEASURES

- **Establish a working group focusing on competition issues and involving both private and public sector** (mutual understanding of respective positions must improve)
- **Improve accessibility of information on competition issues** (listing and consolidation of sources, data on other countries for benchmarking purposes, etc.)
- **Carry out detailed studies on selected markets** (but this requires adequate resources)



THANK YOU FOR YOUR ATTENTION

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