



European Bank
for Reconstruction and Development

Expert Group Meeting

Competition as a means for private sector development

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November 2017



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Competition, investment and growth: Explaining the links

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Fair competition matters for investment

Theoretically: An inverted U-shaped relationship

- On one hand, strong competition provides firms with the incentives to invest in innovation to survive competition.
- On the other hand, strong competition decreases firms' profits (vs. monopoly rents) and thus lowers the incentives to innovate.

Empirically: Relationship conditional on the nature of competition-enhancing measures and the type of investment undertaken

- Lowering entry barriers, relaxing the constrained rate of return on capital, or changing the ownership structure of firms led to higher investment.
- Promoting market entry in some sectors, such as telecommunications through local loop unbundling, led to lower investment, specifically in network.

Competition, investment and growth: Explaining the links

Fair competition matters for growth

Theoretically and empirically: A positive relationship through a number of channels

- **Productivity:** Strong competition incentivises firms to produce and distribute more efficiently, to adopt better technology and to innovate.
- **Competitiveness:** Strong competition strengthens the ability of a country's firms to compete in export markets, or against imports in its home market.
- **Investment:** An enforced competition policy promotes both domestic investment and FDI as it strengthens investor confidence by setting a consistent framework within which the business sector operates.



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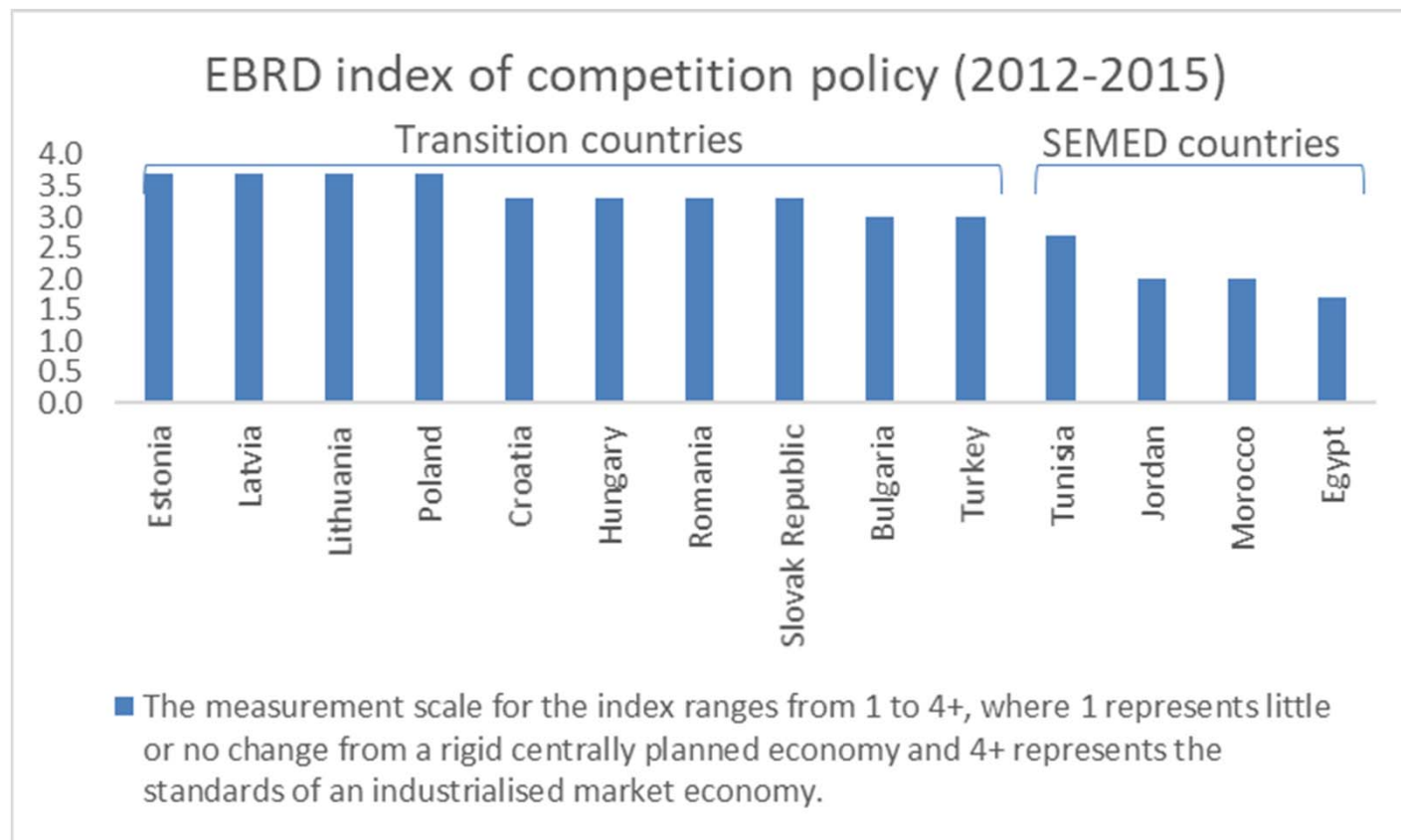
Competition in the SEMED: Where does the region stand?

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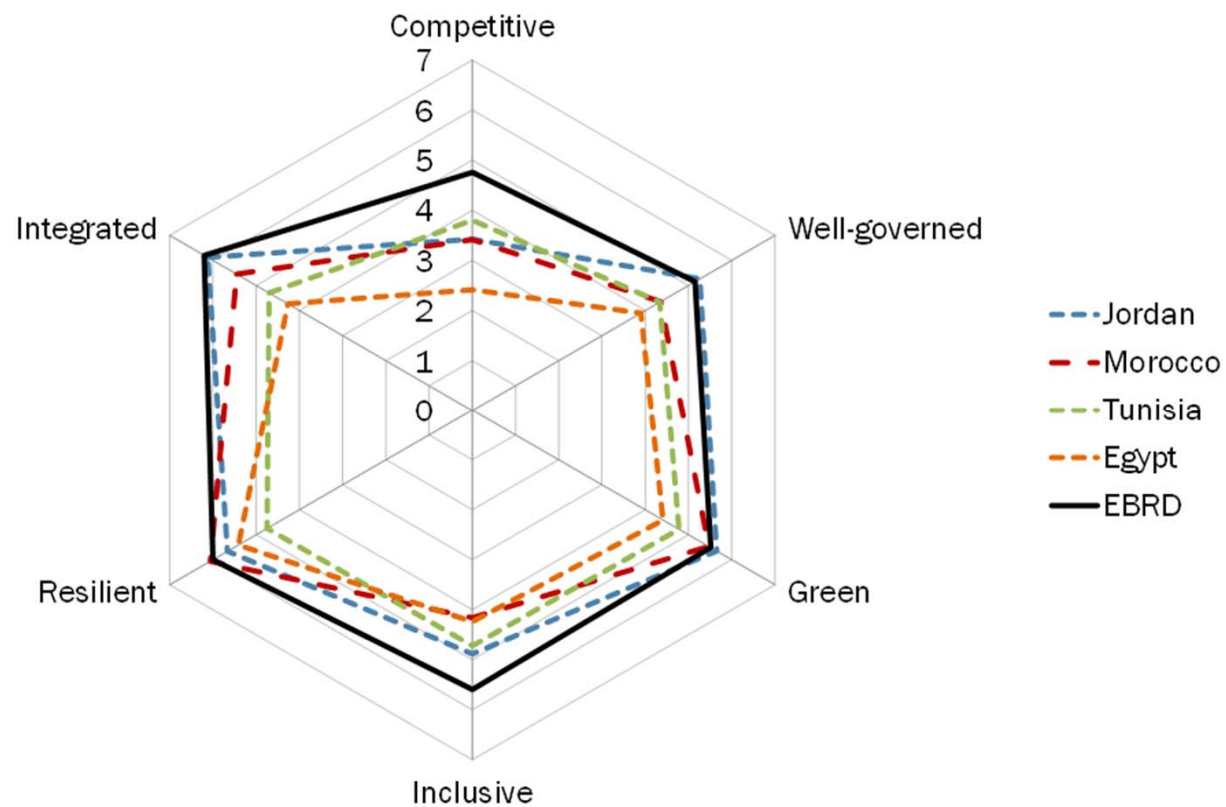
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SEMED countries are performing relatively poorly with respect to competition policy legislation, institutions set up as well as enforcement actions compared to transition countries.



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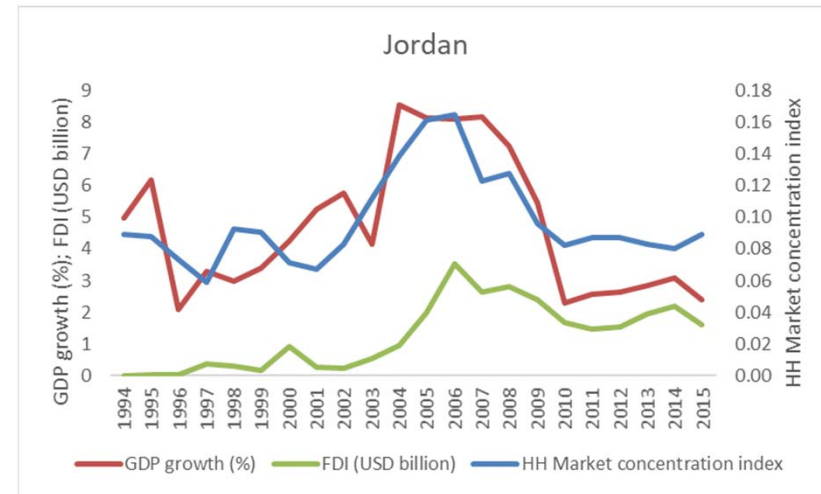
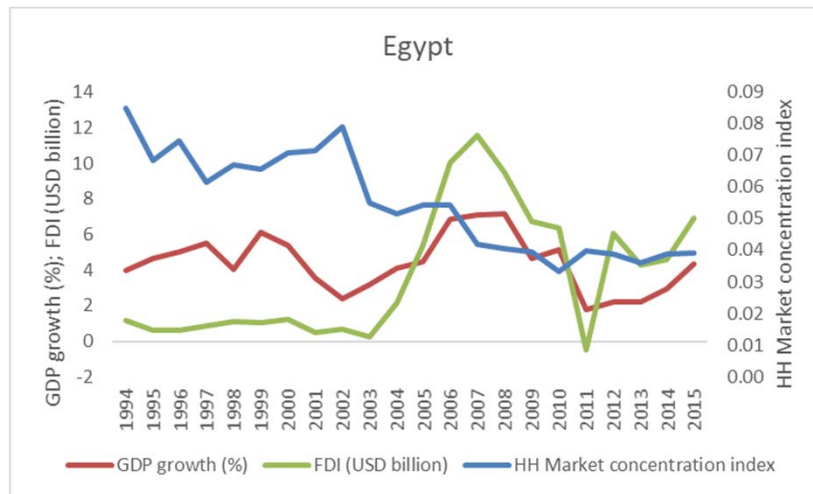
Despite the progress achieved, SEMED countries are still lagging compared to other EBRD's countries of operation.



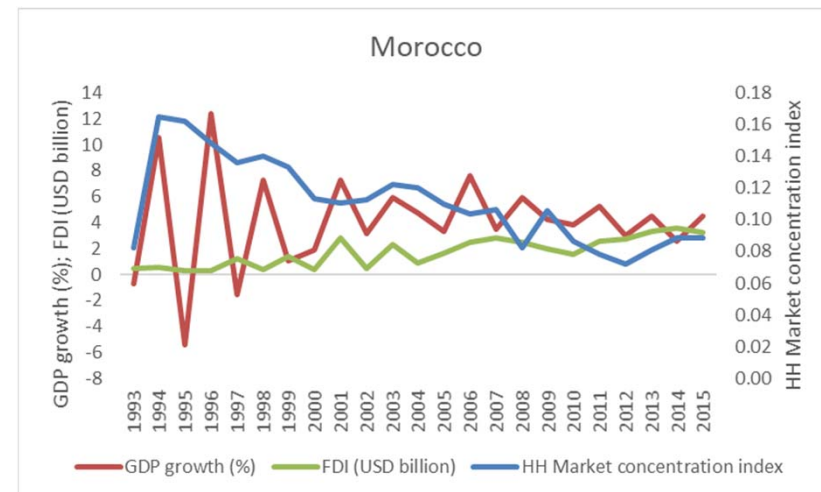
Competition in the SEMED: Where does the region stand?



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- Over the past decade, the markets of Egypt, Jordan and Morocco have been unconcentrated or moderately concentrated.
- In general, competition is strengthening in SEMED economies.

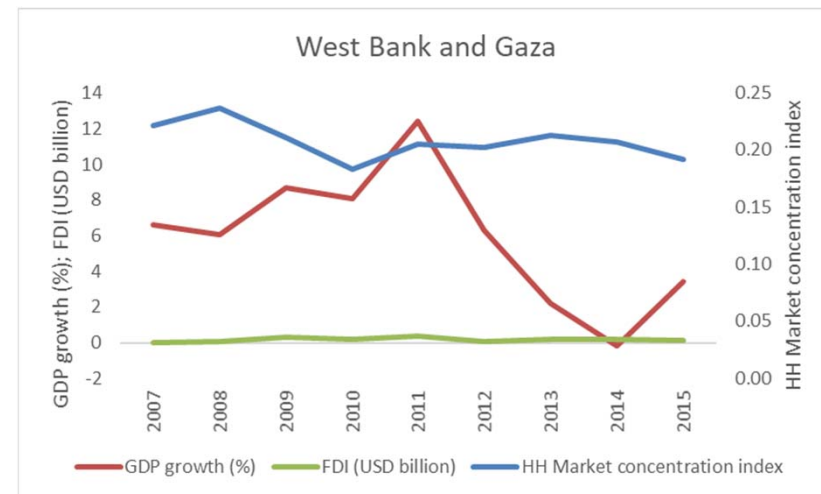
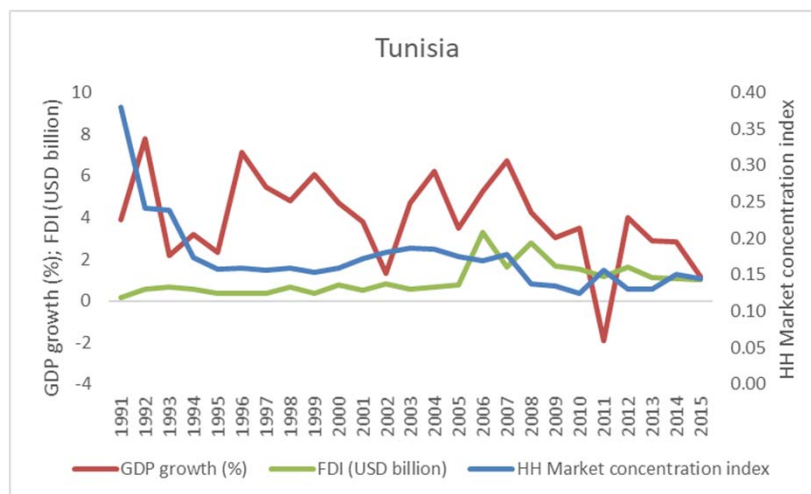
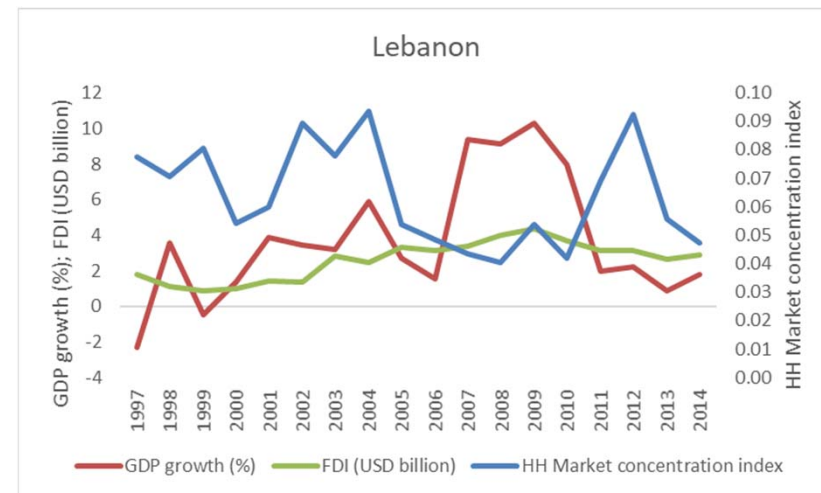


Competition in the SEMED: Where does the region stand?



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- Similarly, the markets of Tunisia, Lebanon and West Bank and Gaza are unconcentrated or moderately concentrated.
- Competition, investment and growth tend to converge in each SEMED economy.
- There is a wide divergence in competition, investment and growth across the region.





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Competition in the SEMED: Milestones and challenges

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Competition has relatively strengthened in the SEMED region:

- Competition laws and regulations were approved in SEMED countries to strengthen the independence of the countries' competition authorities.
- Under the new competition laws, private and state-owned enterprises are held equally accountable.
- Sectors that were traditionally monopolised by state-controlled enterprises, such as telecommunications and the natural gas industry, are now open to private sector participation.

Competition in the SEMED: Milestones and challenges

However, the competition policy framework remains weak, hampered by poor *enforcement*, the presence of *oligopolies* in key sectors and limited *institutional capacity*:

- Capacity to enforce competition policy and regulations remains low across the SEMED region, exacerbated by uneven enforcement.
- Barriers to competition in the region include high levels of state ownership, the prohibition of investment in certain sectors, abuse of market power and high barriers to entry in the form of burdensome procedures for starting a business.
- In many SEMED countries, competition agencies are understaffed, officials are poorly paid, turnover is very high, and the agencies lack independent authority.



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Towards a “competitive” economy

We are currently working with governments in the SEMED on a number of key competition issues:

Egypt:

- Developing investments in Green Logistics with private sector participation (PSP)
- Developing a bankable Power Purchase Agreement (PPA) for (Feed in Tariff) FiT renewable programme

Jordan:

- Introducing improved national skills standards in hospitality and tourism
- Addressing barriers to female entrepreneurship

Towards a “competitive” economy



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Our operations in the SEMED region will continue to support the “competitive” transition quality, which remains the basis for private sector development and central to its transition mandate:

- Helping the countries of its operations improve national competition laws
- Enhancing the capacity of the countries’ competition authorities for enforcement and increasing market awareness about their role
- Delivering judicial training in competition law in the countries of the Bank’s operations
- Supporting countries’ efforts to reform state-owned enterprises through, for instance, addressing structural issues such as heavy subsidies and regulated prices



Evidence from the champions: The transition countries

- Competition policy and recent changes in its implementation in transition countries are significantly and positively correlated with the intensity of competition.
- The fundamental message to be derived from the policy experiences of transition countries is that merely adopting a competition law is no panacea. Significant efforts are needed to ensure that competition policies are implemented well and have the desired effects.



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Thank you.

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