

Competition Reforms in the Ghana: Exploring Options in Bus Transport



After its independence in 1957, Ghana adopted the view that its advancement to socialism would be deterred if private capitalism were encouraged. However, since 1983, this position has been reversed, with the adoption of major social, political and administrative reforms through Economic Recovery Programme (ERP), which recognise the importance of private sector promotion on economic development. These programmes empowered people to take entrepreneurial initiatives, assist them in building businesses, and set the pace for a comprehensive programme of opening up the economy to private investors, including foreign direct investment. Ghana, presently, does not have either a competition policy or a law in place, despite efforts to develop competition legislation over the years. The Protection Against Unfair Competition Act, 2000 (Act 589) administered by the Ministry for Justice, is the key law related to competition in the country, but is not in line with modern antitrust or competition legislations. For instance, it does not create any regulatory body or administrative process for enforcement. This study assesses the state of competition and the impact of competition-focussed reforms in the bus transport and maize sector in Ghana.

Bus Transport Market in Ghana

The importance of the bus transport market in Ghana is highlighted by the fact that it comprises 60 percent of the nation's vehicle fleet and 68 percent passenger traffic. Both private and public players provide inter-city and intra-city bus transport services in Ghana. In urban areas, bus transport is largely controlled by small, informal operators called 'trotro' operators (minivans or medium buses that hold 12-24 people). The trotros do not follow any schedule – they depart once the bus is fully loaded at the origin. Formal intra-city bus transport in Ghana is limited to school transport and special arrangements made for transportation of workers. In contrast, the inter-city bus transport market in Ghana is characterised by the presence of formal players operating newer fleets of medium and large buses along major inter-city bus routes according to specific schedules.

Regulatory Evolution of the Bus Transport Market

The Ministry of Transport (MoT) is responsible for creating an enabling environment for the development and maintenance of Ghana's transportation system. The bus transport industry in Ghana is governed at two levels – ministerial level for policy formulation, and agency and departmental level for permits, licensing and enforcement.

The key reforms in Ghana's transport sector are:

- Passing of the Road Traffic Ordinance of 1952 which provides regulations on licensing, road traffic control, and vehicle construction
- Repealing of the Omnibus Services Authority Decree (NLCD 337) by the Ghanaian government in 1972, which led to deregulation of the bus service operations in Ghana, enabling entry of various owner/drivers in the market
- Adoption of the National Transport Policy (NTP) in 2008 to encourage private investments in the

transport sector with the objective of providing an integrated, efficient, cost-effective and sustainable transportation system responsive to the needs of society and effective for customer needs

Subsidised Public Transport

In 2003, Ghana set up the Metro Mass Transit (MMT) with the objective of promoting mass transit to reduce congestion and ensure transport affordability and accessibility across cities and towns of the country for the most vulnerable and excluded groups. Private investors had a share of 55 percent in MMT, whereas the Government of Ghana held a 45 percent share due to the belief that government-run public transport operation would place greater priority on affordable fares and service enhancements. The provision of subsidised mass transit bus transport service is in line with Ghana's NTP and the Third Draft Sector Medium-Term Development Plan.

However, MMT's objective of providing a cheap transport option for ordinary and poor commuters has not been fully realised. Due to government control over its fares, MMT is unable to recover its costs and break-even, which influences its service and results in inefficiencies. For example, because of inefficiencies, MMT has accumulated a large fleet of un-serviced buses, and consistently operates under-capacity. Since MMT cannot charge market-based fares, it recently (in 2014) appealed for a bailout package of GHC 58 million (over US\$16mn) from the government to improve its services, expand coverage and attain sustainability.

In terms of financing, ready access to government funds and tax exemptions provides MMT an unfair competitive advantage over the informal private operators. Consumer survey undertaken for the project confirms that MMT has not been able to fulfill its mandate in terms of access and availability. Although most consumers found MMT

Despite cheaper, safer, and more comfortable service by MMT, 75 percent of consumers surveyed have to resort to informal private buses due to availability issues with MMT, which only maintains a 5 percent market share and only serves three routes

cheaper, safer and more comfortable (especially for women), a majority of them (75 percent) end up travelling in private informal buses due to low availability of MMT buses. In

fact, MMT only has a five percent market share in bus transport and serves only three intra-city routes, while private operators serve 22. Private buses do a better job than MMT of adhering to their timetables, especially on inter-city routes. MMT thus needs to identify specific 'niche' markets that it should service in order to achieve its social objectives, and at the same time identify a revenue model that would make it financially sustainable.

Promotion of Private Sector Investment

Most informal buses commercially operating in Ghana are more than 15 years old due to the high cost of acquiring new buses. Bank loans are hard to come by, and interest rates are very high (around 52 percent). This limits bus operators in Ghana to resorting to importing second-hand vehicles from other countries, with 73 percent of inter-city buses reported as imported. Only four percent of bus operators that CREW surveyed said that their buses were in very good condition.

The bus market is informal with most operators (63 percent) owning just one vehicle. The vehicles operated are generally old and in poor condition, which could have safety implications

To improve access to finance, which is necessary for replacing the existing vehicle fleet with newer, more modern vehicles for efficient, comfortable and

safe operation, the NTP has introduced reforms promoting investment in the bus transport industry. The government has adopted a two pronged strategy through private public partnership (PPP), and by providing concessional rates for leasing buses. However, both of these strategies have confronted challenges such as payment defaults, high interest rates on loans, misuse by the transport unions, and limited regulatory oversight, thus hindering their success. This is highlighted by the fact that over 90 percent of the operators surveyed still use their own resources for bus acquisition. As a result, the bus market is informal with most operators (63 percent)

owning just one vehicle. The vehicles operated are generally old and in poor condition, which could have safety implications.

Route Allocation

According to the LI 2180 of 2012 (under Regulation 121) of Ghana, the private informal bus operators are required to operate under defined management structures by tendering on competitive fares, service levels, safety, etc.

for sole operation on specific routes. However, this regulation is not effectively enforced because in Ghana, the

permit issued to operators by the Metropolitan, Municipal or District Assemblies (MMDA) applies to the whole license area and not to specific routes. Since route rationalisation has not been implemented effectively in Ghana, cherry picking of profitable routes with high commuter demand by transport unions is common, particularly in the intra-city segment. This also highlights the significant role that transport unions play in the Ghanaian transport sector. The absence of regulatory route allocation has resulted in transport unions such as the Ghana Private Road Transport Union, which control 85 to 90 percent of the market, allocating routes among the wide range of private players in the market based on preference and ability to lobby.

Ghana is planning to introduce route allocation in order to ensure a well-functioning market with increased competition in service provision, thereby introducing efficiency into the industry, enforcing effective transport regulations and improving performance standards. It was expected that as a result of LI 2180, there would be adequate competition in the market as rival companies would strive to increase their market share by offering attractive services to customers, establishing themselves through aggressive marketing and providing high quality services, especially increasingly higher safety standards. A possible concern with this policy was that strong companies will tend to grow stronger and will out-tender

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weaker ones. However, route allocation has been unsuccessful due to the control of transport unions in route allocation.

Conclusion

The bus transport market in Ghana needs to implement pro-competitive reforms in order to create a level playing field. There is also a need to properly regulate the informal sector operators, create incentives to increase services, improve service quality, and innovate, and improve the overall experience of passengers. MMT does not meet its mandate of providing quality, affordable service to the poor due to its poor reach, and must

be supplemented by private informal buses, which are dominated by unions. Pro-competitive reforms like route rationalisation could not be effectively implemented due to the resistance by these unions. Efforts to promote private sector investment have not been met with much success and high interest rates present a formidable barrier to entry/expansion. The fare-setting process is not scientific, but based on negotiations between the government and the unions, with no representatives of passenger welfare associations/consumer associations. Pro-competitive reforms (such as LI 2180) have fallen flat, but if properly implemented, could revamp the industry.

This 'Policy Options' Note has been prepared under the CUTS CREW project (<http://www.cuts-ccier.org/crew/>) to initiate the discussions on competition reforms in two key sectors by highlighting implications on consumers and producers thereof

About the CREW Project

The Competition Reforms in Key Markets for Enhancing Social and Economic Benefits in Developing Countries project ("CREW") is being implemented over three years in four countries (India, Ghana, the Philippines and Zambia) to develop an approach for assessing the impacts of competition enhancing (or reducing) reforms on consumers and producers in two selected markets (staple food and bus transport). Supported by DFID (UK), BMZ (Germany) and facilitated by GIZ (Germany), CREW aims to demonstrate to policymakers and development partners the impacts of competitive markets on consumers and producers to garner greater attention and support to this issue and motivate the allocation of resources for implementing competition reforms in developing countries. For more information see www.cuts-ccier.org/CREW.

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Competition Reforms in the Ghana: Exploring Options in Maize



Role of private players has been encouraged in Ghana in case of both procurement of maize from farmers and supply of seeds to farmers; however there is need for better information dissemination to the farmers.

Regulatory Evolution of Ghana's Maize Sector

In 1988, the Medium Term Agricultural Development Programme (MTADP) was introduced by the Government of Ghana and the World Bank. Under this programme, the government reduced interventions in input and output markets to provide an enabling environment, and increased investments in public goods and services, including feeder roads, marketing infrastructure, irrigation, research, and extension. In 1995, before the end of MTADP, a long-term national development policy framework, 'Ghana-Vision 2020' was launched.

Thereafter, in 1996, the Accelerated Agricultural Development Strategy (AAGDS) was prepared to enhance agricultural growth with emphasis on more intensive crop production systems, particularly in areas of high agriculture potential. This was followed by the adoption of two Food and Agriculture Sector Development Policy (FASDEP) in 2002 and 2006 respectively.

Fertiliser Sector Reforms

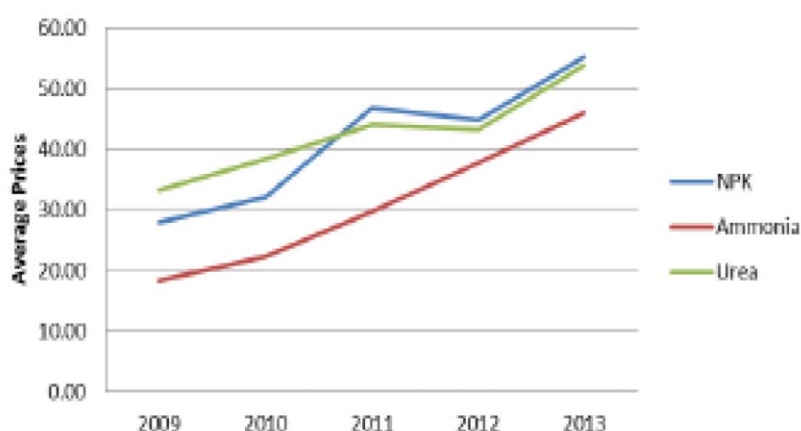
Input subsidies were provided to the farmers by Ghana's government in the 1980s, including a subsidy of 65 percent on fertiliser imports. In the 1990s, reforms were implemented in the fertiliser sector, starting with the abolishment of the government monopoly in fertiliser import and distribution in Ghana, which opened up the market to a large number of players (importers, distributors, and retailers). This appears to have been successful, as about 75 percent of farmers surveyed in the CREW project obtained their

fertilisers from private sources, regardless of their distance to the supply points.

Following a rise in global fertiliser prices in 2007, a new subsidy programme based on vouchers was introduced in 2008 in partnership with the country's major importers. However, due to operational deficiencies and delays in payment to importers, this subsidy programme was disbanded after two years. A new subsidy programme was introduced in 2010 under which the government and importers negotiated a discounted price at which fertiliser is sold in the local market, with the government directly paying importers the remaining amount. Essentially the retail network of the private players is used in supplying the fertilisers to farmers. A detailed assessment of the impact of this programme is yet to be undertaken, however, feedback from farmers suggests that there have been some improvements in the availability of fertilisers. However, the issue of delayed payment to importers remains unresolved, which delays fertiliser delivery (particularly in the south), and the financial burden on the government has been enhanced due to a weakened Ghanaian Cedi (GHC, local currency).

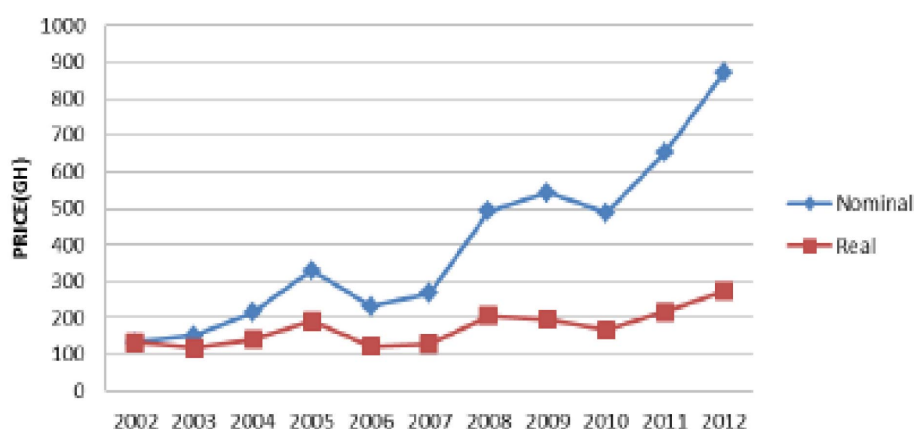
Unsurprisingly, farmers are in favour of the subsidy programme continuing, especially since the prices of the key fertilisers have been increasing over the years (see figure below). However, these subsidies are unsustainable due to their high costs to the government. Factors contributing to the high cost of fertilisers in Ghana include the cost of finance, marketing and distribution costs (including high margins), inland transportation costs, exchange rate changes, and an alleged transporter's cartel.

Figure 1: Prices of Fertiliser used by farmers (2009-2013)



Source: Computation from field data

Figure 2: Average Wholesale Price Trends for Maize



Source: Computation from field data

Further, the supply of subsidised fertilizer is limited to few areas, leaving out small retailers in remote rural areas. This requires farmers from these remote areas to travel large distances amounting to an additional cost. The distance of fertiliser suppliers in the various regions ranges from 34 kilometres – 197 kilometres with a national average of 92 kilometres. However, despite this distance to the supply points for fertilisers, according to the perception survey, 75 percent of respondents obtained their fertilisers from private sources, which are generally located in the district capital.

National Food Buffer Stock Company (NAFCO)

NAFCO was established by the MoFA to ensure the security of Ghanaian farmers (especially small farmers) and insulate them against losses resulting from the anticipated increases in production, as well as to ensure national food security. NAFCO was intended to be the last resort for farmers as there is a strong private-trader run procurement system already present in the country (which is dominated by so-called 'market queens'). This is highlighted by the fact that NAFCO's market share is only around three percent and it does not have any significant effect on maize prices in Ghana. According to a survey conducted for the project, 90 percent of

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farmers reported that they sold their maize at the market price, which was determined by the market queens/traders.

While there has been an overall

increase of maize prices in Ghana – which can be attributed to production and adverse environmental causes – the price has stabilised to some extent

(according to the coefficient of variation) since the establishment of NAFCO. The average variation of prices between 2002 and 2008 was about 48 percent, compared to only 31 percent from 2009 and 2012. However, attributing this price stabilisation to NAFCO may be flawed as NAFCO's total purchase of maize ranges between only two and five percent of the total maize supplied in the market. Moreover, 84 percent of farmers surveyed for the project were unaware of the government base price (NAFCO price) and 90 percent did not know NAFCO's price setting mechanism. It is possible that the market signal due to the establishment of NAFCO contributed to the price stabilisation.

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National Seed Policy

Ghana's initial strategy with respect to seed development was focussed on public sector investments and subsidised seed supplies to farmers. The cost and monitoring issues related to this strategy led to the closure of the public seed company in the late 1990s and a shift in policy. Private sector players including seed companies, seed producers, farmer-based organisations (FBOs) and community-based organisations (CBOs) were encouraged and supported to engage in the commercial operations of the seed industry. A

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and sustainable private sector-driven seed industry. This would be achieved by accelerating the takeover by the private seed sector of certified seed production and marketing and progressively minimising the public sector operations in these activities. Further, the government would not control the price of seed supplied by private sector. Competition was also introduced through imported seeds. However, around 70 percent of farmers interviewed in the survey, sourced their seed from other sources (i.e. used their own seed from the previous year or other informal channels), which

National Seed Policy was thereafter adopted in 2013 to support the development and establishment of a well-coordinated, comprehensive

implies that there is a need for better information dissemination among farmers about the benefits of using certified seeds. Further, 21 percent had no options for purchasing seed, and over 25 percent said the quality was bad, indicating that supply issues remain.

Conclusion

Although Ghana has undertaken steps over the years to promote competition in the fertiliser, seed and procurement markets by dissolving and/or avoiding government monopolies in these markets, there are certain issues that still need to be rectified. For instance, in case of the fertiliser market, steps need to be taken to address the financial burden of subsidies; and with respect to seed and procurement, focus on information dissemination is essential so that the farmers can make informed decisions. Liberalisation of maize procurement through the involvement of 'market queens' seems to have benefited the farmers, significantly.

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