

CASE STUDIES: INDUSTRY COMPETITIVENESS

Identifying Constraints to Competitiveness

FIAS projects have identified sector and region-specific issues that hinder an open and responsible business environment

CASE 1: INDUSTRY ANALYSIS

In Indonesia, cross cutting value chain issues affect both the shrimp and textile sectors, among others, and include inordinate delays in VAT redemption, advanced income-tax collection that increases transactions costs and ties down working capital, border management institutions and procedures that allegedly encourage illegal transshipment of goods, and labor policy rigidities that adversely affect productivity. Sector specific issues include enforcement of quality standards in the shrimp sector and technology upgrades and associated lack of investment attractiveness in the textile industry. Standards issues and recommendations will be implemented by the WB lending project in the shrimp sector, with potential technical assistance by PENSA. In response to the Minister's request for assistance on the textile sector's technology upgrades and associated investment needs, the FIAS team has initiated discussions with MIGA to explore innovative options. In Mozambique, the insights and recommendations from the Mozambique Tourism Value Chain project are being operationalized by PEP Africa's Anchor Tourism project and the FIAS-PEP Africa-ICF investment climate project. The project also provides valuable input into the Trans Frontier Conservation Area (TFCA) project funded by the World Bank Group; and the Communications (transport) project by the World Bank.

CASE 2: COMPETITION POLICY

In 2002 the Costa Rican government established CONARROZ, an enterprise with monopoly rights to purchase rice from farmers and to process and distribute it at controlled prices. The stated objectives of CONARROZ, include stabilizing domestic rice prices, providing subsidies to farmers to augment output, and increasing productivity through technology transfer. This has not happened; in fact, FIAS studies show the opposite has occurred. FIAS found that many small farmers have been driven out of business due to high costs and low profits. In contrast, large-scale rice processing firms have been enjoying windfall profits by vertically integrating backwards into farming, and forward into distribution – while being insulated from international competitive discipline behind import tariff rates of 35 percent. Market concentration has increased with the leading four firms, accounting for market shares of 70



ABOVE: Musician Bono visits Lesotho to lend his support to fashion industry reforms

Photograph courtesy of **Product (RED)**

percent. Consumer prices have also increased steadily, and domestic production has decreased by 27 percent. Imports of rice have also increased. Since on average Costa Ricans consume twice the amount of rice as their neighbors, the impact of increased prices is particularly felt by the poor. With this in mind, FIAS has provided recommendations for policy changes to promote competition, efficiency and consumer welfare.

This project has allowed for consumers, civil society, private sector and some government institutions to question the monopoly rights granted to CONARROZ as well as the policy of regulating the rice market. The study's findings have led to a lively debate and are challenging policy makers to either justify the current system or to dismantle or reconstitute it to better meet the stated objectives. The project points to alternative ways in which Costa Rica can meet its socio-economic-political objectives in respect to this important sector.

CASE 3: CORPORATE SOCIAL RESPONSIBILITY

In collaboration with the Multi-Fiber Agreement (MFA) Forum, FIAS advised the government of Lesotho and the apparel industry on strategic ways to overcome the expiration of this arrangement (MFA) and the potential expiration of the third country fabric provision in the African Growth and Opportunity Act (AGOA). At a high-level stakeholder forum in the capital of Maseru, representatives from the government, apparel industry, unions, major brands and international organizations agreed on a road map to improve regional integration, expand into new markets, and ensure decent working conditions.