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COMPETITION POLICY FOR DEVELOPMENT

POWERING MARKETS FOR INCLUSIVE GROWTH



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Competition Policy for Development: Powering Markets for Inclusive Growth

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Key messages

Competition is a powerful engine for development, yet many countries are not reaping its full benefits. Competition—the rivalry between businesses for market power and profitability—is essential for productivity growth, consumer welfare, and better jobs. Over the past decade, business ownership networks have grown more concentrated and intertwined with the state, particularly in developing economies—where profit margins are not only high but rising. And governments in these countries are interfering more often with market dynamics, putting healthy competition at risk in as many as one in five industries.

This report provides a new methodology to assess market competition, offers updated policy recommendations targeted to developing countries, and addresses prevalent misconceptions about market competition. Competition policy goes far beyond antitrust enforcement—it can and should be embedded across all areas of economic policymaking. This approach is relevant for countries at every stage of development, regardless of size or economic model. Crucially, competition policy is not at odds with social or national priorities. When effective, it can support food security, poverty reduction, and job creation. By designing and implementing government interventions that preserve market entry and contestability, let prices signal where investments would be desirable, and ensure merit-based competition, policymakers can harness the full potential of competitive markets to drive economic opportunities and growth.

Market competition is facing a challenging environment

A new approach using multiple indicators to assess competition dynamics reveals that many industries in developing countries risk weak competition. On average, those industries account for about one-fifth of all industries, revenues, and employment in the economies analyzed in this report, mostly in manufacturing and enabling services. Several of them play a key role in value chains such as digital and agrifood, where firms linked to the Forbes Global 1,000 companies are becoming increasingly prominent.

The business landscape is undergoing a transformative shift, increasing the vulnerability of healthy market competition. Conglomerates—networks of business ownership—can be efficient in accumulating capital, achieving production scale, and integrating into supply chains, especially in low-income countries. But they can also pose significant risks to market competition by diminishing competitive vigor, especially when intertwined with vested interests. Country case studies for the Philippines, Serbia, and Viet Nam illustrate that conglomerate firms tend to be less productive when shielded from competitive pressure, and government industrial support is more frequently directed toward sectors dominated by conglomerates or companies linked to high-net-worth individuals. By raising multimarket contact, stabilizing market structures, and creating strategic interdependence across sectors, ownership connections increase the risk of weak competition. Meanwhile, *explicit* collusion is already prevalent and widespread: in 2017-22, competition authorities detected over 1,000 cartels across 78 countries, including 52 low and middle-income countries. This report finds that eliminating 10 cartels prosecuted in 6 countries—Bolivia, Kenya, Indonesia, Mexico, Peru, and Tunisia—could have raised households' purchasing power by up to 1.7 percent.

Internationally, the ownership connections between businesses are expanding dramatically and becoming more complex. The largest 1,000 companies on the Forbes list expanded their networks across countries and industries. They are linked to more than 90,000 firms in 572 industries

in 133 developing economies, with a 50 percent increase in the number of firms in 2019–22. These conglomerates have expanded rapidly in the digital and agrifood value chains in middle-income countries. Such complex ownership networks can undermine competition through multi-market contact, co-ownership, and vertical integration. In over 60 percent of industries, multiple Forbes Global1,000 linked companies compete in the same industry and country. About 7 percent of linked firms are co-owned by several top firms, and 40 percent of the top firms share common ownership. Many operate across at least five stages of the supply chain, controlling up to 90 percent of essential inputs in some chains. The link between private and government ownership further complicates the business landscape. Sovereign wealth funds have gained influence, growing by US$1 trillion every two years, creating closer ties between governments and businesses.

Government interventions and the role of the state in markets are expanding, while market institutions to safeguard competition are not keeping up. The revenues of SOEs on the Fortune Global 500 more than doubled from 2015 to 2020, and sovereign wealth funds are growing, but governance structures for these entities lag. In upper-middle- income countries, state owned enterprise governance is more restrictive to competition than in high-income countries, although this restrictiveness slightly improved from 2018 to 2023. Many low and middle income countries are adopting domestic preference clauses in public procurement, and industrial policies that disadvantage certain firms grew from 2018 to 2022. Gaps remain in the transparency of subsidies and tax expenditures, and in frameworks controlling support measures to ensure that they are necessary, proportionate, and effective.

Market regulations more often stifle competition than foster it. Goods and services offered in markets that do not generally present market failures are still regulated in many countries, while prices of natural monopolies and infrastructure access charges are not well regulated. Notably, about one third of enterprises report that their prices are regulated in the Middle East and North Africa. Furthermore, product market regulations in network industries in upper middle income countries continue lagging high income countries, restricting entry and contestability. Misallocated resources and entrenched market players predominate in sectors with more restrictive sector regulation, as in Armenia.

Although more competition authorities are in operation, and many have positive impacts on markets, challenges to their effectiveness remain. Countries with better competition laws and institutional frameworks seem to have lower shares of industries at risk of weak competition, while tools and resources for competition enforcement are correlated with the number of cartel and digital market cases authorities pursue. Nonetheless, competition law frameworks have gaps, especially in granting tools for enforcement against anticompetitive practices and mergers and in the scope of their powers across all sectors and firms. Many authorities lack sufficient staff, financial resources, data access, effective cooperation arrangements with other market institutions with complementary mandates, and cross-border cooperation protocols.

Developing countries can increase productivity and wages by fostering competitive markets

Gauging the intensity of competition in an industry is difficult, but a new multivariate methodology offers more nuanced insights. Unlike trade or investment, which are measurable transactions, competition is a process. This report develops a multivariate analysis capturing different aspects of this process to provide insights about market competition at a granular level and screen for industries at risk of weak competition. Countries can use this approach to identify

industries that are not only concentrated, but that also lack dynamism and have high margins, and low productivity. In the future, as firm-level data globally improves in coverage and quality, this approach can incorporate even further proxies for the competition process.

The benefits of boosting market competition in developing economies are substantial. Industries at high risk of weak competition experienced, on average, between 11 to 14 percent yearly lower productivity growth and 2 percent lower yearly wage growth than low-risk industries. If policies were to improve competition in all industries considered high-risk to become low-risk, yearly productivity growth in a typical country in the sample could increase by 6 to 9 percent on average across countries. Annual wage growth could rise by about 1 percent on average. This would have important repercussions for essential value chains for food security and digitalization.

The new tool improves upon traditional ways to screen industries for risks of weak competition, and helps in the selection of in-depth competition analysis at the market level. Hence, it allows authorities to prioritize effectively in-depth competition assessment in specific markets, adding information about ownership structures and government policies as a first step. The recently published "Market Competition and Policy Assessment Tool" (MCPAT) is the most comprehensive guidance tool available to that effect.

An ecosystem approach tailored to the capabilities of developing economies is needed; competition authorities alone are not enough

Few countries have effective antitrust policy and enforcement, but countries of all income levels can implement policies that integrate competition principles. Regardless of their size or income, countries can enhance market functioning and reap development gains from competition. Removing a state monopoly and ownership restrictions in the logistics sector in Ethiopia brought in US$250 million of foreign direct investment. Allowing for more competition in the registration of fertilizers in Honduras brought down prices by 8 percent. Designing voucher programs such that companies compete for eligibility or product delivery lowered prices in China and the Dominican Republic.

To support pro-competition policies, countries—rich and poor—need better data and tools to monitor and understand markets. The rapidly changing dynamics of markets and ownership structures demand that market institutions evolve accordingly. Building on the contributions of this report, data and analytical tools to screen for market problems need to be improved and converge to the standards of other economic policy fields, such as trade, fiscal, and monetary policy. It is essential for academia, international institutions, and national governments to increase their understanding of competition trends and improve their analytical tools.

Tailored to their context, governments seeking to reap the gains of competition should strengthen market institutions, market policies, and market monitoring. Where competition authorities are viable, they need better tools to detect anticompetitive practices and harmful consolidation, while considering ownership complexities. Supported by competition authorities, independent sector regulators must uphold competition principles. Policies should encourage market entry, contestability, and innovation, rather than favor incumbents. Public resources—through SOEs, procurement, and firm support—should create a level playing field with transparency and effective monitoring. Tracking multiple indicators to monitor market competition is critical to address market distortions.

Reform priorities will vary by institutional context and economic reality, and entrenched interests should not impede successful competition reform efforts. In low-income and fragile contexts, the emphasis should be on embedding competition in procurement, improving governance, and facilitating trade and investment without necessarily establishing formal authorities. Lower-middle-income countries should prioritize competitive neutrality, strengthen sector regulators, and begin building functional competition agencies. Upper-middle-income countries should shift toward competition law enforcement, more effective sectoral regulation, and the reduction of distortive business support measures. Even in the presence of strong vested interests, targeted advocacy—mindful of the role of vested interests—can help open markets. Advancing reform requires a phased approach, prioritizing interventions based on impact and feasibility, identifying reform champions, and capitalizing on windows of opportunity, such as political transitions or crises. The MCPAT provides deeper guidance on how to navigate the implementation of competition reforms.

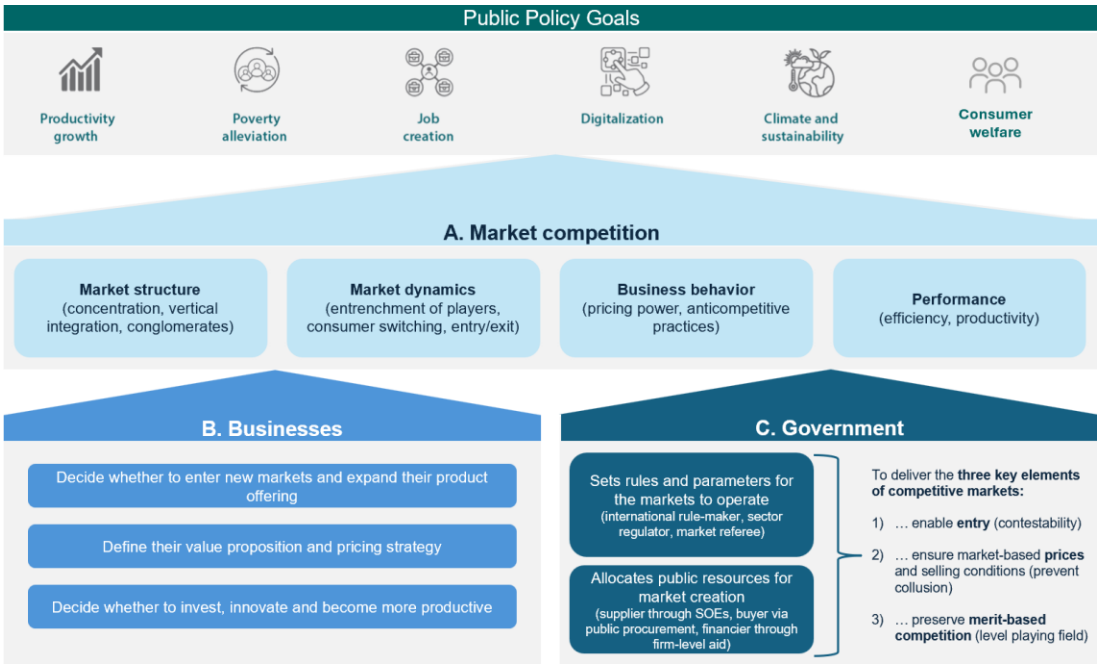
Introduction

Markets are fundamental in an economy. They connect investors that allocate capital, enterprises (private and public), the government that acts as buyer and/or seller, and individuals who decide to work and invest in their human capital. Markets influence firm-level decisions, such as whether to venture into new domestic or international markets, adjust their value proposition and pricing strategy, invest, innovate, adopt new technologies, and change their inputs mix to become more productive. Market forces create links within industries and across domestic and international value chains. For instance, a grain broker in Switzerland can link a wheat exporter in Argentina with a wholesaler in Kenya and use warehousing, port and shipping services to deliver wheat for processing into flour, pasta, and bread. Competition at each supply chain stage matters for development outcomes like food security.

Competitive markets feature three key elements to deliver the most economically efficient outcomes. First, market entry (and exit) conditions should allow the more innovative and productive, market players to enter and remain in the market and boost contestability (allowing for competitive pressure even if actual entry does not happen). Second, prices must be able to adjust to reflect scarcity, signaling where investment and innovation would be profitable and necessary.[1] Third, a level playing field should reward the efforts of market players that innovate, invest, and reduce costs.

These essential characteristics, determining the intensity of competition, are shaped by government policies and business decisions. Competition, rivalry between firms, is a dynamic process that occurs within markets (Section A in Figure 1). It is determined by business decisions (Section B in Figure 1) given policies and regulations considering the market's inherent economic features (such as size and production costs) and institutional strength (degree of capture and implementation capacity) (Section C in Figure 1), ultimately impacting countries' development and consumer welfare.

Figure 1. Factors that determine market competition



Source: Authors' elaboration

Market competition is a multi-layered process, not an observable variable or an indicator based on quantified transactions such as trade and investment. The intensity (and health) of competition is reflected in four aspects. First, market structure reflects concentration but also vertical, horizontal, or conglomerate links between markets. Second, market dynamics captures whether the dominance of a firm is entrenched. Third, firms' behavior accounts for pricing or (legal and illegal) business strategies to win the market. Fourth, performance encompasses outcomes in terms of productivity, efficiency, and growth. Furthermore, although certain market characteristics are common in markets with weaker competition (such as high market concentration, high entrenchment of a dominant firm, and high markups), strong competition is also possible in markets with such characteristics if markets are contestable and the most productive firms can grow and deliver the best deals to consumers. This makes competition difficult to measure, let alone with one observable measure.

Competition and competition policy are at the center of this report. Competition is the rivalry between businesses for market power and profitability, while competition policy refers to the government's action to maintain fair and open competitive markets. Competition policy aims to ensure that businesses do not engage in practices that stifle competition and that markets are not restricted in such a way as to reduce economic welfare (Motta 2004), ultimately benefiting consumers with lower prices and better-quality goods and services. Competition is a natural force driving innovation and efficiency, while competition policy is a deliberate effort to ensure that competition operates effectively. Businesses are the primary actors in competition, while governments are the primary actors in competition policy.

This report examines two pivotal dimensions of the competitive process: the dynamics of market competition in developing economies and the role of government interventions in strengthening market competition, to provide updated policy recommendations. Chapter 1 presents stylized facts on the deterioration of market competition in developing economies, including business ownership networks and general trends of government interventions in markets (an overview of the current state of A, B and C in Figure 1). Chapter 2 presents a multi-variate approach to monitor competition using firm and industry-level indicators and to screen for opportunities to boost competition in developing economies (Sections A and B in Figure 1). Chapter 3 and Chapter 4 focus on government interventions to promote competition (Section C in Figure 1). Chapter 3 centers on competition law with special attention to the challenges of enforcement in developing countries. Chapter 4 highlights other policy areas that affect competition and how markets work, including sectoral regulation and frameworks for the allocation of public resources across enterprises and industries. Chapter 5 concludes with a discussion of principles that can help guide the implementation of a comprehensive competition policy tailored to the needs of countries with diverse institutional and market conditions.

The report provides three main contributions to understanding competition in developing economies and actions for competition to empower markets for development. First, it presents a methodology to systematically assess competition based on objective quantitative measures, screen for opportunities to boost competition at the industry level, and link competition with essential macroeconomic results: productivity and jobs. Second, it takes stock of the achievements of competition authorities in developing economies, showing that competition reforms are feasible, and points to remaining gaps in the implementation of competition laws and institutional

frameworks. Third, by showing specific examples of government interventions that affect markets, the report reveals that having a competition law and a competition authority is necessary but not enough to enable merit-based competition. Furthermore, various databases have been developed to prepare this report and are now becoming public goods for researchers, practitioners, and policymakers. These databases consist of the following: competition indicators at the industry and sector levels, global business ownership networks, competition law and institutional framework indicators, anticartel enforcement, market institutions indicators, and ex-ante regulation of digital platforms.

Chapter 1 - The current state of play: A challenging environment for competition

Key messages

- Indicators of market structure, business behavior, and government market interventions across developing economies reveal a decline in market competition in certain groups of countries.
- Market structure: Factors such as vertical integration, common (minority) ownership of competing firms, and multimarket contact between conglomerates can reduce the incentives to compete. These factors are becoming increasingly important along indications of reduced market competition, potentially worsened by political connectedness.
- Business behavior: In jurisdictions where competition authorities are active, anticompetitive agreements that suppress competition have been detected and prosecuted. Given the low probability of detection, these are only the tip of the iceberg.
- Government market interventions: Recent global events (i.e., pandemic, geopolitical tensions) have expanded the role of governments in markets. This has reduced market contestability through inward looking policies and regulations, and increased the likelihood of market distortions through a wider presence of the State as supplier and financier.

There are signs of weak market competition in developing economies.

Previous World Bank studies and data show weakening competition and its effect on growth and jobs. Over half a decade of World Bank reports systematically point to weak market competition as a key constraint to growth, private sector development and job opportunities.[2, 3] Indicators of market structure, business behavior, and government market interventions across developing economies reveal a decline in market competition in certain groups of countries.[4] This is consistent with data from other sources. An all-encompassing perception of increased risks for firms operating in developing countries stems from distortions related to prices, entry, and level playing field in markets.[5]

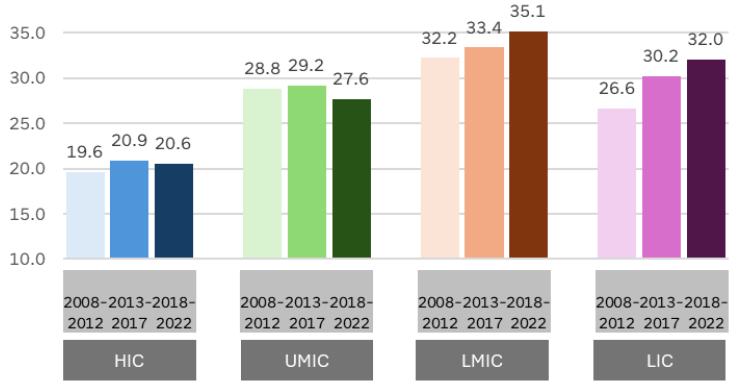
In jurisdictions where competition authorities are active, anticompetitive agreements that suppress competition have been detected and prosecuted. Such agreements – whether to divide markets, fix prices, limit production, or rig bids- allow groups of firms to operate collectively like a monopoly, thereby undermining competitive market dynamics. At least 377 economic cartels were detected by competition authorities in 52 developing countries in 2017–2021 (See Chapter 3).[6] These detected cartels are only the tip of the iceberg since cartels are secretive in nature. The probability of detecting a cartel is only 10 to 25 percent in jurisdictions with mature competition frameworks and would certainly be lower in low-income and middle-income countries.[7]

Margins, as captured by the gross operating surplus ratio over output (GOSR), are higher and increasing in developing economies. While high GOSR (the ratio of capital compensation over output in a sector) may suggest profitability that could attract more investment, it may also indicate income inequality or capital rent capture, which may affect market functioning negatively and signal weak competition. Capital compensation, a proxy for how competitively markets function,[8] is up to 1.5 times higher in low and middle-income countries than in high-income countries, while the employees' compensation ratio[9] is lower in developing economies.[10] Moreover, the GOSR has

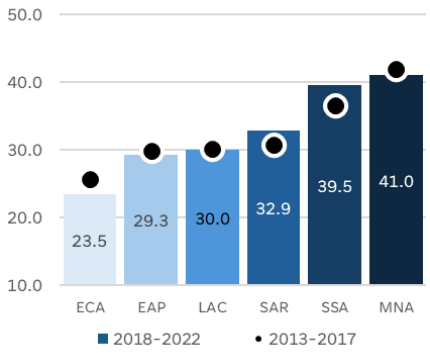
increased over time, especially in LICs and LMICs during 2008–2022; whereas it has remained relatively stable, on average, in upper middle-income countries (Figure 1.1, left panel).[11] When analyzed at the sectoral level, higher and increasing GOSR levels are also found in agriculture, electricity, gas and water, and post and telecommunications in developing countries. Geographically, GOSR is higher in MICs and LICs in Sub-Saharan Africa and Middle East and North Africa (Figure 1.1, right panel). This suggests potentially higher and increasing market power on average in developing economies, especially in Sub-Saharan Africa.

Figure 1.1: Capital compensation is higher and increasing in lower-income countries and Sub-Saharan Africa

Gross operating surplus ratios across income categories, 2008-2022



Gross operating surplus ratios in developing countries by region, 2013-2022



Source: Authors based on analysis of EORA dataset.

Note: The analysis covers 186 countries and 23 sectors, excluding country-sector pairs with low-quality data as estimated by the degree of output deviation. Gross operating surplus is calculated as the difference between total output and the sum of intermediate consumption, employee compensation, and net production taxes. Values in the graphs are expressed as percentages of sector output and calculated as weighted averages by country-sector value added. The graphs exclude China.

Business ownership networks —i.e., conglomerates– can generate risks to competition

A group of companies operating across various sectors and sharing at least one common owner–*conglomerates*—, can generate efficiencies and competitive pressure but they can also pose risks to competition. Conglomeration and vertical integration, more specifically, can be an efficient way to address potential hold-up problems when dealing with a third party for the provision of goods and services that are important for production (Box 1.1). In some cases, especially in developing economies and fragile contexts, where markets are missing or not well-functioning, companies must self-provide certain services, from electricity — given the lack of reliability of the power system for manufacturing — to last-mile delivery for e-commerce. However, factors such as vertical integration, common (minority) ownership of competing firms, and multimarket contact between conglomerates can also reduce the incentives to compete.

While there is no registry or database for conglomerates, this report identifies and traces business ownership networks across industries and countries. A novel dataset was built by applying the ownership link methodology developed in Dall'Olio et al. (2022a) to the ORBIS database

and the list of Forbes' Global 1000 firms (the Forbes business network dataset). Based on this dataset, it is possible to identify business networks linked to a subset of the largest and most influential corporations. The top 1000 companies listed by Forbes operate across various industries and countries, including in developing countries.[12] This report traces their multiple subsidiaries and firms connected via indirect and minority shareholding links (Box 1.2). These conglomerates are private but also linked to the state (Business of the State, BOS).

Box 1.1: The formation of conglomerates and their benefits

The formation of conglomerates, groupings of companies that operate in different markets and share common ownership, is motivated by economic and managerial incentives given the country context. The existence of business groups (business ownership networks) responds to different economic conditions (Khanna and Yafeh, 2007). A key incentive is having control over assets to eliminate the risk of potential hold-ups in the context of incomplete contracts. Control over assets gives the owner bargaining power when unforeseen or uncovered contingencies force parties to negotiate how their relationship should be continued (Hölstrom and Roberts 1998). The extent of this risk is positively associated with three transaction characteristics: frequency, uncertainty, and, most especially, asset specificity (as measured by the foregone economic benefits of discontinuing a relationship). Additional economic factors include agency problems (i.e., incentives for monitoring and the possibilities for performance contracting), concerns for common assets, difficulties in transferring knowledge, and the benefits of market monitoring. Furthermore, managers with general talent that can be used across industries choose to create and operate conglomerates, having the advantage of access to finance through internal capital markets on top of external investors (Maksimovic and Phillips 2013). The business group's involvement in the financial sector can also provide advantages such as increased credit efficiency due to greater access to information (La Porta, Lopez De Silanes, Zamarripa 2002).

Conglomeration can lead to more efficiency, knowledge diffusion, and more stable job opportunities. Conglomerates can reduce production costs and intermediation margins, potentially leading to lower consumer prices due to economies of scale, economies of scope, vertical integration, and positive network externalities. They also reduce institutional and market risks in countries where the business environment is hard to operate in. For example, port operators in some developing countries decide to vertically integrate with transport and logistics providers and offer door-to-door services due to the poor reliability of service provision in the country (Begazo, Goodwin, and Gramegna 2018). Conglomeration is also good for diffusing innovation due to company linkages, as well as information about the quality of potential employees (Tate & Yang, 2012), which has the potential to provide more stable jobs. Business group-affiliated firms present less pronounced fluctuations in employment than unaffiliated firms in response to macroeconomic shocks (Faccio & O'Brien 2020 based on a 50-country firm-level database spanning 19 years).

Firms in the world's largest business networks may not compete vigorously if they repeatedly face each other across many markets and countries. Conglomerates raise the risks of anticompetitive behavior, especially in the context of large economic conglomerates holding dominant positions in key markets across sectors and maintaining regular multimarket contacts (Licetti et al 2023). Multi-market contact is associated with higher firm profits. For instance, increases in multimarket contact over the 2000–2010 period led to higher hospital prices in the United States (Schmitt 2018). Competitive contact extending across multiple markets may lead to lower rivalry—a situation known as "mutual forbearance"—because rivalrous actions taken in one market may provoke responses not only in that market but also in other markets where both firms operate (Yu & Canella 2012). The novel Forbes business networks dataset developed for this report

reveals that, in 2022, a firm in the Top 1000 Forbes list was linked to firms in about 100 industry-country pairs[13]. The largest of these (i.e., those in the top decile) operate in over 200 industry-country pairs. In more than 60 percent of the industries, two or more Forbes-linked companies operate in the same industry and country. In MICs, such as China, Brazil, Malaysia, Thailand, and Mexico, conglomerate firms can be found in manufacturing, finance, wholesale and retail trade, and ICT sectors.

Firms in business networks may also avoid competing against each other if they share common owners. The common ownership hypothesis suggests that when large investors own shares in more than one firm within the same industry, those firms may have reduced incentives to compete. Common ownership does affect product market outcomes by softening competition through managerial incentives (Anton et al 2023). For example, airline ticket prices are 3-7 percent higher because of common ownership, compared to a counterfactual world in which firms are separately owned or in which firms entirely ignore their owners' anti-competitive incentives caused by common ownership (Azar et al 2017). In this report's new Forbes business network dataset, seven percent of firms are actually owned by the same two or more Forbes companies. These operate in middle-income countries in finance (banks and holding companies), manufacturing (manufacturing of parts of vehicles and of electronic components), wholesale or retail trade (wholesale of household goods), and professional activities (management consultancy activities). Additionally, 40 percent of the top 1000 Forbes themselves have common owners, making the business networks even tighter.

Along key value chains, firms belonging to such business networks may control inputs and leverage their position from one industry to another. Vertical integration can facilitate abuse of dominance to exclude smaller rivals from the market. Such practices include 'tying and bundling' or 'margin squeeze'. [14] Network effects or privileged access to data can also facilitate foreclosure. For digital conglomerate mergers, network effects increase the risks of foreclosure even when services or products are not complementary (Van den Boom and Samranchit 2022; OECD 2020).

Many business networks are vertically integrated. 54 Forbes networks operate in at least five stages of agrifood value chains in MICs and LICs, covering activities from the production of inputs to service delivery or downstream manufacturing of food and beverages;[15] 85 networks span across digital value chains, from inputs for ICT services or products, electronic equipment, telecommunications, broadcasting and programming activities to ICT services and products including online retail;[16] and 68 across energy transition value chains, from inputs for mining, trading of commodities, to inputs for upstream (refining), midstream (copper cables) and downstream (batteries) manufacturing.[17] This vertical integration and the Forbes firms' importance in essential segments of the value chains could allow them to exert significant control over their respective industries, consolidating their market power and influence. For example, in digital, Meta, Apple, Amazon, and Alphabet account for more than 92 percent of the website traffic worldwide[18] and have completed about 900 acquisitions in digital and non-digital markets only in 2010-2020 (Gugler, Szücs and Wohak 2025). E-commerce regional powerhouses such as Mercado Libre, Alibaba, and Rakuten, also listed in the Top 1000 Forbes, are linked to 172 enterprises operating in 41 industries in 16 MICs and LICs. In the agrifood value chain, key companies in seed production, and fertilizers, as well as two out of the five main global grain traders are among the top Forbes companies. These companies are important: DowDupont, ChemChina, Bayer, and BASF own 60 percent of proprietary seeds globally and their linked companies operate in 11 percent of industries in the agrifood value chain in MICs and LICs. In energy transition value chains, the largest electric vehicle firms and the largest

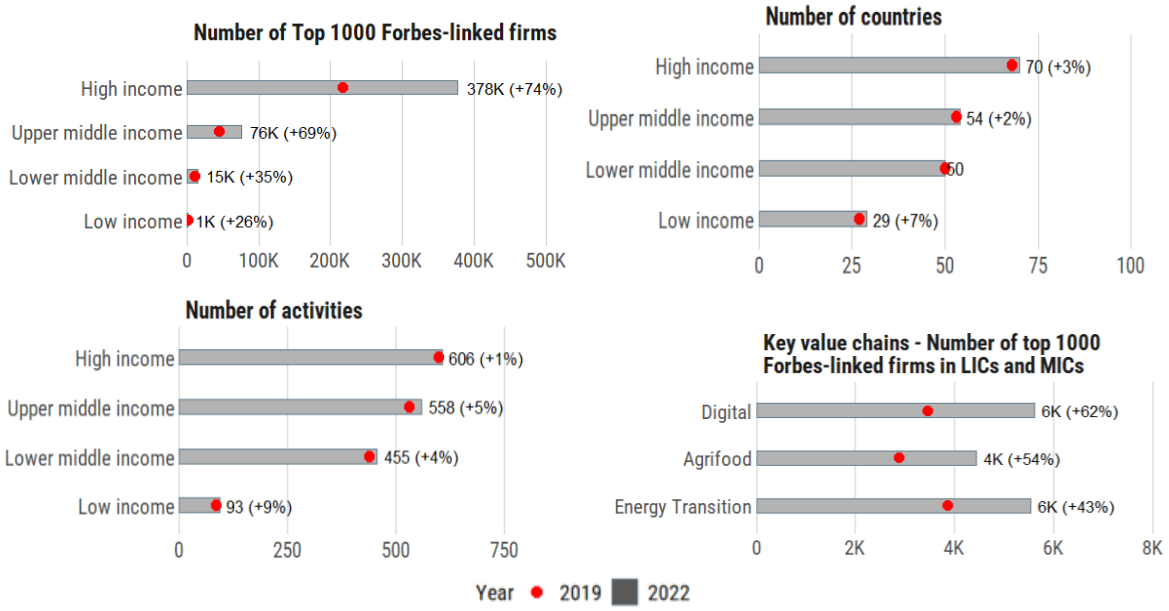
global mining companies operate in 28 percent of the industries along the energy transition value chain, including in 13 MICs and LICs.

Box 1.2. Global business ownership networks and their presence in developing economies

Over 200 of the firms with the largest business networks worldwide have headquarters in MICs. One-fifth of the top 1000 Forbes companies are headquartered in 13 middle-income countries, including China, India and Brazil. In MICs, financial sector and manufacturing are the most frequent core business of these firms, followed by construction and ICT. [19]

Over time, the top 1000 Forbes firms have expanded their reach in MICs and LICs, through direct and indirect ownership stakes. The average number of linked companies of each top Forbes firm operating in MICs and LICs increased by about 50 percent between 2019 and 2022 (from 79 to 117), compared to 65 percent globally (excluding MICs and LICs).[20] Between 2019 and 2022, the aggregate number of Forbes-linked companies in MICs grew by about 35 thousand. Although presence in sectors linked to essential value chains has increased in LICs and MICs (Figure 1.2), firms operating along the agrifood, digital, and energy transition value chains account for about 5 percent each.[21]

Figure 1.2: Firms linked to Forbes Top 1000 firms are expanding across countries, sectors and essential value chains

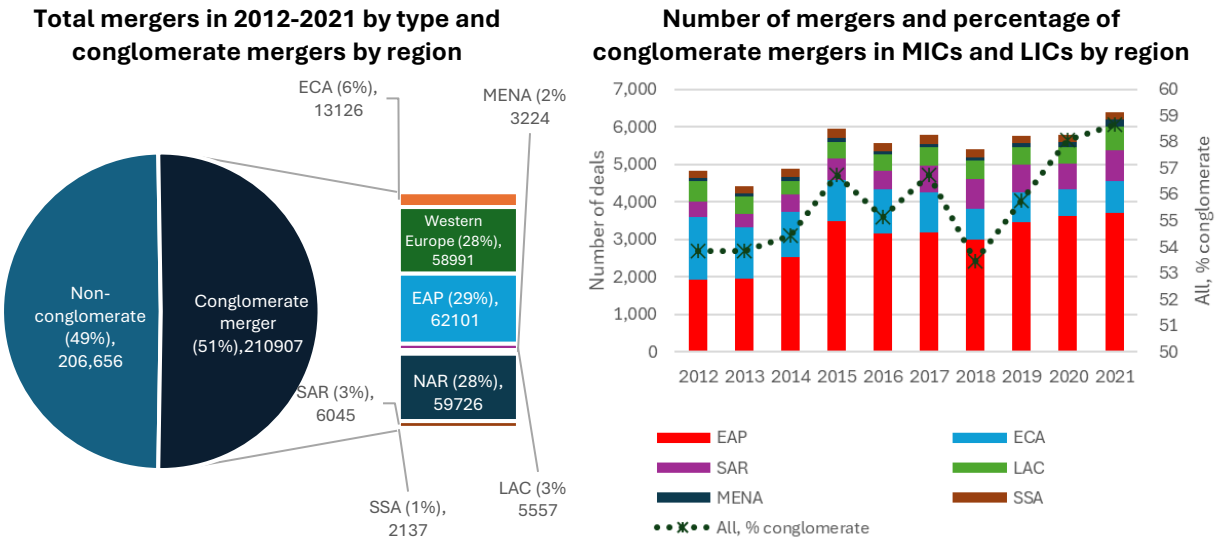


Source: Based on analysis for this report using Orbis database.
Notes: The percentage label represents the percentage change between 2019 (red dot) and 2022 (grey bar). It is based on Forbes and Orbis data using information from the 2023 list of Forbes' top 1000 and the companies linked to them (directly or indirectly with at least 10 percent shareholding following BOS ownership mapping methodology) in 2019 and 2022. Given Orbis coverage, the number of linked companies in MICs and LICs could be underestimated.
Each value chain encompasses selected sectors: 129 NACE 4-digit activities for agrifood from agriculture inputs to food retail, 44 activities for digital from electronic equipment to telecoms and digital services, and 67 activities for energy transition from mining to vehicle manufacturing.

Mergers and acquisitions are another factor affecting markets in developing economies. Merger activity has slightly increased in developing countries, especially in East Asia Pacific (EAP) and Sub-Saharan Africa (SSA) in 2012-2021. Conglomerate mergers (involving parties that do not operate as competitors in the same market nor in markets in a vertical relationship as suppliers or customers) are becoming more important. They represent over half of all types of mergers and have almost

doubled between 2012 and 2021 (Figure 1.3), showing that expanding business ownership networks to other industries is a relevant business strategy. For MICs and LICs, this strategy was more common in Eastern Europe and Central Asia (ECA), EAP and Latin America and the Caribbean (LAC). Mergers involving digital markets are gaining more relevance in these countries, too.

Figure 1.3: Conglomerate mergers are becoming more important



Source: World Bank staff analysis based on 2012-2021 Mergers and Acquisition data from Refinitiv (previously Thompson Reuters) prepared for Miralles et al (2023).

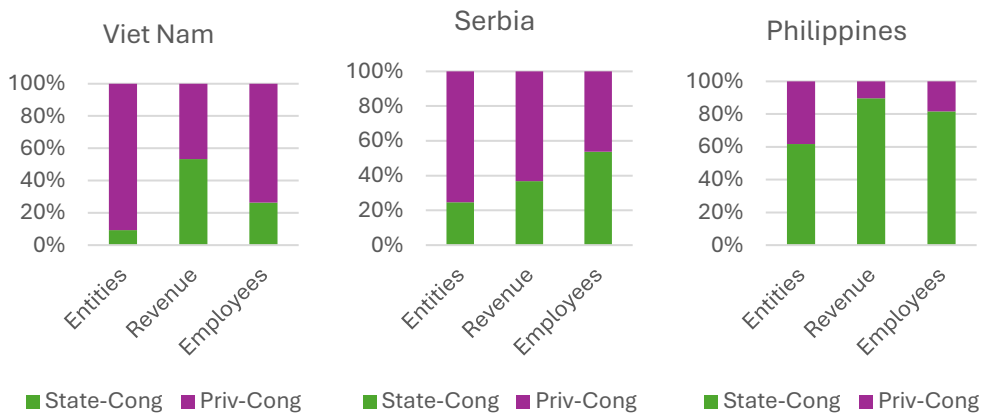
State-owned and private conglomerates can make up substantial shares of the economy and, in many cases, jointly own firms. In Serbia, firms linked to conglomerates account for up to 10 percent of firms' revenues, while in Viet Nam, conglomerates are present in almost all industries, and in the Philippines, they operate in 60 percent of the industries.[22] The presence of the state in these conglomerates can also be substantial. In the Philippines, through indirect and minority shareholdings, state conglomerates account for up to 90 percent of conglomerates' revenues, more than half in Viet Nam, and more than one-third in Serbia (Figure 1.4).

When mixed with political connectedness, conglomerates can further distort market dynamics by raising barriers to entry. The risk of regulatory capture by large business enterprises tends to be higher in countries where business enterprises can exploit the political process to their advantage and create barriers to entry for potential competitors or get access to preferential conditions (Stigler 1971, Peltzman 1976). Cross-country barriers to entry and capital flows, in conjunction with political connections, are associated with the impediment to the replacement of big businesses (Faccio & McConnell (forthcoming) based on a sample of 75 developed and developing economies). Corporate political connections are relatively widespread; they exist in 35 of the 47 countries in the assessed sample (Faccio 2006). Connections are particularly common in countries that are perceived as being highly corrupt, that impose restrictions on foreign investments by their citizens, and in more transparent systems. When those involved in business enter politics, the value of their associated companies increases (Faccio 2006). This is consistent with the finding that the value of the companies owned by former president Suharto's family in Indonesia fluctuated with his health status (Fisman 2001).

Furthermore, as expected, private conglomerates can also be linked to high-net-worth individuals. In Philippines, 60 percent of firms in conglomerates are linked to the Forbes Philippines'

50 Richest .[23] The importance of conglomerates involving ownership by the state and high net-worth individuals highlights the difficult political economy that underpins market functioning and market regulation. For example, Business of the State (state conglomerates) enjoy explicit and implicit advantages; in two thirds of the analyzed countries, regulatory interventions restrict entry and favor these enterprises (World Bank 2023).

Figure 1.4: Conglomerates linked to the state are non-negligible compared to private conglomerates



Source: Based on the Orbis database and country firm-level data from national statistics offices.
Note: State-conglomerates are defined as groups of at least two firms connected through direct and indirect ownership networks, using a 10 percent ownership threshold linked to state public authorities (e.g. Ministry of Financial, Municipal Governments) and previously identified SOEs from BOS database (where available). Private conglomerates are defined as groups of at least two firms connected through direct and indirect ownership networks, using a 10 percent ownership threshold without links to government authorities.

Governments are using policy tools that risk undermining competition

Governments' role in markets has expanded in light of events like the COVID-19 pandemic and rising geopolitical tensions, using instruments that can affect market competition. During the pandemic, many governments opted for producing certain essential goods themselves and increased spending in public procurement. Geopolitical tensions motivated some governments to adopt more inward-looking rules and regulations that make markets less open and contestable.

The presence of the State as a supplier permeates across sectors, with SOEs gaining more presence. Enterprises with state ownership (BOS) are sizeable and compete with private firms (World Bank 2023).[24] The global influence of governments has expanded, partly due to the rise of SOEs in China and Sovereign Wealth Funds (SWFs). The number of SOEs on the Fortune Global 500 list increased from 64 in 2015 to 141 in 2020 (Kwiatkowski et al 2023). The share of SOEs more than tripled in revenues, number of employees, and assets. Moreover, as of 2022, 91 countries had 163 SWFs with US$11.7 trillion in total assets —growing by US$1 trillion on average every two years since the 1990s (Kim 2024). SWFs co-invest with BOS – mostly from other countries (12 percent of SWF's investees), creating complex relationships between national governments.[25] This trend has not been necessarily accompanied by improvements in the governance of SOEs or SWFs to minimize potential distortions on the level playing field, as Chapter 4 highlights.

Industrial policy is on the rise, including subsidies and preferential treatment of certain firms that risk undermining merit-based competition. A tension between supporting (and protecting) industries – for strategic industrial competitiveness, climate change action, resilience or national security - and caring about consumer welfare and efficiency (through market competition) has

emerged. The number of industrial policy[26] measures has surged in general and for developing economies in 2023 (Evenett et al. 2024) and has risen from 2009 to 2020 (Juhász et al. 2023). Industrial policies have concentrated benefits and diffused costs; their allocation is often politically fraught with rents subject to lobbying (Juhasz and Lane 2024). Therefore, they are more likely to generate market distortions if not adequately designed and implemented. As Chapter 4 explains, the systems to control state support to firms are non-existent or non-operational in most countries.

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Notes

[1] When market failures such as natural monopolies exist, there is a role for the government to regulate prices appropriately to ensure they provide the right signals to attract investment, boost efficiency and maximize consumer welfare.

[2] For example, 36 country growth diagnostics conducted in 2018–2023 focused on competition constraints as a key area to boost greater productivity and inclusive growth — about 60 percent of growth core diagnostics in middle-income countries and a third in low-income countries. Source: Meta-analysis conducted for this report encompassing 51 country economic memoranda.

[3] See:

- Sinha, Nistha; Inchauste, Gabriela, and Narayan, Ambar (eds) (2025) Leveling the Playing Field: Addressing Structural Inequalities to Accelerate Poverty Reduction in Africa. © Washington, DC: World Bank.
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- World Bank (2022) Jobs Undone: Reshaping the Role of Governments toward Markets and Workers in the Middle East and North Africa. © Washington, DC: World Bank. http://hdl.handle.net/10986/37412.

[4] The percentage of firms reporting less than two competitors in their main product's market is 7 percent in upper-middle-income economies, compared to 4 percent in high-income economies (World Bank Enterprise Surveys). About a quarter of firms in low and middle-income countries report that they can increase prices more than competitors without losing customers, while a fifth of firms report the same in high-income countries, suggesting that a larger share of firms face competitive pressure in the latter. There are also proven instances of business behavior that undermine competition in developing economies, as statistics on detected cartels show.

[5] Based on 2019 and 2023 information from the Economist Intelligence Unit (EIU)'s operational risks tracker that assesses countries across dozens of risk subcategories, based on in-depth analysis of global events and expert independent analysis. Each risk is assessed on a scale of 0 to 4, 4 reflecting high risk. Five of the risks they measure are useful as proxies of market conditions. The risk of price controls is indicative of price distortions, excessive trade protection reflects one of many possible entry barriers, and three risks are considered good proxies to measure the extent of an uneven playing field in which firms operate: discrimination against foreign companies, vested interests/cronyism, and unfair competitive practices. Comparisons between 2019 and 2024 show similar results.

[6] Based on the World Bank Anticartel Enforcement Database that was developed for this report based on desk research, web scraping, and collaboration with 68 competition authorities that contributed to the validation of the database. Data as of October 4, 2024.

[7] See for example, Bryant & Woodrow (1991) and Park, Lee, & Ahn (2018) for findings in the United States, Combe, Monnier, & Legal (2008) and Ormosi (2014) for European Union countries, and Garcia-Verdugo, Merino Troncoso, & Martin (2020) for Spain.
[8] The importance of capital compensation can be driven by various factors including the level of capital investment and the cost of capital, therefore GOSR captures other issues beyond competition. Some empirical analysis of EU countries finds a significant correlation between unadjusted gross operating surplus (Przybyla and Roma 2005) and proxies for competition. Furthermore, analysis of country credit ratings (sourced from Trading Economics) reveals noticeable variation in GOSR levels within each credit rating group, suggesting that localized market dynamics shape GOSRs and that these ratios are not strictly tied to a country's creditworthiness. GOSR is highly correlated with the Net Operating Surplus Ratio that excludes capital depreciation (consumption of fixed capital).
[9] Estimated as employee compensation over output based on input-output tables.
[10] Based on the EORA input-output tables. The analysis covers 186 countries and 23 sectors, excluding country-sector pairs with low-quality data identified by the degree of output deviation. For further details on EORA database, see Lenzen M, Kanemoto K; Moran D, and Geschke A (2012) Mapping the structure of the world economy. Environmental Science & Technology 46(15) pp. 8374–8381. DOI: 10.1021/es300171x.
[11] Differences across income categories are statistically significant ($p < 0.01$) while differences across periods within income level are statistically significant for high-income ($p < 0.05$), lower-middle-income ($p < 0.05$), and Low-income ($p < 0.01$).
[12] The global 1000 Forbes companies are derived from the list of Global 2000 firms that ranks the largest companies in the world using four metrics: sales, profits, assets, and market value. For this analysis, we use the ranking published in June 2024, available at https://www.forbes.com/lists/global2000/. Collectively, these top 1000 Forbes firms control assets totaling more than USD 200 trillion and have a market capitalization surpassing USD 208 trillion. Their revenues amounted to USD 42.6 trillion in 2023, equivalent to more than 2 times of China GDP that year.
[13] For the purpose of this analysis, a market consists of a unique pair of country and NACE 4digit activity.
[14] In 'tying and bundling' practices, consumers or suppliers are forced to obtain other goods or services provided by the conglomerate to access certain products/services. "Margin squeeze" occurs when a vertically integrated company reduces the margin between the price it charges for an input to its competitors and the price it charges for the same product in the downstream market
[15] The value chain in agribusiness consists of inputs for farming, farming, inputs for downstream manufacturing, food manufacturing, beverage manufacturing, trading of food products, and food and beverage services.
[16] The value chain in digital contains inputs for ICT services or products, equipment manufacturing, other electronic equipment manufacturing, trading of equipment, telecommunications, motion picture, video, broadcasting, and programming activities, computer programming and related activities, and other ICT services or products, including online retail.
[17] Energy transition value chains include inputs for mining, trading of commodities, inputs for manufacturing, upstream manufacturing (refining), midstream manufacturing (copper cables), downstream manufacturing (such as manufacturing of batteries and accumulators), and other downstream manufacturing (including vehicles).
[18] Semrush as reported on https://www.forbes.com/advisor/business/software/website-statistics/
[19] About 132 thousand subsidiaries do not have information on activities and are therefore excluded. The information was reported for 2022.
[20] These are companies with ownership links to the 2023 top 1000 Forbes in 2019 and 2022. Similar trends are observed for HIC. The number of actual firms linked to Top Forbes in MIC and LIC could be underestimated given Forbes coverage. See Annex 1.2 for a brief explanation of the methodology for ownership mapping
[21] Each value chain encompasses selected sectors: 129 NACE 4digit activities for agrifood from agriculture inputs to food retail, 44 activities for digital from electronic equipment to telecoms and digital services, and 67 activities for energy transition from mining to vehicle manufacturing.
[22] The countries analyzed were selected based on a combination of firm-level data availability and sensible coverage using Orbis data, especially for the segment of medium and large firms. Statistics for Serbia calculated matching Orbis ownership trees with firm-level data. Statistics for Philippines and Viet Nam calculated using Orbis data and anonymized firm-level data at the sector level.
[23] Estimated using 2022 Orbis data and Forbes list.
[24] Based on the Global BOS database, which not only considers SOEs but also companies where the state is a minority shareholder (with at least 10 percent share). BOS generated domestic revenues equivalent to at least 17 percent of GDP on average and more than 40 percent in seven countries, namely Russia, Egypt, Uzbekistan, Indonesia, Maldives, Seychelles and Greece. Furthermore, these companies operated in sectors where private sector participation is feasible, such as manufacturing, hospitality, and retail and in many cases they receive preferences (World Bank 2023).
[25] World Bank staff analysis based on SWF data and Orbis for 2019; 67 countries reported BOS co-invested with SWF.
[26] Industrial policy is understood as "a policy that directs state support toward specific technologies, sectors, industries, or firms" (World Bank 2024). However, it is worth acknowledging that there is not a sole definition, definitions vary at least in two dimensions: its scope in terms of including regulations or only transfer of funds (Tirole 2017) and in terms of selectivity (that is horizontal regulations in contrast with only funds or regulations that favor certain sectors or firms.

Chapter 2 – A multivariate approach to assess competition: Screening for industries that would benefit from stronger competition

Key messages:

- Common proxies to measure competition, such as markups and market concentration indicators (i.e., Hirschman Herfindahl Index, Concentration Ratios), can lead to misleading interpretations if analyzed in isolation. Competition should be analyzed accounting for its multi-dimensionality. Qualitative evidence should be combined with quantitative data, considering the relevant market boundaries for the analysis' goal.
- This report introduces a multivariate approach to assessing competition and screens for industries with potential weak competition, recognizing its multi-dimensionality while considering the most granular industry disaggregation possible and indicators suitable for developing countries.
- The share of industries at high or medium-high risk of weak competition is at least 20 percent of the total number of industries on average in an economy. They concentrate at least 20 percent of the total revenues and 21 percent of total employment in a typical country.
- Industries with high risks of weak competition are recurrent across countries in services such as accommodation and food services, wholesale and retail, other service activities, and in enabling sectors such as ICT, transportation and storage, and water supply. Although high-risk industries in manufacturing hold low shares of industry revenues, they are also frequent and affect value chains for food security.
- Competition supports higher productivity and wage growth and in middle-income countries. On average, high-risk industries experienced between 11 and 14 percent lower yearly productivity growth and 2 percent lower yearly wage growth than low-risk industries, respectively.
- Business ownership networks—conglomerates—are a common feature in product markets. They affect the way firms compete. Yet, identifying and assessing them is a challenge due to limitations in the available data. Firm-level data, however, can still offer valuable insights into the overall economic implications of conglomerates.

Competition is a complex process difficult to capture with single traditional measures of competition

Competition is difficult to measure. It is a dynamic process influenced by the natural economic features of the market, firm behavior, and policies and regulations. Unlike trade and investment, which are observed quantitatively with information on flows, the magnitude of competition cannot be observed or quantified that easily. Competition results from the interaction between many variables– market characteristics, firm behavior, and policies and regulations (Figure 1 in the introduction). And competition outcomes also encompass a diversity of aspects, including prices, quality, product variety, innovation, and productivity. This makes competition difficult to measure, let alone with one observable measure.

More market power does not necessarily mean less competition. Market power —the ability of firms to influence the market price, allowing them to set prices above the "competitive level"— is a concept traditionally used to assess competition in markets. However, simply having market power is not inherently a competition problem. Instead, the problem arises when firms misuse this power, harming consumers, driving efficient competitors out of the market and disrupting value chains. This can happen through abuse of market dominance by blocking access to essential inputs, collusion in cartels, or acquiring smaller competitors to eliminate potential threats.[1] On the other hand, market power resulting from productive innovation, product differentiation, and competition can be beneficial. There are good and bad aspects to market power, and the balance between the two may also change over time (Covarrubias, Gutiérrez and Philippon, 2020; Eeckhout and Veldkamp, 2022)— see Box 2.1 for more on problematic market power.

Box 2.1: When is scale and market power a cause for concern?

A firm's market power and incentives to take advantage of its position depend on market features, government interventions, and strategic behavior. The market power of lead firms becomes problematic in three situations: (1) when it is not the result of merit-based competition that incentivizes cost reductions or innovation, (2) it is artificially sustained over time due to government interventions, or (3) it is maintained due to illegal (anticompetitive) behavior (Licetti et al. 2023). For example, politically connected firms often do not need to innovate to hold on to their market power (Akcigit et al. 2023 show this for Italy) and can prevent the development of new, better, or less costly products for consumers. State-owned enterprises or incumbents might be protected through statutory monopolies or rules that prevent entry and therefore reinforce dominance or due to lack of rules to enable competition, for example, in network sectors or digital markets (Nyman and Barajas 2021 and Nyman and Begazo forthcoming).

Markups—as a proxy for market power—suffer from similar caveats. Markups is the main measure used as a proxy of market power in several well-established empirical papers from The Rise of Market Power literature (De Loecker et al. 2020).[2] However, relying only on markups to assess market competition can be misleading. While sustained increases in markups might indicate reduced competition, they could also result from innovation or lower input costs. Similarly, low markups may reflect a lack of incentives for cost reduction rather than fierce competition. Moreover, although theoretically markups can be a good measure of competition, they are also the most difficult to estimate empirically. In practice these measures are often noisy and can give misleading estimates when the production structure changes, especially given the rise of intangible assets (Covarrubias, Gutiérrez and Philippon 2020).

Market concentration—an indicator of market structure—does not always mean less competitive pressure. Increases (reductions) in concentration indicators do not always translate into reductions (increases) in the intensity of competition. Based on the "escape competition" argument, larger firms may escape competition by investing and innovating, thus becoming more productive, and in turn, they may increase their market share (Aghion et al. 2005). Thus, an increase in concentration may result from stronger competition — "good concentration" as opposed to "bad concentration" from abusing market power or consolidation that undermines competition. In fact, contestability matters. Firms in highly concentrated markets—for example, those with economies of scale and winner-takes-most dynamics— may still have low market power if entry barriers are

sufficiently low and firms compete for the market. Conversely, a low-concentration market may still have high-market power firms if these are colluding.

Competition should be analyzed accounting for its multi-dimensionality. Competition is a complex process involving simultaneous decisions of multiple market players influenced by the rules in place (Figure 1) and requires a nuanced analysis. While in data-constrained environments individual indicators can help identify signs of weak competition, truly understanding market dynamics involves examining structure, behaviors, and outcomes together. Ideally, these indicators should be analyzed collectively to provide a comprehensive view of the competitive environment and screen for problematic sectors. Qualitative evidence should be combined with quantitative data, considering the relevant market boundaries for the analysis' goal.[3]

Moreover, a multivariate approach to the assessment of competition has the advantage of potentially carrying a more informative signal about the underlying unobserved extent of competition. Indicators in general normally carry "noise" (i.e. measurement errors) and competition indicators are not an exception— they provide an imperfect signal of some deeper underlying notion of competition that is difficult to observe directly. This implies that the use of individual sources poses a signal-extraction problem—how a "signal" of unobserved competition can be best extracted from the observed data. A combined reading of different indicators can help mitigate this signal extraction problem by extracting the common signal across individual sources while reducing the influence of idiosyncratic measurement errors (Kaufmann, Kraay, & Mastruzzi, 2010).

This report builds on analytical efforts accounting for the multivariate nature of competition and tailors the approach to the context of developing economies. In practice, competition authorities already use several measures of competition to assess markets for competition law enforcement and to provide policy advice, combining quantitative and qualitative analyses. They assess some of the measures above, but also firms' strategies including pricing, consumer preferences, and regulatory restrictions to competition.[4] Beyond practice—where authorities can have access to more detailed information to decide on a case or conduct a market inquiry—, cross-country studies also consider an integrated approach–see Philippon (2019) for analysis on the United States and Europe, and Calligaris et al. (2024), for analysis in several European countries. In fact, Calligaris et al. (2024) provide evidence on the state of competition in European countries by analyzing trends in several measures of competition—including concentration, markups, and other indicators of dynamism—using a unified framework. In the same spirit, this report introduces a multivariate approach to assessing competition, recognizing its multi-dimensionality while considering the most granular industry disaggregation possible and indicators suitable for developing countries.

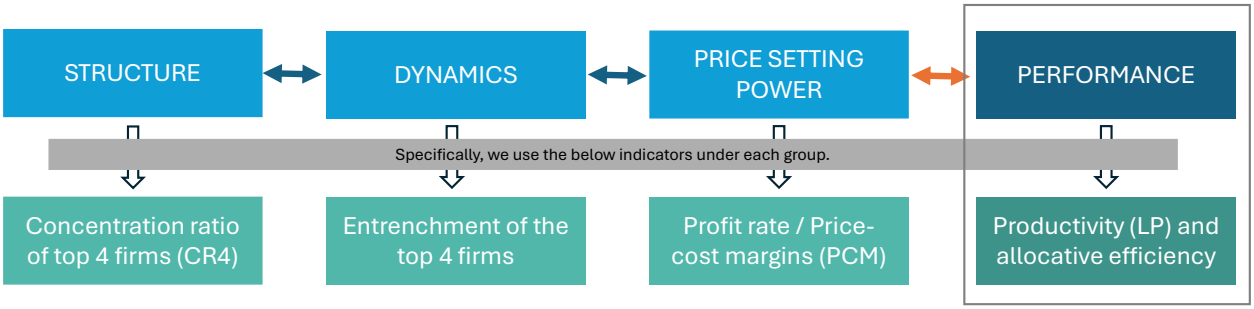
A multi-dimensional assessment provides a more nuanced reading of the environment to screen for industries where competition may be at risk.

The approach introduced in this report assesses market dynamics based on a combined reading of selected key indicators to screen for industries where competitive conditions seem weak—i.e. risks to competition are high.[5] This approach assesses market outcomes based on the analysis of levels and trends across four pillars, each representing a key facet of competition. The pillars represent a) market structure which is proxied with concentration ratios among the top four firms, b) dynamism proxied by the degree of entrenchment among the top four firms, which reflects

how much churning there is among the group of 4 largest firms in two points in time, and c) price setting power proxied by price-cost margins.[6] In addition, to be able to distinguish whether structure, dynamics, and price-setting power are linked to good outcomes (i.e., higher levels or growth of productivity) or concerning ones (i.e., low or declining productivity), a fourth pillar is added, capturing performance proxied by labor productivity (Figure 2.1). The rationale for including productivity as a "complementary" pillar, is to help differentiate between "good" competition outcomes—where high concentration or markups coincide with strong productivity performance—and "bad" ones—where high concentration or markups occur alongside stagnating or weak productivity.[7]

This approach screens for industries where competition seems weak—i.e., concentration is high and has increased, entrenchment is high, price-cost margins are high and have increased, and finally, labor productivity is low and it is decreasing. Ideally, this analysis should be conducted at the product market level, however, given that obtaining data with such degree of disaggregation is challenging, the next best is to conduct the analysis at the most disaggregated level possible—ISIC classification 4-digit or industry level—given the type of data available (firm-level). See Spotlight 2.1 for details on the methodology for this approach.

Figure 2.1: Assessment of competition based on four key pillars



Source: Authors based on research prepared for this report.

The risk of weak competition in an industry is assessed using a color-coded flag system reflecting different levels and trends in key competition indicators. The steps for this assessment are as follows: First, selected competition and performance indicators are built at the industry—ISIC 4-digit—level using administrative firm-level data in 10 developing countries—Armenia, Croatia, Georgia, India, Moldova, Peru, the Philippines, Romania, Serbia, and Viet Nam —See Annex 2.1 for data sources and coverage (Figure 2.1). Then, for each indicator, the distribution of both levels and changes across all country-industry observations is assessed. A standardized color-coded flag system is applied to classify each observation into the top, middle, or bottom quartiles of the distribution. This system is used consistently across all indicators. Finally, for country-industry pair, these flags are assessed in a combined way to obtain the overall risk of weak competition—categorized as high, medium-high, medium, medium-low, or low (See Spotlight 2.1 for details on these steps).

This approach aligns with previous research but introduces new methodological and data features. First, this approach strengthens the assessment of competition by adding performance in terms of productivity as a pillar of analysis. Second, the analysis considers both levels and trends in the indicators selected to give value not only to where each industry stands but also how it is evolving. Third, the sample focuses on 10 middle-income countries so far, based on firm-level

datasets that, despite coming from different sources, have been homogenized as much as possible (see Annex 2.1 for details on the type of firm-level datasets used for this analysis). Fourth, the analysis is conducted at the ISIC 4-digit level rather than at the aggregate sector level. Finally, given differences in quality and completeness in the data across countries, the indicators in each pillar were selected considering their intensity in data requirements—leaning towards indicators with less demanding data requirements for greater coverage and comparability across countries.

Tracking competition using multiple indicators provides a more comprehensive and accurate picture of market competition. Relying on a single measure—such as market concentration—can be misleading, as it may not fully capture the competitive pressures firms face. For example, some highly concentrated industries may still exhibit strong competition due to high productivity, low barriers to entry, or limited firm entrenchment. This multidimensional approach helps identify cases where traditional indicators suggest weak competition, but broader evidence points to competitive behavior. As shown in Table 2.1, industries like radio broadcasting and support activities for crop production may appear concentrated but still function competitively. Among the 10 countries and all industries analyzed, only 75 percent of highly concentrated industries are classified as facing a high risk of weak competition.[8] Similarly, only two thirds of industries with high price-cost margins are identified as high-risk, underscoring the importance of considering multiple dimensions of market performance.

Table 2.1: Example of the system of flags generated for a country in the sample

4-digit description	Concentration ≥Q4	Entrenchment ≥Q4	Price-cost margin ≥Q4	Labor productivity ≤Q1
Wired telecommunications activities	High	High	High	High
Support services to forestry	High	High	High	Medium
Manufacture of refined petroleum products	High	Medium	High	Medium
Passenger air transport	High	High	Medium	Medium
Extraction of crude petroleum	High	Low	High	Medium
Radio broadcasting	High	Low	Medium	Low
Veterinary activities	High	Low	Low	Medium
Support activities for crop production	High	Low	Low	Low

Source: Authors based on research prepared for this report.

Spotlight 2.1: A novel methodology to flag industries where competition is likely weak

A parsimonious set of indicators is selected to assess competition at the industry level, capturing four pillars: structure, dynamism, pricing behavior, and performance. The indicators are concentration ratio, entrenchment, price-cost margin, and labor productivity, respectively. See Annex 2.1 for details on the calculation of each indicator.

The indicators selected are based on practical choices given the cross-country nature of the analysis. The indicators selected have less demanding data requirements to calculate them and, thus, are easier to obtain using common firm-level datasets available across countries. For instance, CR4 was chosen over the Herfindahl-Hirschman Index given the difficulties to properly account for smaller firms in some of the datasets available—e.g., structured surveys that only include samples for smaller firms. The use of entrenchment among the top four firms, as opposed to other measures accounting for dynamism over the whole firm-size distribution—such as entry/exit—, follows the same logic as CR4—information about them is less reliable among the segment of smaller firms. In the case of PCMs, this measure is selected instead

of markups because of the empirical reasons posed by the estimation of the latter—see discussion above—and the fact that PCM calculation is less data-demanding, and it is a more intuitive accounting measure. Similarly, regarding productivity, labor productivity is selected instead of Total Factor Productivity (TFP) given that the estimation of the production function to estimate TFP is very sensitive to data quality and completeness as well as input choices— and it has less demanding data requirements and computation complexity. Labor productivity (LP), as measured by revenue per worker, is more intuitive and more easily available to calculate across countries. The estimation of value added is not possible for all the countries in the sample.[9]

The indicators are calculated at the industry level. Firm-level datasets with census characteristics at the country-industry-year level were obtained for ten MICs: Armenia, Croatia, Georgia, India, Moldova, Peru, Philippines, Romania, Serbia, and Viet Nam—see more on the sample in Annex 2.1. Using these datasets, the concentration ratio (CR4) and entrenchment are calculated directly at the industry level—4-digit level of the ISIC classification. In the case of PCMs and LP, given that they are calculated at the firm level, the median firm value within a country-industry-year triad is used to represent the industry-level measure. A database with four indicators in levels is built at the country-industry-year level.

Concentration can only be calculated for non-tradable goods given data limitations. This measure is only calculated for non-tradable industries, where non-tradability is defined following the classification in Calligaris et al. (2024). The reason for this is that the relevant market for non-tradable industries is domestic; thus, the denominator in the CR4 using the firm-level data available can properly reflect that. However, in tradable industries, the relevant market is beyond domestic, and the denominator used in the calculation of this ratio should be apparent consumption (i.e., domestic production plus imports minus exports). Unfortunately, the information required to calculate this variable at the same level as in the numerator (ISIC 4-digit) is not easily available for all the countries in the sample, plus, there are other classification incompatibility issues among all its components.

Variations in the indicators are calculated to capture trends. Changes in CR4 (for non-tradables), PCMs and LP are calculated considering a 3-year period to assess trends in all these variables—entrenchment already captures a change. A 3-year period is chosen given the length of the periods available across countries.[10] This means that in addition to the four indicators in levels for non-tradables (three for tradables), three more variables are added capturing variations (two for tradables). The dataset with four indicators at the country-industry-year is converted to one with seven indicators (variables) at the country-industry-(3-year) period level for non-tradables (five for tradables).[11]

A system of flags (colors: red, orange and green) is created to categorize levels and changes in each indicator depending on whether they represent better, moderate, or worse competition outcomes. First, levels and trends in each indicator are evaluated under the assumption that high levels of and/or increases in concentration, margins, entrenchment, and/or low levels of or decreases in productivity are features of environments with weak competition. **Second**, for the definition of what is considered high, medium, and low levels and changes in each of the seven variables, two alternative approaches are used:

- In the first one, each of the seven indicators for non-tradables (five for tradables) are compared across industries within a country-period. In this case, for each country and period, the values of all industries are split into 4 quartiles (i.e., within the country).
- In the second one, each of the seven indicators for non-tradables (five for tradables) are compared across country-periods pairs within an industry. In this case, for each industry, the values of all country-period pairs are split into 4 quartiles (i.e., across countries).

Third, flags of different colors are generated for each indicator at the country-industry-period level, depending on which quartile they fall under. Particularly, the market structure pillar (CR4) for non-tradable industries is categorized as high risk or weak competition (i.e., red flag) if either the level or the changes fall within the fourth quartile. It is classified as medium risk (i.e., orange flag) if either the level or change falls within the second or third quartiles and has not already been flagged as high risk. Finally, it is classified as low risk (i.e., green flag) if it has not already been flagged as either high or medium risk. The pricing power

and dynamism pillars follow the same approach. For the performance pillar, the interpretation is the other way around: it is classified as high risk (i.e., red flag) if either the level or the changes in productivity fall within the first quartile, as medium risk (i.e., orange flag) if it falls within the second or third quartiles, and as low (i.e., green flag) if it has not been already flagged. In the end, each country-industry period has a different combination of color flags—see Table 2.1 for an example of how the system of flags looks for a sub-group of industries in an undisclosed country-period.

Finally, a composite variable summarizing the joint reading of the different combinations of flags is generated using each of the two alternative approaches described above (within and across). Each country-industry-period observation is classified into five risk levels—low, medium-low, medium, medium-high, or high—or alternatively into three risk levels—low, medium, or high—based on the count of different combinations of flags, for each of the two approaches presented above (Figure 2).

Figure 2.2: Classification system for the level of risk of weak competition

a. Non-tradable industries: classification based on all 4 pillars

Case	High	Medium	Low		Classification	Simplified
1	4	0	0	=	High	High
2	3	1	0	=	High	High
3	3	0	1	=	High	High
4	2	2	0	=	Medium-high	High
5	2	1	1	=	Medium-high	High
6	1	3	0	=	Medium-high	High
7	2	0	2	=	Medium	Medium
8	1	2	1	=	Medium	Medium
9	0	4	0	=	Medium	Medium
10	0	3	1	=	Medium-low	Low
11	1	1	2	=	Medium-low	Low
12	0	2	2	=	Medium-low	Low
13	1	0	3	=	Low	Low
14	0	1	3	=	Low	Low
15	0	0	4	=	Low	Low

b. Tradable industries: classification based on only 3 pillars, excluding concentration

Case	High	Medium	Low		Classificatior
1	3	0	0	=	High
2	2	1	0	=	High
3	2	0	1	=	High
4	1	2	0	=	Medium
5	1	1	1	=	Medium
6	0	3	0	=	Medium
7	0	2	1		Medium
8	1	0	2	=	Low
9	0	1	2	=	Low
10	0	0	3	=	Low

Source: Authors based on research prepared for this report. Note: See panel (b) for industries classified as tradable sectors using the classification in Calligaris et al. (2024) with some slight modifications.

This analysis excludes some sectors based on coverage and the special nature of the product/service provided. The analysis excludes firms operating in the agriculture, forestry, and fishing sectors because of low coverage issues. In addition, firms operating in industries that provide public goods and cannot be properly priced (e.g., public administration and defense; activities of extraterritorial organizations) or are characterized by externalities (e.g., education and human health activities) are excluded (see Dall'Olio et al., 2022 for a list of those industries). Note that the Art sector includes the gambling industry.

The selected industry-level competition and performance indicators as well as the composite indicator can be combined with information on ownership structure and government market policies to evaluate how they relate to other determinants of competition. The intricate ownership relationships that affect competition (presented in Chapter 1) cannot be obtained from a single source of administrative data. As such, it cannot be accounted for in the composite indicator. However, information on conglomerates can be analyzed with the indicators to delve into the relationship between ownership links and competition (See Box 2.1). Similarly, government interventions in markets—through SOEs, financial business incentives, and regulation—also affect competition. While not included in the composite indicator, they can be analyzed together with the indicators to assess how they relate to competition (see Chapter 4).

Since this approach is based on firm-level administrative data, it has limitations. This approach aims to improve our understanding of industries and highlight parts of the economy where the

benefits from competition may be at risk. It constitutes a first effort to provide a broader assessment of competition in developing countries at the most granular level possible.[12] However, some limitations need to be acknowledged:

a) **Given the type of firm-level industry data available, the indicators capture only firm behavior and market outcomes at an industry level. They do not reflect product or market-level dynamics.** Industrial (ISIC) codes classify activities that encompass a collection of products (HS codes). For instance, based on the concordance table between HS codes (HS combined) and ISIC codes (ISIC Rev. 3), a 4-digit ISIC code includes on average 41 6-digit HS codes—the highest disaggregation level in the HS classification for international comparison purposes. Furthermore, depending on the degree of product differentiation and market segmentation, a product category can encompass various markets.
b) **Multiproduct firms are not adequately captured in firm-level statistics as firms self-report their main economic activity.** All the firm-level data is attributed to only that industry. Simultaneous control of business decisions of more than one individual firm belonging to the same economic group (business ownership network) that operates as a multiproduct firm is not captured by firm-level data. Therefore, results from the analysis at the industry level need to be interpreted with caution.
c) **Administrative data might not capture the entirety of the industry.** The firm-level data used is obtained from either tax records, business registries, industrial censuses, or structural business surveys. Therefore, informal firms—more prevalent in some developing economies—are not captured by these datasets, and small firms are not fully captured. Therefore, results should be interpreted with caution in industries where informality and small enterprises are important such as in retail or professional services.
d) **As such, this approach screens for industries with potential weak competition, but it should be complemented with in-depth competition analysis at the market level.** This approach generates a tool that can serve as a screening mechanism to identify parts of the economy where competition may be at risk, but it should not be taken as a hard measure of competition. Ideally, the results from this analysis should be followed with in-depth competition analysis in the markets involved. The recently published "Market Competition and Policy Assessment Tool" (MCPAT) is the most complete tool available that provides thorough guidance on how to conduct in-depth competition analyses at the market level.
e) **The results presented are based on the countries in the sample and the approach's robustness will increase as additional countries are included in the analysis.** The results presented have undergone thorough checks to the best extent possible at this stage, but as additional countries are included, some results may change. Therefore, while the main conclusions drawn from this work are robust, they should be interpreted with caution.
f) **While this multivariate screening framework provides a structured and comparative basis for assessing risks to competition across markets, two other dimensions could be further developed.** First, the integration of consumer welfare indicators—such as direct measures of prices, quality, access, or satisfaction—would enhance the framework's ability to more explicitly capture the implications of market structure and firm behavior for consumers. Second, the inclusion of productive investment measures—such as capital expenditure relative to revenue or R&D intensity—would help differentiate between high-

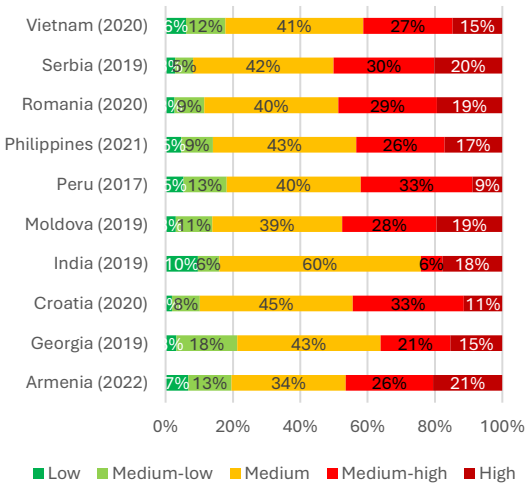
margin markets where profits are being reinvested in socially beneficial innovation and those where they may reflect entrenched market power. While these dimensions are not directly incorporated into the current framework due to data availability and the need for a scalable, comparable tool, they represent important priorities for future research.

Industries at risk of weak competition represent a significant share of industries, are frequent in key sectors and important along value chains

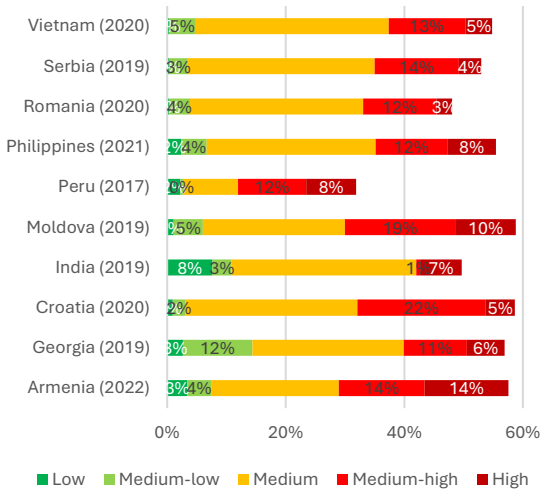
The number of industries with high or medium-high risk of weak competition can be substantial. Using the approach that compares industries within a country and period (within country), the share of industries with a high risk of weak competition ranges from 9 percent to 21 percent of the total number of industries in an economy. However, if industries at medium-high risk of weak competition are added, the combined share of involved industries is 42 percent on average across countries (Figure 2.3.a). When only the industries that show high and medium-high risks using both approaches are considered (within country and across countries), the average combined share of industries involved is 20 percent across countries (Figure 2.3.b).

Figure 2.3: The combined share of industries facing high or medium-high risk of weak competition is between 20 to 42 percent, on average across countries

a. Within country



b. Within country and across countries

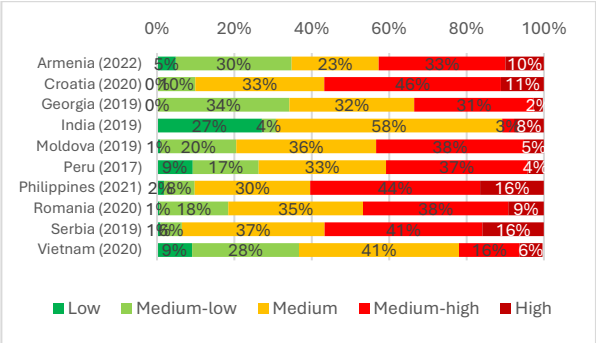


Source: Authors based on research prepared for this report. Note: Information for the last three years in each country.

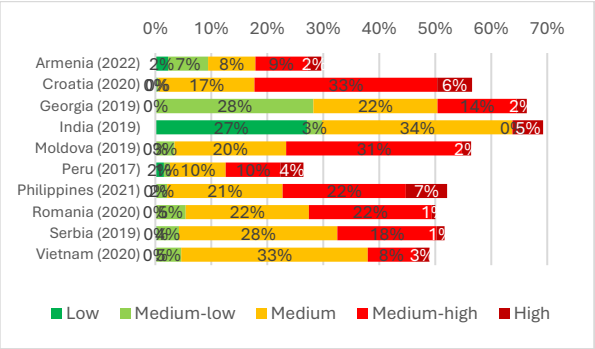
These industries also represented significant shares of revenues and employment. Based on the within country approach, combined revenues in industries with high and medium-high risk of weak competition amount to 41 percent of total revenues on average (Figure 2.4.a)—and 20 percent on average under the within country and across countries approach (Figure 2.4.b). The share of employment for industries with medium-high and high risks of weak competition is 45 percent on average under the within country approach (Figure 2.4.c) and 21 percent under the within country and across countries approach (Figure 2.4.d).

Figure 2.4: The shares of industries with high and medium-high risk of weak competition represent between 20 to 41 percent of industry revenues and between 21 to 45 percent in terms of jobs

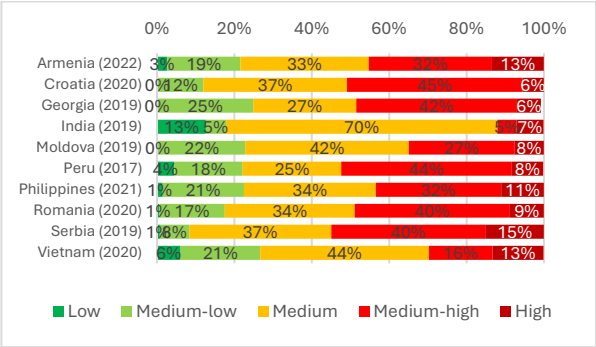
a. Share of revenue (within country)



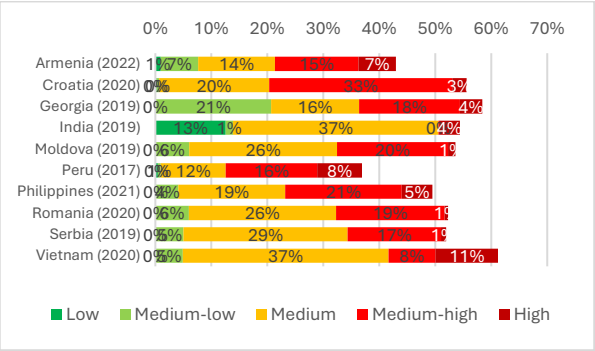
b. Share of revenue (within country and across countries)



c. Share of employment (within country)



d. Share of employment (within country and across countries)



Source: Authors based on research prepared for this report

High risks of weak competition were often found in many industries across countries, especially in services and enabling sectors. Industries with high risks of weak competition are recurrent across countries in services such as accommodation and food services, wholesale and retail, other service activities[13], and in enabling sectors such as ICT, transportation and storage, and water supply (Figure 2.5). In terms of revenues, sectors with a high risk of weak competition are recurrently important in other services activities, electricity, and real estate. Although high-risk industries in manufacturing hold low shares of industry revenues, they are frequent and affect value chains for food security.[14] These industries are manufacturing of food (e.g., sugar, grain milling), manufacturing of chemicals (e.g., fertilizers and basic chemicals), and weaving of textiles.

Figure 2.5: Industries in services and enabling sectors often face moderate to high risks of weak competition, and these industries account for a significant portion of total market revenues.

	High + Medium-high risk - Share of industry revenues									
	ARM	GEO	HRV	IND	MDA	PER	PHL	ROU	SRB	VNM
Electricity gas steam and air conditioning supply		100%			73%					99%
Real estate activities	2%	90%	100%		7%		97%			
Other service activities	89%	55%		100%	16%		5%	68%	52%	41%
Accommodation and food service activities	46%	81%	45%		47%		25%	66%	12%	2%
Arts entertainment and recreation	2%		36%			77%	1%		95%	3%
Wholesale and retail trade; repair of motor vehicles and motorcycles	13%	23%	65%		41%	41%	36%	41%	27%	6%
Water supply; sewerage waste management and remediation activities	5%	3%	10%	97%	100%	1%	1%	4%	25%	75%
Transportation and storage	26%	7%	35%			44%	31%	5%	47%	4%
Information and communication	12%	30%	56%		20%	2%	58%	2%	11%	19%
Professional scientific and technical activities	17%	7%	15%		27%		17%	23%	17%	61%
Administrative and support service activities	36%	4%	28%		18%	30%	12%	24%	13%	20%
Mining and quarrying							20%		8%	
Financial and insurance activities	6%		11%				52%	10%	2%	1%
Manufacturing	17%	9%	19%	5%	17%	1%	11%	11%	12%	7%
Construction			15%		7%	3%	40%	7%	2%	1%

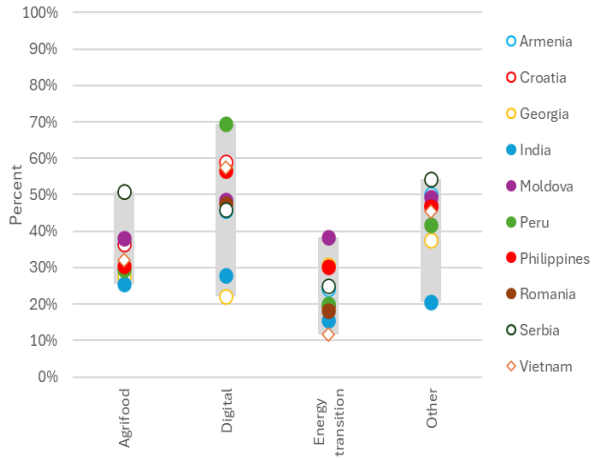
0% - 24% 25% - 49% 50% - 100%

Source: Authors based on research prepared for this report. Note: Figures in the cells represent the revenue shares of industries facing high or medium-high risks of weak competition within the respective sector. Blank cells indicate that industries in these sectors did not face either high or medium-high risks of weak competition. Dark grey cells in India indicate the industries not covered in the data.

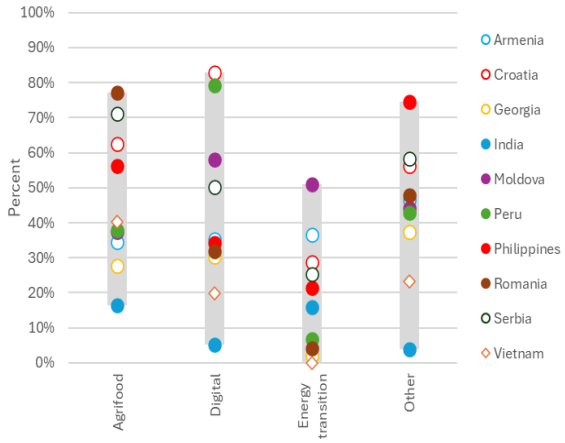
Industries at high and medium-high risk of weak competition are also important along value chains essential for digitalization, energy transition, and food security. Almost half of the industries (48 percent) along the digital value chain—representing 43 percent of revenues—present either medium-high or high risk of weak competition, on average (Figure 2.6). On average, 36 percent of industries (46 percent of revenues) along the agrifood value chain present medium-high or high risks, including, for example, fertilizers. The share of industries and revenues at these levels of risk in the energy transition value chain is lower—about one-fifth. This order of importance is consistent with the value chains with expanding presence of firms linked to the Top 1000 Forbes firms between 2019 and 2022 (Chapter 1). The highest increase in MICs was observed in digital followed by agrifood.

Figure 2.6: The importance of industries with high and medium-high risks of weak competition is higher in agrifood and digital value chains

a. Percentage of industries with high and medium-high risk along value chains



b. Share of revenues of industries with high and medium-high risk along value chains



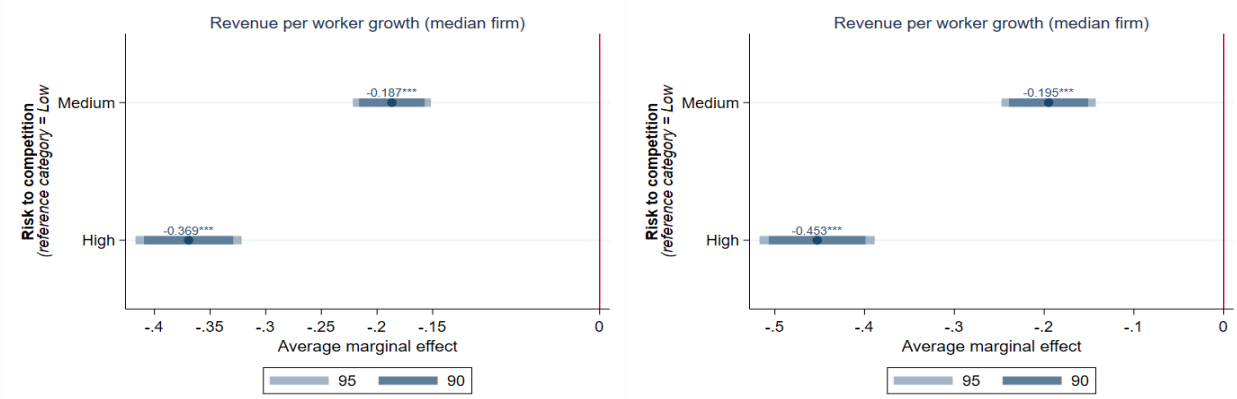
Source: Authors based on research prepared for this report. Note: Each value chain encompasses selected sectors equivalent to 129 NACE 4-digit activities for agrifood (agriculture inputs to food retail), 44 activities for digital (electronic equipment to telecoms and digital services), and 67 activities for energy transition (mining to vehicle manufacturing). Other encompasses all other industries.

Boosting competition in high-risk industries can yield substantial productivity and wage growth gains to the economy.

Competition supports productivity growth in middle-income countries. The relationship between the level of risk of weak competition and productivity growth is negative and significant (Figure 2.7). While the coefficients in the figure reflect 3-year productivity growth, this means that on a yearly basis, high-risk industries experienced, on average, between 11 (within approach) to 14 (within and across approach) percent lower productivity growth compared to low-risk industries.

Figure 2.7: Productivity growth is lower in industries with higher risks to competition

a. Within country **b. Within and across countries**

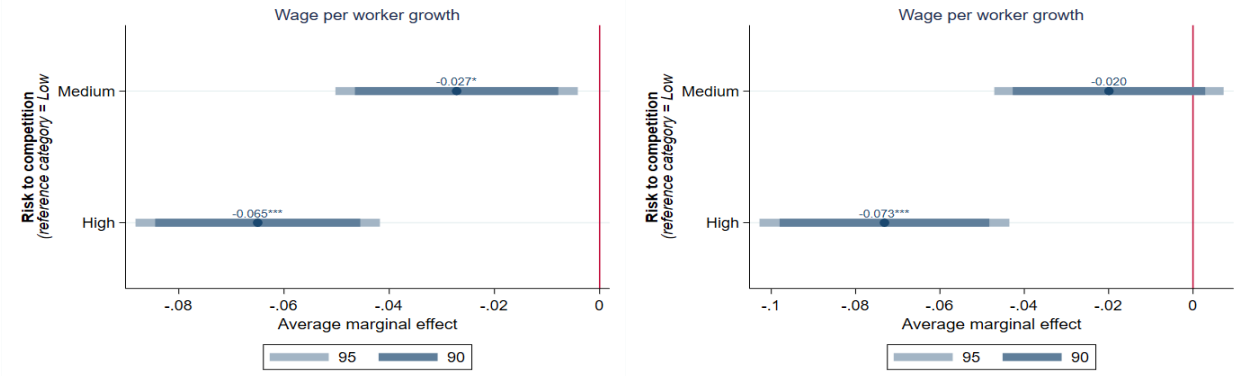


Source: Authors based on research prepared for this report. Note: The estimated coefficients are from 4-digit industry-level regression of 3-year productivity growth on competition risk levels (reference category = Low), conditional on industry revenue share, average age of firms, capital intensity, level of industry concentration (i.e., unconcentrated, moderately concentrated, and highly concentrated), and industry and year fixed effects. (***) denotes 1 percent statistical significance.

Wage growth is also lower in the industries with the highest level of risk of weak competition. Industries at high risk of weak competition experienced lower 3-year wage growth than those at low risk (Figure 2.8). High-risk industries experienced, on average, 2 percent lower yearly wage growth compared to low-risk industries, regardless of the approach used (within or within and across).

Figure 2.8: Wage growth is lower in industries with higher risks to competition

a. Within country **b. Within and across countries**



Source: Authors based on research prepared for this report. Note: The estimated coefficients are from 4-digit industry-level regression of 3-year wage growth on competition risk levels (reference category = Low), conditional on industry revenue share, average age of firms, capital intensity, level of industry concentration (i.e., unconcentrated, moderately concentrated, and highly concentrated), and industry and year fixed effects. (*) denotes 10 percent statistical significance and (***) denotes 1 percent statistical significance.

Boosting competition in high-risk industries can yield productivity and wage growth gains to the economy. To get a sense of the potential productivity growth and wage growth gains if policies were to improve competition in industries considered high-risk such that they become low risk, a counterfactual analysis based on the coefficients in Figures 2.7 and 2.8 was conducted. The analysis suggests that if industries categorized with high-risk were to reach the low-risk category, productivity growth could increase by 6 to 9 percent (yearly) on average across countries, using the within and the within and across approaches, respectively. Wage growth could rise by about 1 percent (yearly) on average, regardless of the approach used.

Business ownership networks influence competition

Business ownership networks—conglomerates—are a common feature in product markets. They affect the way firms compete. Depending on their corporate structure, multiproduct firms – that take simultaneous business decisions in various markets – can be organized as a conglomerate. As presented in Chapter 1, ownership linkages between firms result in vertical integration, common ownership of competitors, co-ownership by firms that compete in other markets, and multimarket contact, all factors that affect competition in the markets where linked firms operate. These ownership connections are, in many cases, overlooked, including in detail competition analyses of mergers by competition authorities[15] or in the industrial organization empirical literature.[16]

Identifying and assessing conglomerates systematically remains a significant challenge due to limitations in the available data. As mentioned earlier, firm-level information, which is typically reported in aggregate form and attributed to a single primary industry classification, makes it difficult to capture the inherently multiproduct nature of conglomerates. This aggregation prevents meaningful analysis of productivity across different product markets, thereby limiting our ability to distinguish between conglomerates formed for efficiency-enhancing purposes and those driven by strategic, potentially anti-competitive motives. Second, given the complexity of ownership forms discussed above, another challenge, more prominent in developing economies, is the lack of systematized information, for example, on corporate and beneficial ownership and politically exposed persons.

Notwithstanding these limitations, firm-level data can still offer valuable insights into the overall economic implications of conglomerates. While intra-firm variation across sectors cannot be observed, aggregate measures of productivity can serve as a useful—even if imperfect—indicator of overall performance. Rather than uncovering the formative motivations behind conglomerate structures, this approach sheds light on current market impact and conglomerates' broader economic significance.

Based on this, analysis conducted in three countries reveals that business ownership networks are widespread in some economies. Analysis conducted for three developing economies (namely, Philippines, Serbia and Viet Nam), where information on ownership links and firm performance can be deemed reliable, shows that business ownership networks are present in most sectors. Private conglomerates are predominantly present in wholesale and retail trade, manufacturing, and construction. While state conglomerates are present in these sectors, they are also prevalent in enabling sectors such as transport, ICT, and financial services (See Figure A2.1 in the annex).

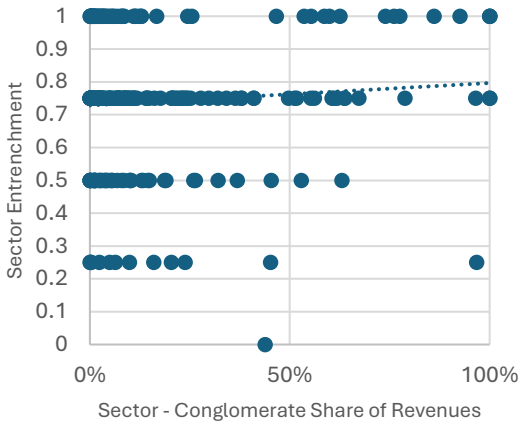
The analysis also confirms that business ownership networks influence the corporate landscape and industry structure. In Serbia, firms linked to conglomerates operate in 69 percent of the existing industries, in the Philippines in 54 percent, while in Viet Nam conglomerates are present in almost all industries.[17] The size of business ownership networks varies, with networks consisting of 7 individual enterprises, on average, in Serbia, 12 in the Philippines, and 3 in Viet Nam. The largest private business ownership network is found in Viet Nam (153 firms). In these countries, between 10 and 60 percent of firms belonging to conglomerates are co-owned by the state and private firms. And they can have an important presence in some countries. For example, in Serbia conglomerates linked to state ownership operate in 128 industries, in Viet Nam in 217 industries, and in 129 industries in the Philippines—the latter means in half of the industries where conglomerates operate. In addition, firms belonging to the same ownership network operate in the same industry. For example, in Serbia, "horizontal" conglomerate relationships are observed in 13 industries, accounting for 5 percent of the conglomerates.

Insights into the relationship between conglomerates, competition and market outcomes would be relevant to better understand the role of business groups in developing economies. Where data is available, the multivariate analysis of competition can be further enhanced by identifying and analyzing business ownership networks. For example, analysis for Serbia suggests that competitive pressure also seems to matter for conglomerate performance (Box 2.1). Conglomerates, especially those with state participation, are more important in sectors with high or medium-high risk of weak competition. Furthermore, conglomerates are less productive than independent (non-conglomerate) firms when they operate in industries with higher misallocation of resources (i.e., where market conditions do not allow more productive firms to gain market share) but are more productive than independent firms when resources in industries are more efficiently allocated. And, although fully private conglomerates seem to be more productive than state-linked conglomerates regardless of the efficiency of the industries where they operate, the productivity gap is the narrowest when markets are more efficiently allocated.

Box 2.1: A country case study on conglomerates, competition and market outcomes - Serbia

Industries with more intensive presence of conglomerates are highly entrenched in Serbia.[18] There is a slight positive relationship between entrenchment and the relevance of conglomerates in an industry as measured by their share of revenues in total industry revenues. Most industries where the presence of conglomerates is more intensive present levels of entrenchment of 0.75–which means only 1 out of the top 4 firms in an industry changes over a period of 3 years–or 1–there is no movement of any of the top 4 firms (Figure 2.9).

Figure 2.9: Industries intensive in conglomerate presence have higher entrenchment in Serbia



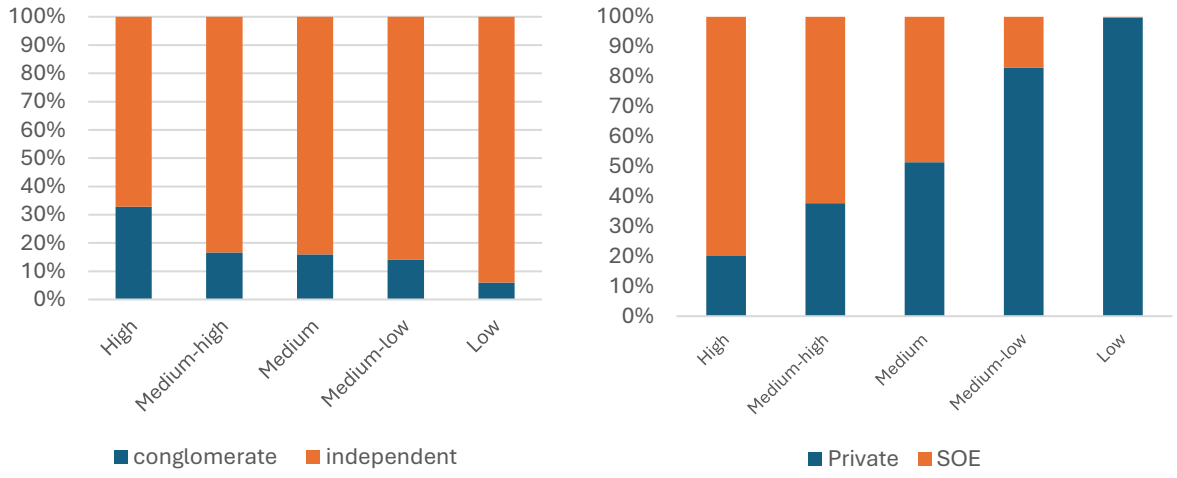
Source: Authors based on firm-level data from the national structural business survey and processed Orbis data on ownership.

Consistent with that, conglomerate revenues are also more concentrated in industries with high risks to competition, especially in conglomerates involving state ownership. In Serbia, conglomerates' presence seems to be more prevalent relative to non-conglomerate firms in industries with high risk of weak competition (Figure 2.11.a). Most of these revenues in high-risk industries are from conglomerate firms linked to SOEs, relative to fully private conglomerates (Figure 2.11.b). This further supports the evidence connecting the presence of the state in markets with weak competition environments (World Bank, 2023)

Figure 2.10: In Serbia, conglomerates have a strong presence in industries with high and medium-high risks to competition, especially when state ownership is involved

a. Conglomerate vs. non-conglomerate firms' revenues by level of risk of weak competition

b. Private vs. State conglomerate firms' revenues by level of risk of weak competition

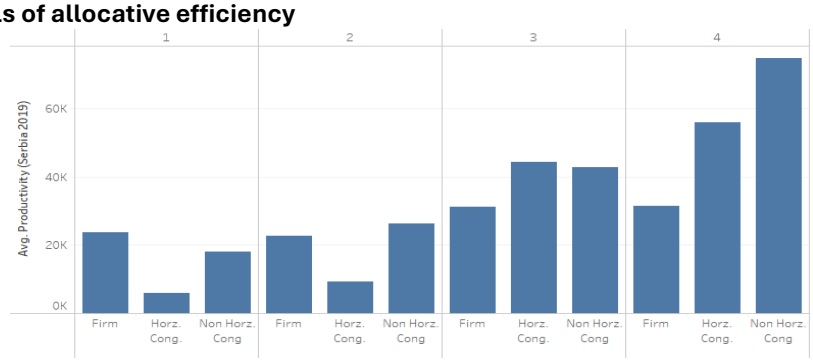


Source: Based on the Orbis database and country firm-level data from national statistics offices.
Note: State – conglomerates are defined as groups of at least two firms connected through direct and indirect ownership networks, using a 10 percent ownership threshold linked to state public authorities (e.g. Ministry of Financial, Municipal Governments) and previously identified enterprises with state shareholdings from BOS database (where available). Private conglomerates are defined as groups of at least two firms connected through direct and indirect ownership networks, using a 10 percent ownership threshold without links to government authorities.

Whether conglomerates support or undermine economic performance seems to depend on how well-functioning the markets where they operate are. In Serbia, conglomerates are less productive than non-conglomerate firms mainly in industries where resources are misallocated–the allocative efficiency variable, which is the covariance between size and productivity indicates that resources are misallocated

when its values are the lowest (first quartile in Figure 2.12).[19] This seems to be especially the case when conglomerates are horizontal–operate within the same industry. In industries where resources are efficiently allocated, conglomerates seem to be more productive than non-conglomerate firms (fourth quartile in Figure 2.11), showing that conglomerates can be more productive when operating in more well-functioning markets as their configuration might help them reduce costs and manage risks (see Chapter 1). Furthermore, non-conglomerate (independent) firms seem less productive than conglomerates where allocative efficiency is higher in the industry.

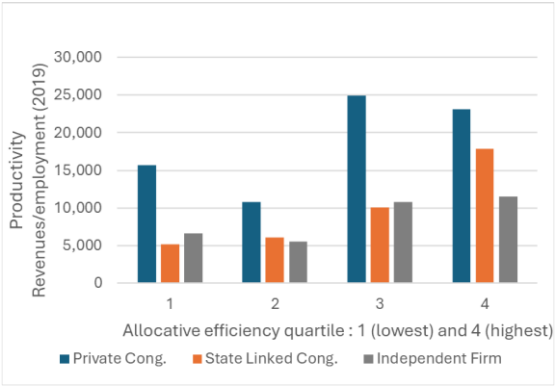
Figure 2.11: Productivity of individual firms seems to be lower than for conglomerates for industries with higher levels of allocative efficiency



Source: Background analysis for this report based on firm-level data from the national structural business survey for 2019 and ownership trees identified using Orbis data on ownership. Note: The x-axis represents allocative efficiency quartiles from low allocative efficiency (quartile 1) to high allocative efficiency (quartile 4).

Fully private conglomerates seem to be more productive than state-linked conglomerates and non-conglomerate (independent) firms, regardless of how efficient the industries where they operate are. That said, the productivity gap between private- and state-linked conglomerates seems to be the narrowest when markets are more efficiently allocated (fourth quartile in Figure 2.12). Furthermore, the average productivity of conglomerates across all types - including business of the state (state-linked conglomerates) - seems to be, on average, higher when markets are more efficient (Figure 2.12).

Figure 2.12: In Serbia, productivity for private conglomerates is higher compared to state-linked conglomerates



Source: Background research for this report based on firm-level data from the national structural business survey for 2019 and ownership trees identified using Orbis data on ownership. Note: The x-axis represents allocative efficiency quartiles from low allocative efficiency (quartile 1) to high allocative efficiency (quartile 4).

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Notes

[1] Colleen Cunningham, Song Ma, & Florian Ederer, 'Killer Acquisitions' (2021) 129 (3) Journal of Political Economy 649.
[2] For a review of papers in this strand of the literature, see Miller (2025).
[3] For a guide to conduct competition market assessments refer to the Markets and Competition Policy Assessment Toolkit.
[4] In addition, complex simulations with detailed supply and demand data to complement qualitative assessment are already commonly used for merger review. For more details on these analysis, see OECD (2020) and Budzinski and Noskova (2022).
[5] Industry is defined at the 4-digit level of the ISIC classification.
[6] Analyses of price evolution, levels, pass-through and dispersion can also complement analyses for specific markets with relatively homogeneous goods, but data is more limited to be combined with firm-level data. See Licetti et al (2023) Box 8, p.22 for more details on price analysis.
[7] In this framework, productivity is treated as a complementary outcome indicator and not a direct proxy for competition. Moreover, as labor productivity is not solely determined by competition—e.g. other factors as firm-specific investments, cyclical effects, or differences in capital deepening could also play a role—it is important to interpret the results with the appropriate nuance and complement the assessment with further in-depth analysis of the context in the industry analyzed.
[8] Considering the latest year available for each country and the within-country risk classification approach.
[9] Considering that variation in competition and firm performance indicators occurs within industries as well (De Loecker and Eeckhout, 2017), entrenchment is the variable directly accounting for firm-level dynamics within industry. Other variables reflecting within-industry firm dynamics (e.g., labor productivity dispersion) can be added in future extensions of this work.
[10] Given that years range from 4 to 13 years of data available, 3-year periods are selected to keep a reasonable number of observations in the final dataset. However, results with 5-year periods are also available upon request.
[11] For the 4 variables in levels, the values for the last year in the period are considered.
[12] The data requirements for this analysis are demanding, so in contexts where such data is not available, a more traditional approach based on a single indicator or based on expert judgment measures is still better than no analysis at all. For instance, in cases where only firm-level surveys that are representative of the population or of broad sectors are available, assessing competition using single indicators—mostly markups or PCM—is a valid option to screen for competition problems.
[13] That include repair and personal services.
[14] Within manufacturing, manufacturing of food (e.g., sugar, grain milling), manufacturing of chemicals (e.g., fertilizers and basic chemicals), and weaving of textiles are the industries where high risks were most frequent.
[15] See for example OECD (2017), "Common Ownership by Institutional Investors and its Impact on Competition", *OECD Roundtables on Competition Policy Papers*, No. 208 and COMESA Competition Commission-CCRED (forthcoming) "Ex post evaluation of COMESA merger decisions".

[16] Suggestions for research on business groups in developing economies made by Khanna and Yafeh (2007) are still relevant.

[17] The countries analyzed were selected based on a combination of firm-level data availability and sensible coverage using Orbis data, especially for the segment of medium and large firms. Statistics for Serbia were calculated by matching Orbis ownership trees with firm-level data. Statistics for the Philippines and Viet Nam were calculated using Orbis data and administrative firm-level data at the industry level (ISIC 4-digit).

[18] The evidence in this section focuses on Serbia, as it is the only country with information on conglomerates that has good coverage in terms of revenues and employment and where information from national administrative data can be matched with firm-level Orbis data.

[19] Allocative efficiency is measured as the static Olley–Pakes covariance between size and productivity. The larger (and more positive) the covariance, the more efficiently resources are allocated in an industry. Conversely, the lower the values of allocative efficiency (and more negative), the more misallocated an industry is (Melitz and Polanec 2015).

Chapter 3 – Competition authorities in action: Achievements and challenges

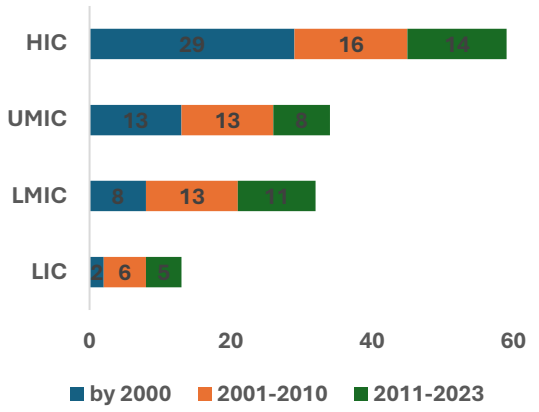
Key messages

- Competition authorities are crucial in promoting inclusive growth by addressing anticompetitive behaviors and preventing harmful mergers. They can fix problems ex-post (after an infringement happens), but preventative (ex-ante) measures are also crucial.
- Competition authorities have detected over 1,000 cartels across 78 countries, including 52 low-income and middle-income countries, in 2017-2022. These cartels affected products in 226 different industries – with high incidence in manufacturing, construction, wholesale and retail, and transport – that are important inputs for other economic activities. Bid rigging is a practice that is detected more frequently, representing at least two-thirds of cartels in MICs and LICs.
- Original research for this report reveals that the potential welfare effects from eliminating only 10 cartels prosecuted in 6 countries could have raised purchasing power by up to 1.7 percent, equivalent to reducing poverty up to 0.7 percentage points.
- Competition advocacy has been successful in shaping government policies and regulatory reforms, resulting in improved market dynamics and price reductions leading to savings of more than US$4 billion.
- Competition authorities in developing economies face challenges related to their institutional design (independence, transparency), the resources allocated (budget, staff), the scope of mandate and powers, and the tools available for enforcement.
- International collaboration is vital for the oversight of cross-border anticompetitive practices and mergers that could harm competition.
- While there is a need to support countries with less enforcement experience, the organic development of competition frameworks in response to implementation challenges can foster
- Countries with better competition laws and institutional frameworks seem to have a lower percentage of industries at high or medium-high risk of weak competition.

Competition authorities are contributing to better development outcomes through competition law enforcement

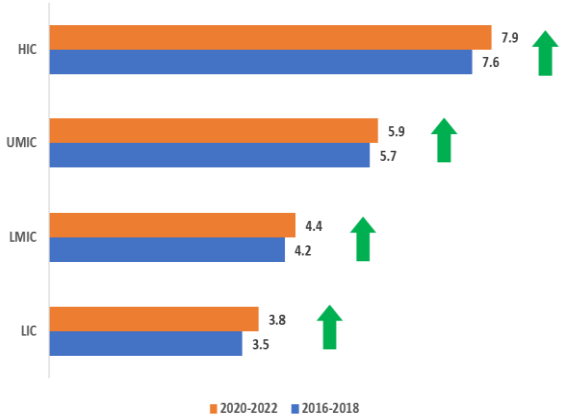
The number of separate competition agencies and the perception of effective competition policy enforcement have increased across income groups. Over the past 25 years, the number of competition authorities has more than doubled, and they are now present in more countries (Figure 3.1). Between 2016 and 2022, there has been a slight but sustained increase in the perception of competition law enforcement across income groups (Figure 3.2).[1] However, the gap compared to HIC persists (LICs score 50 percent below HICs), and it has even widened for UMIC.

Figure 3.1. The number of countries with separate competition authorities is rising



Source: Authors' own elaboration
Note: Out of a universe of 218 countries reviewed by April 2023, 137 countries had a separate competition authority: 13 LIC, 32 LMIC, 34 UMIC, and 59 HIC.

Figure 3.2. Competition law is enforced to a lower extent in lower-income countries
(Score from 0 to 10 (best))



Source: Bertelsmann Stiftung's Transformation Index, 2023
Note: 136 countries covered: 26 LIC, 46 LMIC, 41 UMIC, 23 HIC. The indicator captures to what extent safeguards to protect competition exist and the extent they are enforced.

Competition authorities are crucial in promoting inclusive growth by addressing anticompetitive behaviors and preventing harmful mergers. Effective enforcement helps deter cartels and exclusionary practices, fostering a healthier market that benefits consumers and workers. In Latin American countries, antitrust enforcement is associated with higher productivity growth (Maloney et al 2024). In the case of Mexico, sanctions for anticompetitive practices result in higher sales and wages and lower profit margins in the sectors where sanctioned companies operate; moreover, antitrust enforcement contributed about half a percent of GDP per capita growth (Reed et al 2022). Similar positive effects on GDP growth, productivity, and job outcomes are found in high-income economies.[2]

By eliminating cartels, competition authorities boost the welfare of vulnerable consumers. Cartels, the most egregious violation of competition law, have undebatable negative welfare effects.[3] Eliminating them can generate substantial welfare gains and poverty reduction. Original research for this report reveals that the potential welfare effects from eliminating 10 cartels prosecuted in 6 countries—Bolivia, Kenya, Indonesia, Mexico, Peru, and Tunisia—potentially generated relative welfare gains between 1.7 and 0.6 percent, equivalent to reducing poverty between 0.1 and 0.7 percentage points, respectively.[4] Lower-income households are likely to have benefited the most from the prosecution of these cartels compared to richer households, since cartelized markets involved staple goods (i.e., sugar, tea, poultry and toilet paper) which represent a larger share of lower-income households' consumption basket. In Mexico, Indonesia, and Tunisia, the potential welfare gains are equivalent to about 22-40 percent of key food assistance programs, showing how competition law enforcement is an effective tool to enhance the benefits of poverty alleviation programs. Furthermore, stopping bid rigging in public procurement has also delivered better public services to vulnerable populations. In Mexico, detecting a bid-rigging cartel in the procurement of lab testing and blood bank services by public health and social security institutions that provided services to half of the population reduced prices by nearly 30 and 5 percent, respectively. The

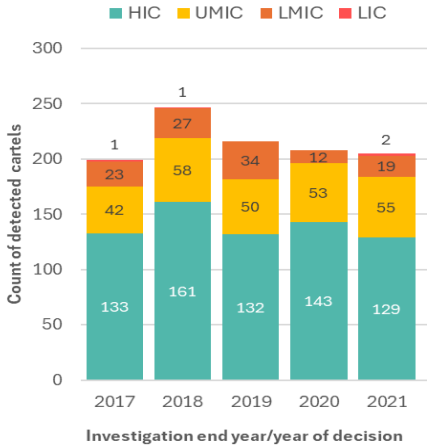
overcharge imposed was equivalent to the value of 927 ambulances and almost 47 thousand pacemakers (COFECE 2025).

Competition authorities have been particularly active in tackling economic cartels—agreements between competitors to suppress competition. Based on the new World Bank Anticartel Enforcement database developed for this report, competition authorities have detected over 1,000 cartels across 78 countries, including 52 low-income and middle-income countries, in 2017-2022.[5] These cartels affected products in 226 different industries – with high incidence in manufacturing, construction, wholesale and retail, and transport – that are important inputs for other economic activities. These anticompetitive practices are not limited to a few market players or carried out for a short period of time: on average, across countries, a typical cartel involved 6 firms and lasted 3.8 years (See Spotlight 3.1 and Sanchez-Navarro 2024). The intensity of the incidence of detected cartels is high in a few MICs that are relatively better resourced – such as Brazil and South Africa, where cartels have affected more sectors (up to 34 in South Africa), involved more firms in a single cartel (an average of 12 firms in Brazil), and lasted longer (an average over 7 years in both countries). This suggests that the footprint of cartels that competition authorities can unveil in MICs could be larger if appropriate resources and tools are used more effectively.

Anticartel enforcement in MICs and LICs has benefited public finances, consumer welfare, and industry competitiveness. Bid rigging is a practice that is detected more frequently, representing at least two-thirds of cartels in MICs and LICs. Construction is the most frequent sector among bid-rigging cartels in these countries. Notably, the number of MICs with cartels in road construction is 2.6 times that of HICs. This highlights the importance of anticartel enforcement to ensure value for money in expanding much-needed infrastructure in developing economies. Furthermore, detected cartels frequently affect value chains that are critical for households' welfare and enterprises' competitiveness. For instance, manufacturing, where at least four MIC or LIC have detected cartels in plastics, vehicle parts, medical equipment and supplies, fertilizers, and bakery products. Cartels in wholesale and retail are also more recurrent along the same value chains, such as vehicle parts, fuels, pharmaceuticals, and household goods.

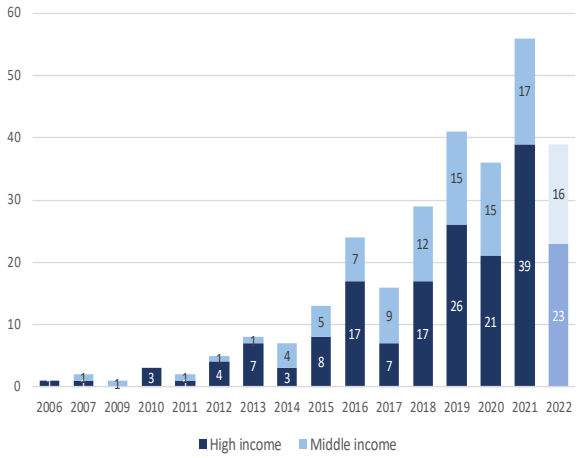
Connections between businesses, whether through associations or ownership, can facilitate cartels but also provide opportunities to promote compliance programs. Business associations have been present in more than one-quarter of cartels in South Asia (SAR), Sub-Saharan Africa (SSA), and Middle East and North Africa (MENA), suggesting that they could facilitate cartels or make them more stable. Cross-ownership and holdings can also facilitate the creation of cartels both domestically and abroad. In Egypt, for instance, at least four companies involved in a cartel in cement had direct and indirect shareholding from a common entity. Cross-ownership can also extend the international outreach of cartels through subsidiaries of large holding groups across different countries. For instance, in the banking sector, two of the largest companies in the Forbes 100 were involved in alleged cartels simultaneously in Brazil, Mexico, Switzerland, and Korea. In the tobacco industry, local subsidiaries of a large international company were investigated for cartels in the Netherlands, Ukraine, and Belgium. From 2017 to 2021, 12 of the largest Forbes 100 companies in banking, tobacco, chemicals, and wholesale were linked to over 20 cartel agreements across 19 economies. Despite this, multinational firms can help spread compliance practices in countries with limited competition law awareness. Business associations can be good allies for competition authorities to identify potential law infringements and boost members' compliance.[6]

Figure 3.3: Detected cartels per year remain constant across HICs and MICs



Source: World Bank Anti-Cartel Enforcement Database (ACED). Data as of October 4, 2024
Note: The ACED covers 1,256 cases investigated and decided on between 2017-2022 in 98 jurisdictions (46 HIC, 48 MIC, and 4 LIC). Note that ACED has partial information for the United States (cartel duration). Cases handled at the EU level are not included in the database. There are 11 countries with no reported hardcore cartel cases investigated and decided on between 2017-2022.

Figure 3.4: The number of cases involving digital platforms has increased significantly



Source: World Bank Group Global Digital Antitrust Database (GDAD). Data as of September 2022.
Note: The number of cases in 2022 cannot be compared to other years as cases were collected only until September 2022.

Competition authorities have actively enforced laws in key industries like digital markets, which are vital for economic development. While digital platforms enhance market access and competition against traditional players, they also pose risks as they grow and increase their market power. Up to September 2022, MICs have handled at least 105 cases of anticompetitive practices and merger cases involving digital platforms (71 in UMICs and 34 in LMICs).[7] Cases in MICs covered platforms operating in retail e-commerce (21 percent), food delivery (13 percent), passenger transport (19 percent), software or operating systems (12 percent), and online search and advertising (10 percent). In contrast, enforcement in LICs has been limited, likely due to complex economic analyses, limited capacity of competition authorities, and prioritization of other economic sectors.

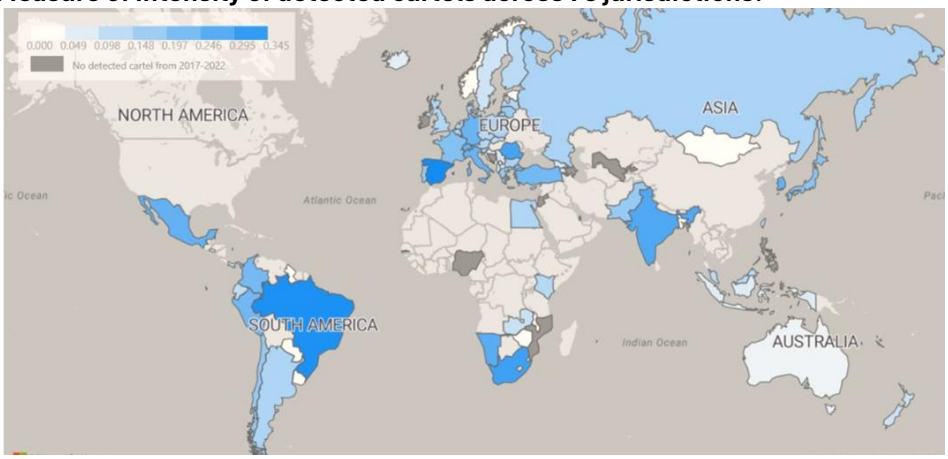
Spotlight 3.1: Tackling cartels – breadth, impact, and enforcement tools

Cartels are detrimental to markets as competitors agree to set prices, quantities, or barriers to entry. By limiting market competition, such practices often lead to sub-optimum market outcomes (e.g., price overcharges), welfare losses, and reduced consumer quality and choice**.** Cartels impact growth by reducing efficiency and slowing down productivity[8] These effects expand across-borders. When cartels operate at their peak efficiency, prices increase by 86 percent; and when expanded internationally, consumers can face 40 percent higher overcharges compared to a single-nation cartel (Connor, 2024).

The magnitude of the harm caused by cartels is quite substantial and yet underestimated. Empirical studies suggest between 3.4-8.4 percent of imports in developing countries are affected by cartel agreements (Levenstein, Suslow, & Oswald, 2010). The estimated annual harm caused by European cartels could be up to 2.3 percent of the European GDP (Maier-Rigaud & Schwalbe, 2013). For developing countries, the overall economic harm and costs may even be higher because of widespread market imperfections and other government policies that create a conducive environment for cartels, including price controls, import restrictions, or production quotas. Yet, these agreements are secret by nature, so their impact is potentially underestimated since less than 25 percent of the cartels are detected.[9]

Cartels operate across various sectors and income groups, significantly impacting basic consumption products and tradable goods. Based on the novel World Bank Anticartel Enforcement database (ACED) developed for this report, detected cartels affected more than 226 different product-markets (out of 419 existing in total) across all income-level country groups, including 115 cases in MICs and LICs (Figure 3.3). Considering the number of cases, the number of firms involved, and the average duration, evidence suggests a higher intensity of cartels in a few MICs (Figure 3.5). Around 60 percent of the cartels detected belong to three sectors - manufacturing (28 percent), construction (20 percent), and wholesale and retail trade (13 percent) (Figure 3.6). At least 160 cases impacted basic consumption products such as food (e.g., poultry, dairy), medicines, and hygiene products. Detected cartels have implications across borders: they impacted over 121 tradable goods, including 32 international cartels across 12 different countries.

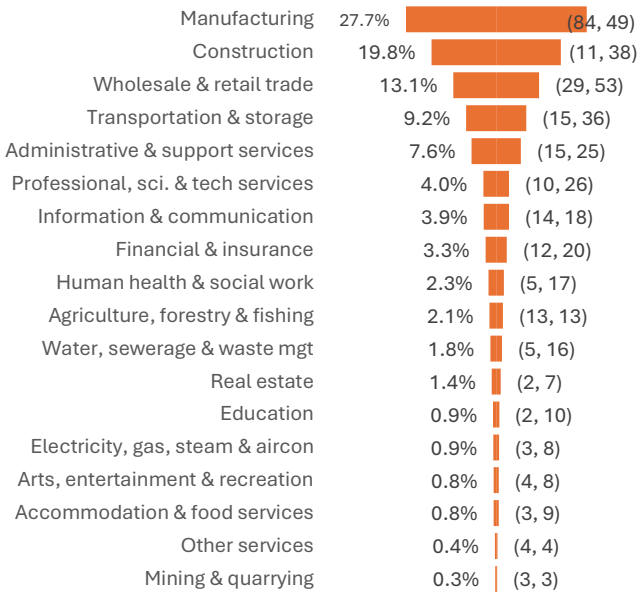
Figure 3.5: Measure of intensity of detected cartels across 78 jurisdictions.



Note: Simple geometric mean of normalized variables of cartel activity: number of subsectors (4-digit ISIC) with a cartel, average cartel duration in years, and average number of firms involved in a cartel. Countries in dark grey have not detected hard core cartels in 2017-2022. Source: WB ETIMT staff using ACED (2024).

While cartels can take different forms, bid-rigging in public procurement appears as the most common type of conduct sanctioned across 78 economies studied. Bid-rigging is one of the most common type of agreement evidenced in the ACED. Between 2017-2021, over 3,300 firms and 583 individuals have been investigated for bid-rigging impacting 615 public tenders across 78 countries. However, present across all regions and accounting for 58 percent of all collusive agreements, bid-rigging cases have been particularly evident in ECA and EAP involving construction and engineering services (32 percent), manufacturing (25 percent), and retail and wholesale trade. In ECA, estimates suggest that at least USD 39 billion in sales were impacted by bid-rigging between 2017-2021. In LAC, in at least 15 percent of the cases, cartels doubled the price of public procurement compared to a competitive scenario (Licetti et al 2021).

Figure 3.6. About 60 percent of cartels affect manufacturing, construction and trade



Source: WB staff using ACED (2024).
Note: The values in parentheses show the number of ISIC 4-digit industries and countries affected by a detected cartel.

The ACED also reveals new evidence about potential facilitating factors for the stability and coordination of cartels.[10] First, cartels seem more stable and achieve a longer duration when fewer than five firms participate in the agreement. This explains about 70 percent of the total cases in the ACED. Second, trade associations seem to play a role in facilitating coordination among a larger number of members. Although the role of these associations is to set standards and promote self-regulation, in practice, they could help foster communication and coordination among cartel members (Licetti et al. 2021). The role of trade associations also seems more predominant in certain regions, particularly in SAR, SSA, and MENA, where more than 25 percent of the detected cartels over the last few years involve a trade association.

Competition authorities require diverse and complementary tools to detect and dismantle cartels effectively.[11] **Only a few authorities count on all of them.** Detecting cartels is a challenging task for competition authorities. While a cartel investigation takes about 2 years in HICs, it can take up to 3.5 years in MICs and LICs. There is a significant variation regarding the anticartel enforcement tools adopted across competition authorities. Leniency programs and the capacity to conduct dawn raids or announced inspections are the most prevalent tools adopted (more than 97 percent of HICs and 85 percent of UMICs).[12] However, only 50 percent of HICs, 35 percent of UMICs, and 25 percent of LMICs in the sample have simultaneously a leniency program and the capacity to conduct dawn raids, use IT forensics, and apply digital cartel screens. And, while leniency programs and down raids have been in place for more than 13 years in UMICs and 18 years in HICs, they are much more recent (just above 5 years) in LICs and LMICs.

Besides enforcement, competition authorities have changed the institutional and regulatory ecosystem through successful advocacy

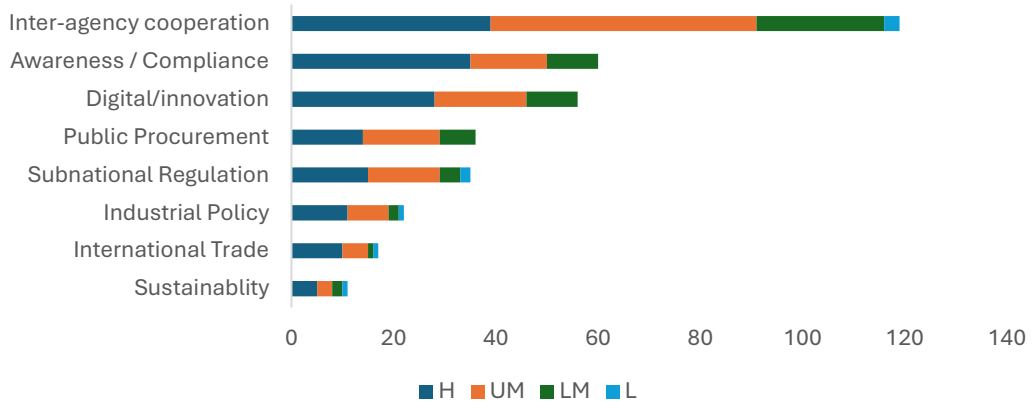
Effective competition enforcers do not always operate in a supportive ecosystem. Competition authorities are essential but not sufficient to set and enforce pro-market rules/interventions across

their economies. Regulatory restrictions and the overall political economy of market players (enterprises with state shareholdings, linkages with domestic economic groups) can influence rules and even institutional design. Brazil, Türkiye and South Africa are examples of MICs with good competition authorities among MICs[13] and the most restrictive product market regulations within each enforcement level group.[14]

Competition authorities are champions for competitive markets. Competition authorities can fix problems ex-post (after an infringement happens), but preventative (ex-ante) measures are also crucial. Competition advocacy involves creating a competitive business environment through awareness campaigns, engaging with private sector firms, and collaborating with other government agencies to identify actions to boost competition and minimize market distortions. From 2013 to 2023, around 300 successful competition advocacy examples were submitted by 62 jurisdictions to the ICN-World Bank Competition Advocacy Contest, focusing on policy objectives like digitalization, industrial development, and sustainability (Figure 3.7). These activities lead to measurable impacts on markets, consumers, businesses, and the economy more broadly (Spotlight 3.2).

Competition advocacy also plays an increasingly vital role in supporting sustainable development. In Ukraine, the Antimonopoly Committee (AMCU) proposed reforms to enhance market transparency in electricity and thermal coal markets, attracting new entrants certified under "green" tariffs. In Mexico, COFECE advocated for electricity reforms to enable competition in clean energy. In South Africa, the Commission assessed market dynamics in solar panels, inverters, and storage batteries. In Spain, the competition authorities have recommended reforms in waste management, while Japan has advocated for reforms regarding electric vehicle charging stations to boost interoperability and reduce unfair pricing by municipalities.

Figure 3.7: Competition advocacy initiatives support diverse public policy goals



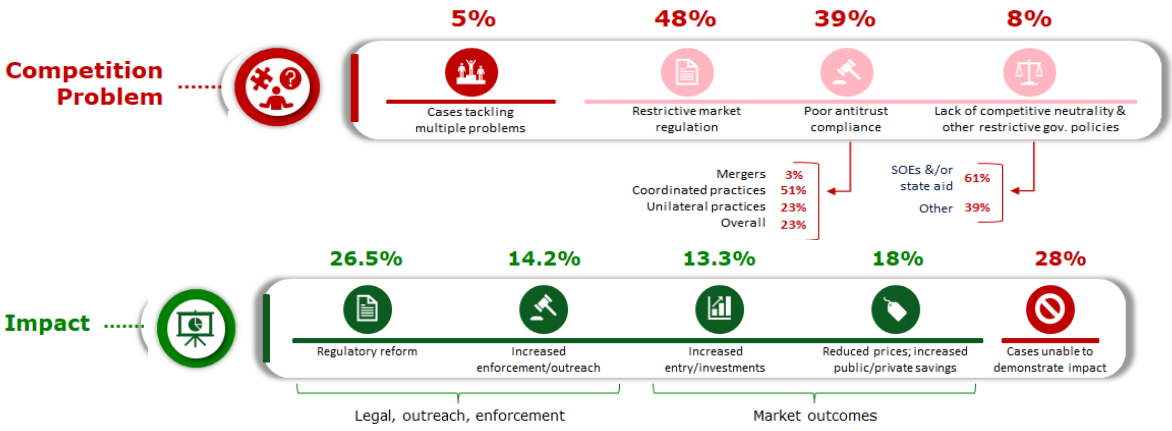
Source: ICN-WBG 2013-2023 Advocacy stories database.
Note: Out of a universe of 299 entries submitted by 62 jurisdictions, 269 are classified by income group.

Spotlight 3.2: Tangible benefits of competition advocacy

Competition advocacy covers a variety of issues, including i) restrictive regulations; ii) low awareness and compliance with competition law, and iii) limited competitive neutrality. Most stories submitted to the contest have focused on restrictive regulations, followed by initiatives that promote compliance, particularly against cartels (Figure). The most common types of economic impact reported were price

reductions and savings for consumers or governments, followed by increased business entry and investment.

Figure 3.8: Types of competition problems tackled by advocacy initiatives and reported impacts



Source: WB staff analysis of submissions to the ICN-World Bank Competition Advocacy Contest 2013-2023. Note: refers to 211 submissions.

Competition advocacy has been successful in shaping government policies and regulatory reforms. Following a formal investigation in **Malawi**, the *Competition Commission* successfully advocated for amendments to the Credit Reference Bureau Act that obliged lenders to share information with credit bureaus. In **Mexico**, the *Federal Economic Competition Commission* (COFECE) contributed to the adoption of the Financial Technologies Institutions Law, creating the legal foundations for open banking in the country. By 2022, 650 Fintech were operating in the country, an increase of 26 percent compared to 2021. In the **European Union**, the *Directorate-Generate for Competition* was critical in adopting EU Regulation 2018/302 prohibiting geographically based restrictions on online shopping. In **Peru**, the competition authority was responsible for supervising a process through which over 950 bureaucratic barriers in the infrastructure and retail sectors were repealed.

Advocacy actions directed at enhancing competitive neutrality also have a measurable impact on the market. In **Egypt**, the *Egyptian Competition Authority* (ECA) supported the adoption of a National Competitive Neutrality Strategy by the Cabinet of Ministers. The strategy included the creation of a High Committee for Competitive Neutrality chaired by the Prime Minister. ECA developed a competitive neutrality index to evaluate the impact of the Committee's decisions and conducted comprehensive sector-wide assessments in key markets with SOE presence. These efforts eliminated anticompetitive state measures benefiting 72 million citizens and reducing government spending by almost US$ 3 million annually. **In Zambia,** the *Competition and Consumer Protection Commission* (CCPC) designed an advocacy action to promote competitive neutrality in pay television services**.** The CCPC engaged with market players to end an exclusivity agreement involving an SOE in the pay television services market. This initiative led to the entry of new firms with lower prices services that benefit more than 23,000 consumers.

Price reductions generated aggregate savings of more than US$4 billion. The biggest gains have been achieved by opening public procurement of medicines and medical supplies to more competition. In the **Russian Federation**, international benchmarking of prices and subsequent procurement reforms helped lower prices for some pharmaceutical products by as much as 80 percent. In **Mexico**, pro-competition changes in the procurement practices of the largest purchaser of medicines were associated with savings of about US$ 4 billion. In **Ecuador**, reverse auctions of medicines contributed to US$110 million in savings for the public purse.

Increased business activity has been observed across various sectors, including transport, telecommunications, and manufacturing. In **Singapore** and **Kenya**, new ride-hailing services entered the

taxi market after the competition authorities advocated against price controls and exclusionary practices. In **Egypt**, the competition authority helped to open flight connections with Saudi Arabia to competition, while in **Pakistan**, the Competition Commission focused on domestic airlines, leading to about US$60 million in savings for Pakistani travelers to the Hajj. In **Colombia**, two new mobile operators entered the market after informing the design of the 4G spectrum auction and regulations on infrastructure sharing. In **Honduras**, a change in minimum distance regulation to establish new pharmacies enabled the opening of 67 new pharmacies in 33 cities. In **Zambia**, the competition authority intervened to allow 500, mostly small and medium-sized, saw millers to obtain competitive access to timber from an SOE, and in **Kenya**, reforms to regulations on tea processors resulted in new processors and the development of the purple tea industry.

Source: Miralles et al. 2023. Based on submissions to the WBG-ICN Competition Advocacy Contest in the period 2013-2023

Despite various challenges, the market ecosystem has evolved in some countries thanks to the active role of competition authorities. In Kenya (Box 3.1), the authority helped address issues in key industries such as mobile payments and agribusiness, building support to access more resources. In Mexico, COFECE and its predecessor supported competition in telecommunications and later on in digital finance and e-commerce, as it gained more independence and resources over time. Nonetheless, there has been a policy reversal in the last year in Mexico. These experiences highlight that an enabling political environment and strategic leadership are essential to preserve the gains of creating a competition culture.

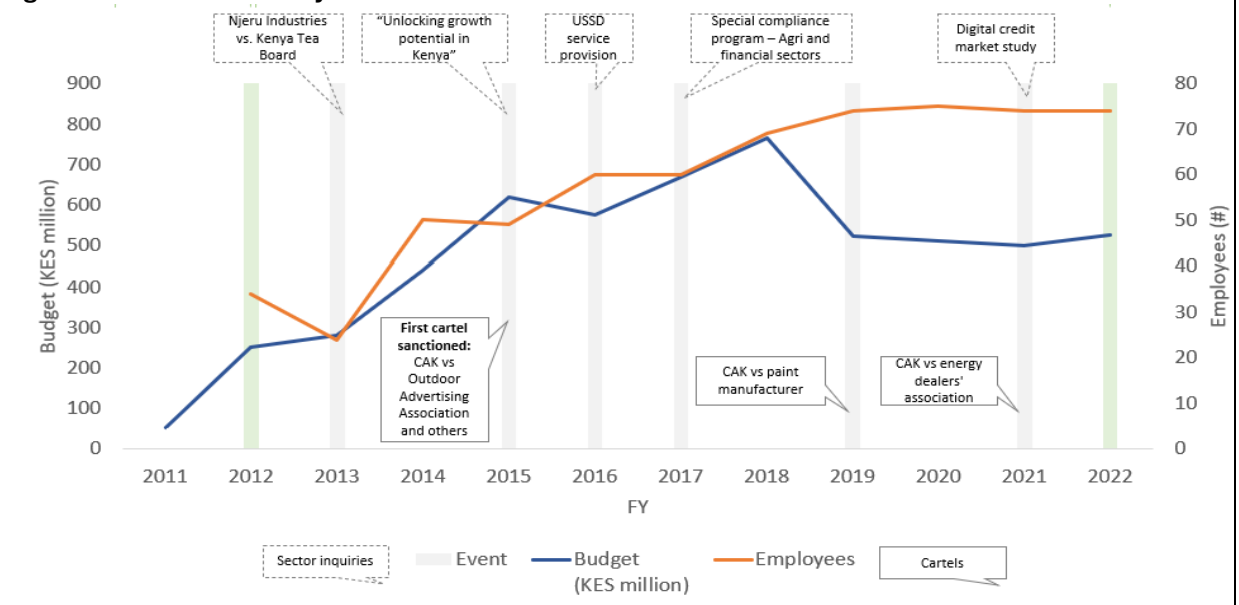
Box 3.1: Kenyan Competition Authority: A case of institutional building

The enactment of the Competition Act of 2010 (the Act) established the Competition Authority of Kenya (CAK) as an independent body in line with the Country's Economic Recovery Strategy for Wealth and Employment Creation. The act replaced the Monopolies and Prices Commission (which fell under the National Treasury). The Act delineated the mandate and the boundaries of enforcement and operation, which was complemented by subsidiary legislation/rules and various guidelines aimed at creating predictability, accountability, and transparency in CAK's decisions.

CAK's – financial and human - resources increased since its inception, driven by an expanding mandate and a perceived prominent role in the economic agenda. The Act underwent six amendments, once every year from 2014 to 2019, leading to the introduction of the leniency program, abuse of buyer power provisions, and administrative penalties. CAK continued developing legislation and rules during the same period, informed by emerging issues, investigation challenges, and market dynamics. CAK's budget revenue streams include The National Treasury disbursements (about 85 percent of the budget) and fines, merger filing fees, and income from other investments. Over the years, the budget levels raised given the government's economic priority agenda (Figure 3.9). Furthermore, the recruitment of additional staff supported by skills capacity, aided by development partners, deepened CAK's enforcement initiatives.

CAK strategically aligned its advocacy efforts and strengthened its enforcement capacity to implement measures that profoundly impacted Kenya's economy. For example, in 2013, markets previously closed to private investment, such as pyrethrum and purple tea, were opened aided by CAK's actions. By 2023, at least seven companies entered the purple tea industry and two in pyrethrum processing, benefiting over 30,000 farmers and creating at least 2,000 jobs. In 2014, CAK ordered Safaricom to open up M-Pesa network to rivals and prohibited the mobile operator from levying extra charges on competitors using its network, further enabling the development of the mobile money market. In 2016, CAK conducted a market inquiry on USSD service provision to determine whether it led to constraints in competition in financial services and related markets and identify other concerns relating to consumer protection. The advocacy report "Unlocking Growth Potential" informed and helped build feasibility for key regulatory changes.

Figure 3.9: CAK's advocacy and enforcement activities over time



Source: Background analysis for this report.

CAK adopted a multi-agency approach to enhance competition in regulated markets, recognizing the technical expertise of sector regulators and the need to harmonize their mandates with CAK's. Through several non-binding Memoranda of Understanding (MoUs), CAK facilitated joint training, research, and market inquiries, including information sharing. This collaboration led to better decision-making, supported innovation, and minimized competition risks, contributing to a more robust and pro-competitive regulatory framework. For instance, the Kenya Digital Credit Market Inquiry, guided by MoUs with the Central Bank and the Communications Authority of Kenya, led to the licensing and regulation of all Digital Financial Service providers by the Central Bank.

Post-COVID, CAK's budget and staff resources have remained stable, although the process of appointing a new director general has not been smooth and lasted about two years. This underscores the importance of leveraging pro-competition policy periods, strengthening the authority's position to navigate setbacks due to shifts in the government agenda.

Competition authorities in developing economies face various challenges

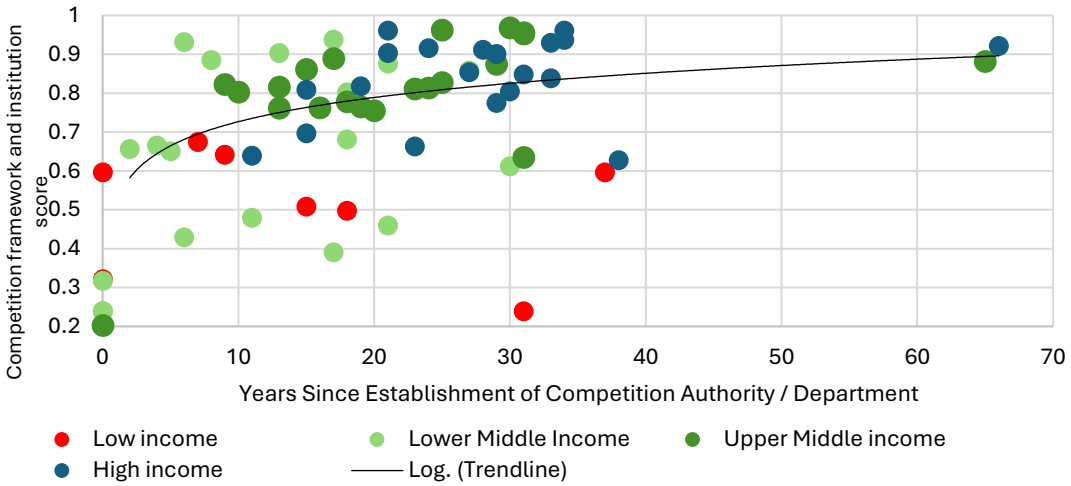
Conditions in the legal, policy, and operational framework, actual law enforcement, and the integration of competition principles across policy areas enable effective antitrust enforcement. Competition authorities in developing economies face challenges related to their institutional design (independence, transparency), the resources allocated (budget, staff), the scope of mandate and powers, and the tools available for enforcement.

The institutional design of the authority defines its independence and accountability and, therefore, its capacity to make technical and impartial decisions. While the number of competition authorities (that operate separately, not as departments under ministries) has increased, 7 percent of competition authorities operate under a ministry in HIC and MIC, and 19 percent in LICs.[15] Operating under a ministry is problematic to the extent that the Ministry has higher authority as a signatory of the competition authority's decisions, can overturn decisions, or can direct the initiation of cases, making enforcement vulnerable to political interference. Nonetheless,

having a separate competition authority needs financial resources that can be scarce in smaller economies. In these cases, multi-functional authorities that manage sector regulation and competition law can be an option – like those in the Netherlands, Spain, and Australia.

Countries with longer enforcement experience have better competition frameworks and institutional design, as these frameworks are refined in response to implementation challenges. MICs have been implementing competition law for a shorter period compared to HICs, with an average age of enforcers of 20 years in UMICs and 16 in LMICs, compared to 35 in OECD countries. Furthermore, over 30 MICs and LICs do not yet have a competition authority in operation. A recent assessment of features of the competition legal and institutional framework (Box 3.2) shows that HICs are more aligned with international good practice linked to higher agency effectiveness than MICs and LICs (83 percent compared to 61 and 49 percent, respectively). Even within the same income category, countries with a longer history of enforcing competition laws tend to exhibit stronger competition frameworks and more robust institutional designs (Figure 3.10). Countries with no competition authorities or young authorities (five or fewer years old) average only 40 percent on their alignment with international good practice. This highlights a potential tension: while there is a need to support countries with less enforcement experience, the organic development of competition frameworks in response to implementation challenges can foster local ownership and make reforms more sustainable.

Figure 3.10: Countries with more enforcement experience have better competition law and institutional frameworks

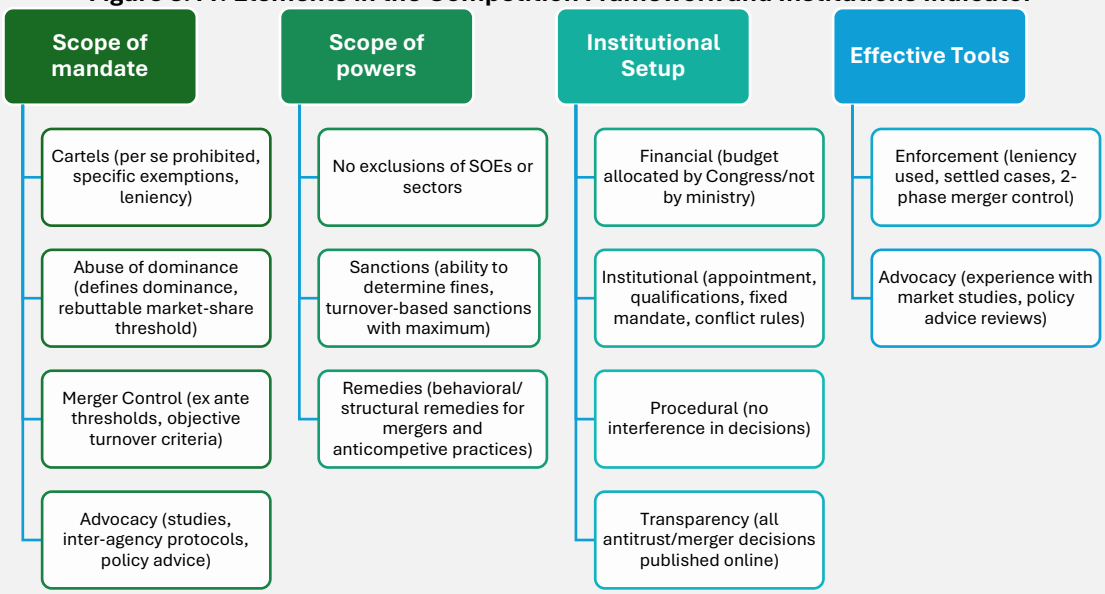


Note: The Y-axis represents the score for each country's competition law and institutional framework indicator (Box 3.2). The estimation for the trendline includes only countries with competition authorities. The sample consists of 69 countries: 20 HICs, 21 UMICs, 21 LMICs, and 7 LICs.

Box 3.2: Components of the Competition Framework and Institutions Indicator

Frameworks for competition law enforcement and institutions in 69 countries were assessed based on the presence or partial fulfillment of key legal, procedural, and institutional criteria. Two complementary sources were combined to create a unified indicator: a parsimonious questionnaire developed as background research for this report and the B-Ready results.[16] Both sources use a basic questionnaire that assesses the following aspects of competition laws and institutions: scope of the mandate (competition issues that it can address), scope of powers for economy-wide enforcement, institutional set up, and tools for effective enforcement.

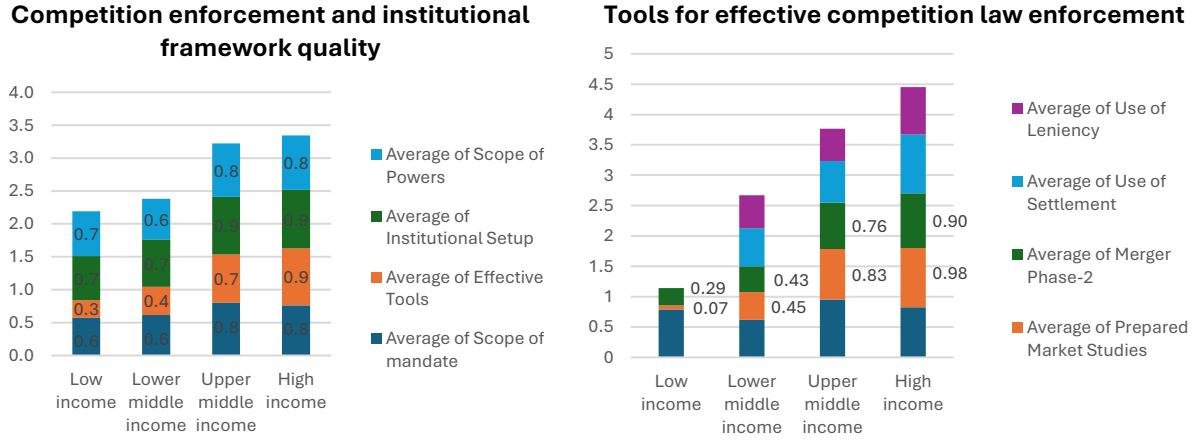
Figure 3.11: Elements in the Competition Framework and Institutions Indicator



Each topic may encompass one or more questions, and for each question, a value of 1 is assigned if the country followed the recommended good practice (e.g., if a country has a per se rule against cartels, it will receive a value of 1). Using these values and the weights indicated in Annex 3.1, a unique score is calculated for each jurisdiction.

Laws and regulations in LIC and MIC still have certain limitations. (Figure 3.12).[17] The scope of their mandate, including specific strong provisions to combat abuse and cartels, and the scope of their powers on SOEs and specific sectors is sometimes limited. In a few MICs, competition law enforcement in specific sectors - such as the financial sector and telecommunications - is under the oversight of sector regulators, creating a potential risk of underenforcement if regulators focus on other mandates. Furthermore, LMICs and LICs face a significant lag in using tools to enhance effectiveness.

Figure 3.12: Countries with higher income levels have better competition frameworks and tools



Source: Background research for this report. Note: The scores represent an average for each income level group, with a maximum score of 1 for each component. The sample consists of 69 countries: 20 HICs, 21 UMICs, 21 LMICs, and 7 LICs.

Competition authorities in LICs and MICs are remarkably understaffed and have limited budgets, reducing their capacity to act. Some exemptions, such as South Africa and Kenya, have a high budget relative to their income level. Furthermore, although the budget and staff have increased overall (6 and 2.4 percent on average per year) in 2015-2023, the average number of staff per agency in OECD countries is almost three times that in non-OECD economies.[18]

There is a clear positive correlation between the tools and resources for competition enforcement and the number of cartel and digital market cases authorities pursue. Competition authorities, where active, have tackled cartels and have been important in addressing issues in new areas such as digital markets.[19] The number of detected cartels and digital market cases tends to rise as countries have frameworks that are more aligned with international practices and have more budget and staff.[20] (Figure A3.1 in the annex).

The alignment of a country's competition law and institutional framework with good practices for effectiveness is negatively correlated with the prevalence of industries with signs of weak competition. Countries with better competition laws and institutional frameworks seem to have a lower percentage of industries at high or medium-high risk of weak competition, as analyzed in Chapter 2.[21] However, this correlation can reflect confounding institutional variables. Better institutional frameworks for competition and appropriate levels of resources for authorities are policy levers for more effective enforcement and deterrence.

International collaboration is vital for the oversight of cross-border anticompetitive practices and mergers that could harm competition. Effective prosecution of international cartels[22] requires clear rules for leniency and cartel investigations that facilitate multi-jurisdictional collaboration while ensuring due process. Mergers often span multiple jurisdictions, necessitating either informal cooperation or formal partnerships under frameworks like COMESA. Without such collaboration, oversight of regional merger effects may suffer, as seen in the Grab-Uber merger in East Asia, where only two out of eight countries fully analyzed the case (Miralles et al. 2022). Additionally, market studies that include neighboring countries can reveal suspicious activities and regulatory barriers hindering competition. The African Market Observatory, backed by the COMESA Competition Commission, tracks prices of key products for food security and provides insights that have informed antitrust cases initiated in two countries. Finally, the presence of global conglomerates emphasizes the need for an international perspective on ownership linkages. For instance, a merger involving two major fertilizer suppliers in East Africa was approved despite shared ownership with one of their largest competitors (Roberts, 2023). This common ownership (as discussed in Chapter 1) can reduce competition intensity and should be considered during merger assessments.

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[1] The Bertelsmann Stiftung's Transformation Index (BTI) is a perception-based indicator that relies on country expert assessment to build an index covering several criteria. A subsample of this index involves economic transformation and includes competition policy as an indicator. The index is measured on a scale of 0 to 10, with 10 being the highest value.

[2] Antitrust enforcement actions led to a long-run increase in the level of economic activity, business formation, average wages, and the labor share, suggesting an increase in the quantity of output and, at the same time, a decrease in the price of output (Babina et al 2023 based on the United States Department of Justice actions). The introduction of anticartel rules caused an intensification of price competition in previously cartelized manufacturing industries and increased productivity (Symeonidis 2008 for the United Kingdom). Enforcement actions and their deterrence effect can boost GDP growth by up to 1.1 percent considering lower markups and consumer prices in directly affected industries and their cross-industry spillover effects (Dierx et al 2023 based on the European Commission's actions).

[3] See for example Moreau and Panon (2022) on welfare gains in France for a recent empirical analysis and World Bank – OECD (2017) for a review of the literature.

[4] The cartels included in this analysis are sugar (Bolivia), chicken meat (Indonesia), tea and private health care (Kenya), maize tortilla, poultry and sugar (Mexico), pharmaceutical products and tissue paper (Peru) and tomato derivatives (Tunisia).

[5] Information based on the new World Bank Anti-Cartel Enforcement Database (ACED) developed under the Competitive Markets for Development Program. See **Spotlight 3.1** for further details.

[6] See for example Kenya's results from the business associations compliance program, available at https://www.cak.go.ke/sites/default/files/Special%20Compliance%20Process%20Report%202016-2017.pdf

[7] This encompasses cases that have been analyzed by a competition authority, which was derived from an ex-officio investigation, or initiated by a complaint or a notification made by economic agents in a market. The GDAD considers the following types of competition case: 1) abuses of dominant position; 2) collusion; 3) vertical restraints; and 4) mergers. For more details on the database, see Nyman and Barajas (2021). For more details on the characteristics of the cases, see Nyman and Begazo (2024).

[8] Cartels impact the underlying channels for growth deteriorating allocative, productive, and dynamic efficiency (Gunster, Carree, & van Dijk, 2011), slowing down productivity (Petit, Kemp, & van Singeren, 2015), (Symeonidis, 2008), and reducing the exit of inefficient firms (Broadberry & Crafts, 1992).

[9] See Bryant & Eckard, 1991, Golub, Detre, & Connor, 2008, Combe, Monnier, & Legal, 2007, Ormosi, 2014. These studies find that discovered cartels are only the tip of the iceberg and coincide that less than 25 percent of the cartels are detected each year. Annual estimated probability of detecting a cartel in US is at most between 13-17 percent (Bryant & Eckard, 1991), whereas for European countries is between 12-13 percent according to (Combe, Monnier, & Legal, 2007) and less than a 20 percent (Ormosi, 2014). An analysis across 20 developing economies also suggests the maximal annual probability of uncovering an existing cartel being around 24 percent (Ivaldi, Jenny, & Khimich, 2016).

[10] Cartels are formed when three conditions are met – stability, participation and coordination. First, a cartel is stable when all members have incentives to continue colluding rather than deviating from the agreement. Second, members will

participate if the cartel offers incremental profits for the firm or the individuals. Finally, coordination mechanisms are key, so members can communicate and monitor the agreement's compliance. Although all these conditions are hard to measure and observe, there are some factors that can play a crucial role in the facilitation of cartel formation, as evidenced in the ACED database.

[11] For a framework of the various factors that affect anticartel enforcement, see Licetti (2023)

[12] Number of countries that provided answers to an institutional questionnaire sent across 100+ competition authorities in October 2024.

[13] As rated by GCR. GCR Rating enforcement measures the effectiveness of competition authorities. The ranking is constructed using the survey data in combination with expert judgment based on statistical indicators and interviews. The ranking evaluates the use of resources, legal powers, and influence to promote competition and address anticompetitive harm.

[14] As measured by the Product Market Regulation indicator. https://www.oecd.org/economy/reform/indicators-of-product-market-regulation/ Brazil presents burdensome licenses and permits and restrictive public procurement rules and lacks mandatory assessment of the impact of laws/rules on competition, while South Africa and Türkiye present weaknesses in the scope and governance of SOEs.

[15] Considering 218 countries reviewed by December 2023: 27 LIC, 108 MIC, 83 HIC; 167 countries counted with a separate competition authority (i.e., agency, commission, council).

[16] Both questionnaires addressed aspects of competition law (or its operation) but sometimes framed questions in different ways (e.g. because they used broader or narrower wording or because certain questions focused on institutional operations rather than the legal text). See Annex for more details on the harmonization of questions.

[17] The level of alignment with international good practices is 86 percent in HICs, compared to 43 percent in LMICs and 26 percent in LICs.

[18] Based on OECD CompStat data accessed in March 2025. Budget data covers 66 jurisdictions (22 non-OECD), and staff data covers 65 jurisdictions (26 non-OECD).

[19] World Bank Group Global Digital Antitrust Database. Data as of September 2022.

[20] We developed a simple index to measure the Competition Enforcement Tools and Resources. This includes three equally weighted elements reflecting competition authority operational tools: (i) the adoption of best practices in competition enforcement and institutional frameworks; (ii) budget, and (iii) staffing levels.

[21] Considering the countries analyzed in Chapter 3 except for Serbia.

[22] The ACED database has identified at least 30 international cartels (excluding those in EU) across 12 countries impacting 16 products. Products in manufacturing account for 53 percent and transportation and storage for 32 percent.

Chapter 4 – Governments in action: Persistent gaps in market institutions for an encompassing competition policy

Key messages

- Governments intervene in markets by setting the rules of the game under which market players operate (to fix market failures) and allocating public resources (to create markets).
- Governments act as market regulator (i.e. sectoral regulators, international rule-maker, market referee) and as market developer or creator (i.e. government as buyer, supplier, and financier).
- Many of these interventions are justified and necessary but can also promote or distort competition, often unintendedly or because of political economy forces.
- There is a two-way relationship between economic policies and competition policy: on one hand, competition can enhance the effectiveness of other economic policies; on the other, economic policies can undermine competition.
- Governments' role as supplier and financier for market development has become more important since 2019 but without appropriate safeguards to preserve competition. Regarding governments' role as buyer, there has been a push towards favoring domestic companies and promoting SMEs.
- Rule-setting has generally been getting closer to best practice, but the gaps between LICs and MICs, and HICs persist. Regulations are still more restrictive in developing economies.
- There are large gaps in market institutions regulating the role of government as a financier in middle income countries. Transparency and monitoring to foster the proper design and implementation of industrial policies are weak, fueling risks of misuse and market distortions.
- To ensure that the state engages in markets in ways that promote rather than inhibit competition, rules that minimize distortions and institutions capable of properly enforcing them are needed across government's roles. National Competition Policies can govern regulations and institutions that shape how governments intervene in markets and whether they do so in pro-competitive ways.

Competition law enforcement is important but not sufficient to address the challenging context for boosting market competition. Not all countries have the capabilities to operate effective antitrust agencies. However, governments of rich and poor economies can reap the benefits of competition by aligning policies with competition principles and strengthening other market institutions.

How do governments shape markets?

Governments, through various policies, affect how firms and markets behave and, therefore, the intensity of competition. Building on Jean Tirole's framework developed in "Economics of the Common Good" (2016), this chapter scans the various channels through which the state affects "economic life" in a market economy. Governments intervene in markets by setting the rules of the game under which market players operate (to fix market failures) and allocating public resources (to create markets) (Figure 4.1). Governments act as market regulator (i.e. sectoral regulators, international rule-maker, market referee) and as market developer or creator (i.e. government as buyer, supplier, and financier). Many of these interventions are justified and necessary but can also

promote or distort competition, often unintendedly or because of political economy forces. There is a two-way relationship between economic policies and competition policy: on one hand, competition can enhance the effectiveness of other economic policies; on the other, economic policies can undermine competition. This chapter summarizes evidence of how government interventions that promote and safeguard competition have proven effective in achieving development goals, from boosting productivity, export competitiveness, and investment to enhancing consumer welfare. The aim of the chapter is to illustrate how governments can shape markets beyond the role of competition agencies; therefore, it focuses on selected policy areas. Readers can refer to the Markets and Competition Policy Assessment Toolkit (World Bank 2025) for a more comprehensive review of government policies affecting markets and recommendations on policy design to minimize market distortions.

Figure 4.1: Government policies affect competition in domestic markets through diverse channels

RESOURCES *Allocating public resources to support market creation*			**RULES** *Setting rules and parameters for the markets to operate*		
Supplier	**Buyer**	**Financier (Subsidies)**	**International rule maker**	**Sector regulator and supervisor**	**Market referee**
Provision of goods and services (including information), co-investor through SOE-BOS/SOFIs and PPPs	Public procurement through SOEs, ministries and government agencies	Changing the relative costs for certain market players through industrial policies, tax incentives, credit support, other state aid	Exposure to international markets through trade and investment rules including through bilateral and regional agreements	Statutory requirements (e.g., licenses, standards); ex ante regulation of industries with market failures (e.g., network industries, finance, mining)	Enabling competition and tackling anticompetitive practices through competition law enforcement

Source: Adapted from Licetti et al. (2023). Note: Framework developed based on Tirole (2016)

Policies that enhance competition positively impact development and improve the effectiveness of other economic policies.

Pro-competition (regulatory) reforms enhance competitiveness and growth. Changes to how the government sets rules (laws and regulations) and parameters for the markets to operate, especially as international rule maker and sector regulator can yield development benefits. Procompetition (regulatory) reforms, including at the subnational level, are associated with higher productivity and GDP growth.[1] Procompetition reforms can vary in nature, from regulatory simplification and transparency that reduce barriers to firm expansion to the elimination of statutory monopolies. In Honduras, WBG-supported reforms to reduce undue administrative burden of registration of fertilizers and pesticides and to adopt non-discretional procedures increased contestability and delivered lower prices. It reduced average prices of fertilizers (7.8 percent) and pesticides (3.9 percent), and it produced savings on inputs: US$11.8 million a year (Dauda et al 2024). In Oaxaca, Mexico, a reform enabling an extension in opening hours for all establishments of low or medium risk resulted in additional sales and entry—26 companies extended their opening hours, adding approximately 4.75 hours of operation and leading to approximately 6.8 percent increase in the annual average rate of real retail sales growth (Dauda et al 2024). Reforms that reduced the cost of inputs had a higher impact on firms operating in more competitive sectors.[2]

Setting clear objectives and boundaries to the state's role as supplier, and enabling the private sector to compete on a level playing field, brings development gains. Positive effects in trade logistics have been observed in Ethiopia after opening up the logistics sector to FDI and eliminating the statutory monopoly of an SOE (Box 4.1). In Comoros, opening up rice imports to competition and private entry boosted imports and price reductions, enhancing food security (Box 4.1).

In other cases, the state has a role as supplier of public goods or services that fix market failures. In India, public interventions that resolved information asymmetries for soy farmers—internet kiosks and warehouses—improved the functioning of rural agricultural markets by enhancing the prices paid to farmers and increasing the cultivation area (Goyal, 2010). Similarly, in Africa, reforms to agricultural commodity markets that supported changes in or the emergence of marketing institutions and shifted the political and economic power from the public to the private sector benefited producers who could receive a larger share of export prices (Akiyama et al., 2003).

Box 4.1: Ethiopia and Comoros -pro-competition reforms for export competitiveness and food security

Lifting rice import monopoly in Comoros led to increased supply and private sector participation of 30 percent of rice imports in only 2 years. In Comoros, the domestic rice market faced significant constraints due to a monopoly held by a state-owned enterprise (SOE), which limited supply and resulted in imports falling short of the country's annual rice requirement. In 2022, only 67,000 MT of rice were imported, compared to the estimated 81,000 MT needed. Despite interest from private firms, the SOE maintained control over rice imports. To promote private sector participation, the government introduced key reforms, including Presidential Decree No. 23-060/PR in June 2023, which allowed private firms to import rice. Additionally, a new ministerial regulation was issued to simplify the process for obtaining rice importation licenses, encouraging further private sector involvement. Consistent with these measures, the share of rice imported by the private sector rose from zero percent in 2022 to around 30 percent in early 2024.

Eliminating SOE monopoly in logistics in Ethiopia attracted over US$250 million of FDI in 2 years. Ethiopia aimed to accelerate economic transformation by enhancing private sector participation in the logistics sector, where an SOE (ELSE) held a monopoly for international trade logistics, including dry ports. To foster competition and improve efficiency, the government introduced key reforms: a new investment proclamation opened the sector to foreign direct investment (FDI) and joint ventures. The Ethiopia Investment Board lifted restrictions allowing minority foreign investment in essential logistics services, such as freight forwarding, shipping agency services, warehousing, and cargo consolidation. Further measures from the Government's Macroeconomic Committee encouraged competition by allowing the private sector, including foreign firms, to offer value-added logistics services in dry ports. These reforms supported a significant surge in investment in the logistics sector, with registered capital increasing from US$22.5 million in 2021 to US$275.7 million in 2023.

Source: Program documents for the following World Bank operations: Comoros - First Fiscal Management and Resilient Growth Development Policy Financing (2023) and Ethiopia - Growth and Competitiveness Programmatic Development Policy Financing Project (2018)

Market competition can enhance the effectiveness of other economic policies, especially in industrial development, where the state often acts as a financier. Policies supporting industrial development are more impactful when supporting companies in more competitive markets (Criscuolo et al., 2022). In China, industrial policies (subsidies, tax holidays, loans, and tariffs) in more competitive sectors, with beneficiary firms more dispersed in a sector, or with measures encouraging younger and more productive enterprises, had more significant effects on productivity growth (Aghion et al. 2015). In the Tiger economies, pro-competition policies complemented

industrial policies. South Korea adopted a market-driven approach to industrial policy in the 1980s, moving away from protectionism to market mechanisms and competition for resource allocation.[3] In Europe, less concentrated business support is linked to more effectiveness in exports and innovation (Aghion, Boulanger, and Cohen, 2011).

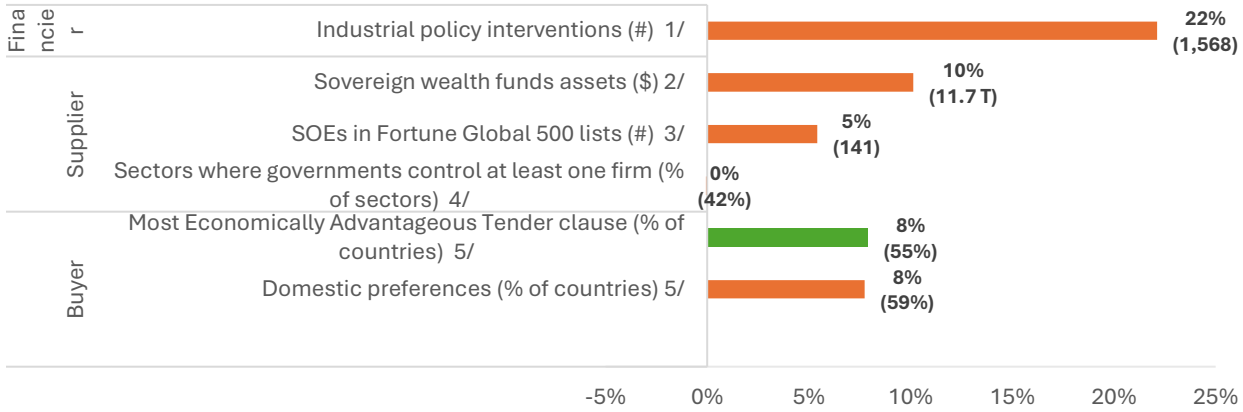
Social policies can benefit from integrating competition principles. Introducing market-based competitive voucher schemes into health care subsidy programs improves efficiency in service delivery through competition while also ensuring better targeting to the poor (Bhatia and Gorter 2007; Gorter et al. 2003; Bellows, Bellows, and Warren 2011). In Dominican Republic, enabling entry of firms into markets serving the beneficiaries of a conditional cash transfer program led to reductions in prices and improvements in service quality (Buso and Galliani, 2019). Furthermore, competition for firm eligibility to participate in consumer subsidies programs mitigates potential price increases by firms and leads to a reduction in prices for some products, improving consumer and total surpluses and limiting government subsidy payments (Ying Fan, Ge Zhang 2022).

Governments' role as supplier and rule maker has become more important and less supportive to competition

The role of the state in markets is evolving; the state has expanded its role as market creator-developer through the allocation of public resources. The number of industrial policies has grown by 22 percent each year on average between 2018 and 2022. Two thirds of these put foreign firms at a disadvantage (IMF 2024). More preferences are given to domestic firms for public procurement. This directly tilts the level playing field and risks undermining competition on the merits and firms' incentives to become more competitive. The state's role as supplier of goods and services is wide-ranging, especially through non-controlling stakes linked to sovereign wealth funds (10 percent annual increase of assets in 2002-2022) (Figure 4.2). Policy makers can mitigate risks to competition with oversight of enterprises with state shareholdings and competitive neutrality. Unfortunately, transparency and SOE governance frameworks do not seem to have improved (Spotlight 4.1).

Figure 4.2: Increasing role of the government in allocating public resources to create (develop) markets

(Average annual growth in the last years, latest value for each indicator in parenthesis)



Source: 1/ Réka Juhász, Nathan Lane, and Dani Rodrik (2023); 2/ Kim (2024) based on Sovereign Wealth Fund Institute database; 3/ Kwiatkowski et al (2023); 4/OECD-World Bank Product Market Regulation database; 5/ WBG Global Procurement Database.

Note: Arithmetic average annual growth calculated for variables in percentages and geometric average annual growth calculated for variables in absolute values. Latest periods available for each variable: 1/ 2018-2022; 2/ 2002-2022; 3/ 2005-2020; 4/ 2018-2023; 5/ 2018-2021. Number in parenthesis indicates the latest value for each indicator.

Spotlight 4.1: Stylized facts about the alignment of market creation policies with competition principles

Government as a financier

Government interventions for industrial development have soared and low-income countries stand out in terms of high incidence given GDP levels. Recent efforts to quantify industrial policies[4] show an increase in the total count of industrial policy interventions through the 2010s, with major accelerations in recent years (**Error! Reference source not found.**Figure 4.3, left panel).[5] This is consistent with IMF estimates of more than 2,500 industrial policy interventions worldwide in 2023 (IMF 2024). When adjusted by average GDP level to account for the fact that industrial policies are costly and the opportunity cost of implementing them is higher for middle to low income countries, LICs stand out in terms of incidence of industrial policy interventions per US$ of average GDP per capita (Figure 4.3, right panel).

Transparency and monitoring to foster the proper design and implementation of industrial policies are weak, fueling risks of misuse and market distortions. Although the revenue forgone from tax exemptions – some supporting industrial policy - can amount to more than 13 percent of GDP [6] in some countries, transparency of the amount of subsidies granted and tax expenditures is limited. Whereas 26 out of the 79 LICs and LMICs publish some type of disaggregated tax exemption data, 8 countries only provide aggregated estimates (e.g. by tax base or policy goal) or overall figures, and 45 do not report on tax exemptions at all. Even among countries that do report on tax exemptions, the quality and scope of those reports is mixed.[7] Furthermore, most countries outside of the European Union lack a comprehensive framework to evaluate state support measures. Some countries have monitoring and evaluation frameworks and procedures for some types of measures, such as for Science Technology and Innovation programs. Still, an overarching framework and consistent reporting are a challenge.

Government as supplier

The presence of the state as supplier is important. Revenues of state -directly and indirectly- owned companies can represent over 40 percent of GDP in some countries.[8] In a country sample mainly comprised of HICs and UMICs, the average government controls at least one firm in 15 out of 35 sectors (Figure 4.4). This share has remained practically stable between 2018 and 2023, but among UMICs it has increased in Colombia, Mexico and Türkiye. Enterprises with state control (above fifty percent of shareholdings) represent only 60 percent of enterprises with state shareholding (up to 10 percent shareholding). The presence of state in business is even larger; in 80 percent of sectors in at least 16 countries. [9]

SOE governance could further improve to play a role in fostering market discipline. Product Market Regulation (PMR) scores show a slight shift towards best practice in the rationale for ownership and public service obligations in HIC and UMIC (Figure 4.5). Notably, UMICs are further away from best practice than HICs in terms of protection from political interference, insulation from market discipline, and treatment of public service obligations.[10] Given that the information captured by the PMR is 'de iure' (i.e. regulations written on the books), other unobserved 'de facto' practices may potentially further hinder SOE governance. Sovereign Wealth Funds also need better governance. Although it has improved over time, the average governance score is 66 out of 100 points (Maire, Mazarei and Truman 2021). Analysis suggests that SWFs improve their governance quality when the size of assets invested abroad is sufficiently large (Amar and Lecourt 2023). However, this is not the usual case in developing economies, where about half of the investments or investees are domestic.[11]

Government as buyer

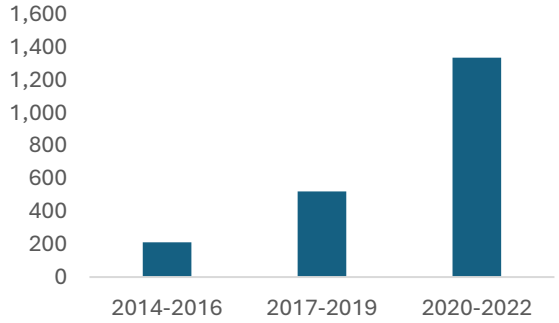
Public procurement is an important government expenditure. The size of the global procurement market is estimated at US$13 trillion per annum.[12] Public procurement of goods, services, and works enable governments to carry out their functions and pursue their policy mandates. However, governments disclose little information regarding public contracts, especially in LICs. Public contracts that are published openly account for only 2.8 percent of the market's total value, and less than 2 percent are published using the globally recognized Open Contracting Data Standard, which enables interested stakeholders (e.g., businesses, journalists, and civil society) to analyze the data.

Regarding procurement conditions set by governments, there has been a push towards favoring domestic companies and promoting SMEs. While the share of HICs with a domestic preference clause increased by 7 percentage points between 2018 and 2021, this increase ranged between 27 and 31 percentage points in LIC and MIC, respectively (Figure 4.6). Moreover, the average share of countries with clauses requiring awards to SME also increased by 12 percentage points in HICs and up to 31 percentage points in MICs, likely motivated by the need to promote employment and business opportunities. For example, Spain implemented "Buy Small" policies to help small businesses by preserving a fraction of government contracts for them. Garcia-Santana et al (2022) find that these policies significantly increase private sector output, but also substantially increase government costs. In contrast, getting closer to best practice, there was a general increase in the share of governments that adopted the most economically advantageous tender clause, which aims at maximizing value for money.

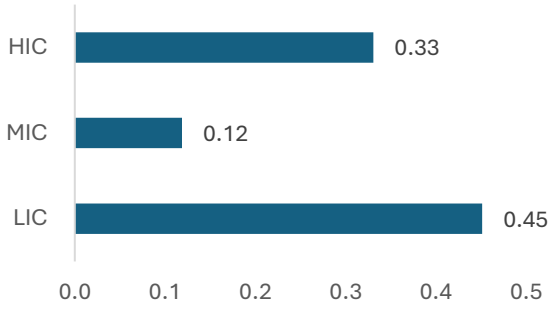
Figure 4.3: Evidence of growing industrial policy

a. Evolution of industrial policy interventions

(average number by period)



b. Incidence by income group relative to GDP level (2010-2022)



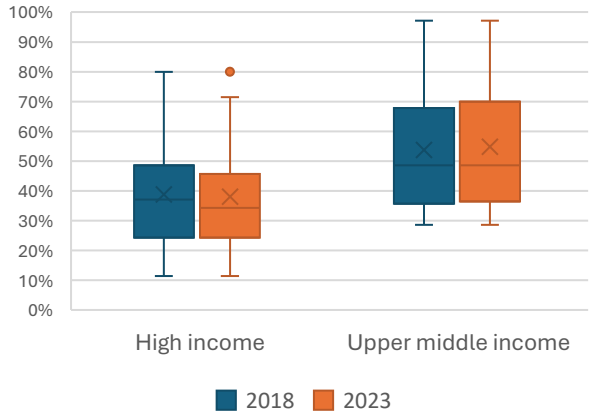
Note: The left panel plots the total number of industrial policy interventions by year globally, identified out of a subsample of interventions captured in the Global Trade Alert database, based on Juhász et al. (2022). [13] *The right panel plots the total number of industrial policy interventions (2010-2022) by income group relative to the income group's average GDP per capita level in PPP constant prices $2017 for the period 2021-2023 (average GDP per capita in LIC: US$1,787, MIC: US$11,019, HIC: US$47,847).*
Source: Réka Juhász, Nathan Lane, and Dani Rodrik (2023), IMF WEO database

Figure 4.4: Governments maintained control of enterprises in 42 percent of sectors

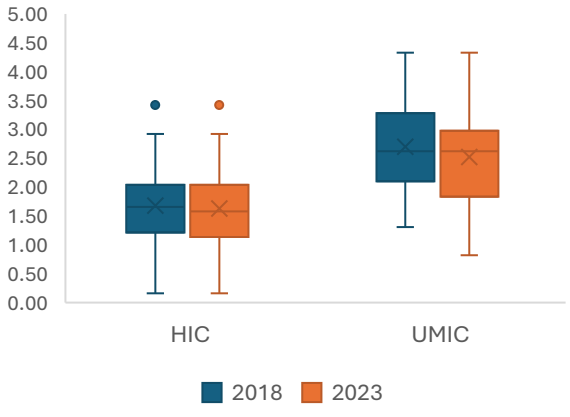
(Percentage of sectors with SOE presence)

Figure 4.5: Governance of SOEs in UMIC is still restrictive to competition

(0 (no restrictions) to 6 (highly restrictive))

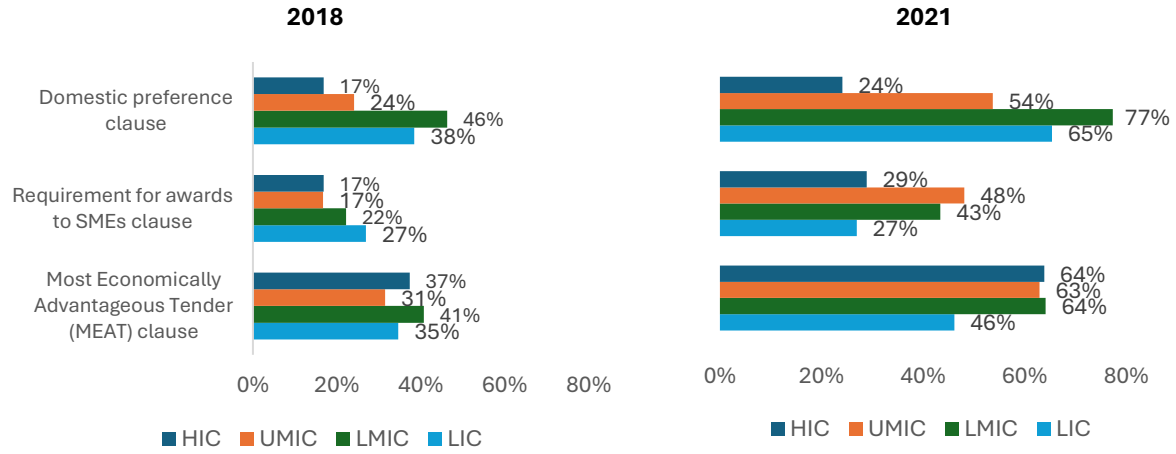


Note: 47 countries covered, 10 UMIC and 37 HIC. Considering 35 economic sectors.
Source: 2023/2024 OECD and OECD-WBG PMR databases



Note: 47 countries covered, 10 UMIC and 37 HIC.
Source: 2023/2024 OECD and OECD-WBG PMR databases

Figure 4.6: Clauses in public procurement laws that can affect competition conditions
(Average share of countries that have it, by income group)

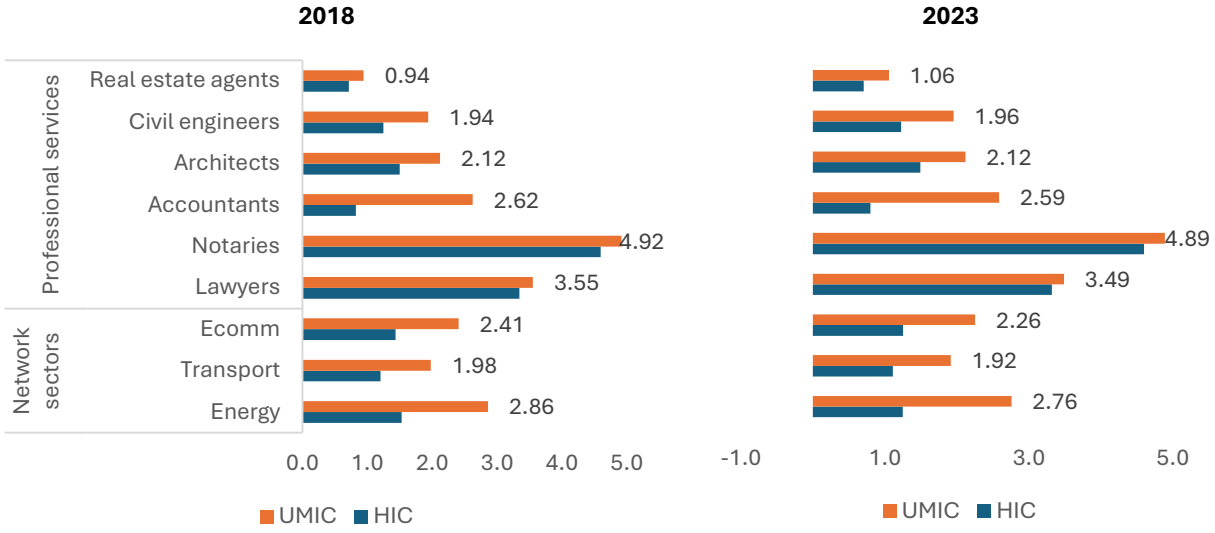


Note: 218 countries covered: 26 LIC, 54 LMIC, 54 UMIC, 83 HIC.
Source: World Bank Global Public Procurement Database (WBG GPPD)

Rule-setting has generally been getting closer to best practice, but the gaps between LICs and MICs, and HICs persist. On average UMICs have slightly improved their sectoral product market regulations, but the gap between HICs and UMICs remains (Figure 4.7). In sectors with wider gaps – electricity, e-communications and transport – alignment with pro-competition principles has not been as fast as in HICs. Furthermore, the gap is wider for tariff barriers, regulation of network sectors, assessment of the impact of regulations on competition, and retail price controls (Figure 4.8).

Figure 4.7: Sectoral Product Market Regulations continue being more restrictive in upper middle-income countries although they have slightly reduced in some sectors

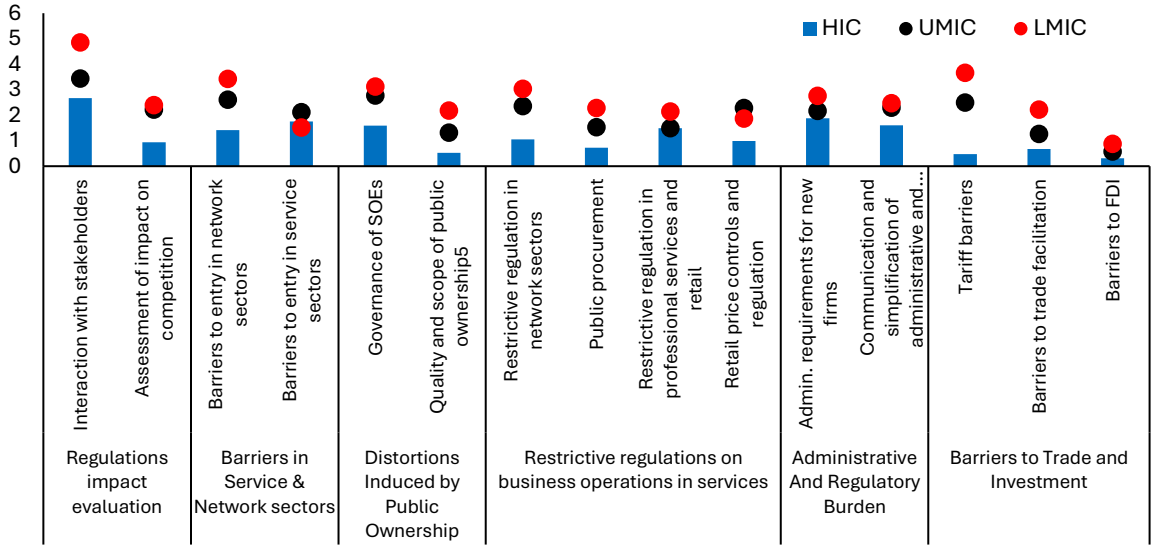
(0 (no restrictions) to 6 (highly restrictive of competition))



Source: 2023/2024 OECD and OECD-WBG PMR databases. Note: 47 countries covered, 10 UMIC and 37 HIC.

Figure 4.8: Product market regulations are more restrictive to competition in lower income countries

(0 (no restrictions) to 6 (highly restrictive of competition))



Source: 2023/2024 OECD and OECD-WBG PMR databases. Note: Covers 51 countries, including 10 UMICs and 3 LMICs, with data as of either January 2023 or January 2024. Preliminary data for three countries.

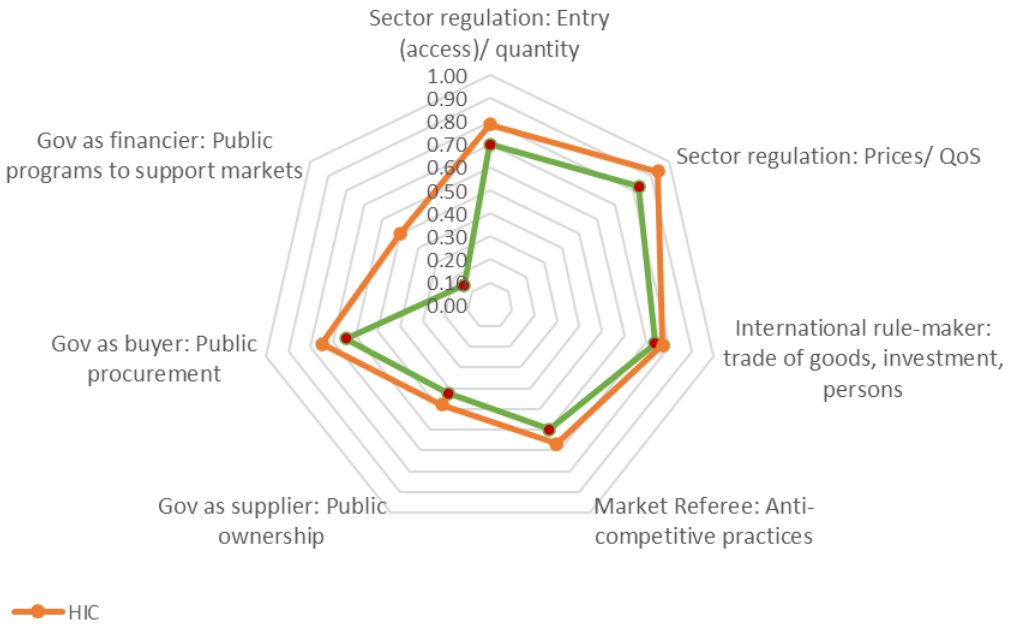
Developing economies face significant challenges in implementing comprehensive market and competition policies effectively

To ensure that the state engages in markets in ways that promote rather than inhibit competition, rules and institutions are needed. For the state as financier to support firms in ways that do not unduly grant competitive advantages to only few competitors, rules are needed that

govern such programs (e.g. *state aid* framework). These rules need institutions to enforce them. The state's role as sector regulator also needs proper rules and institutions. Better regulation agencies can enforce principles of how to align regulations with pro-competition principles. Sector regulators in turn need institutional set ups that prevent capture from incumbents. It is the interplay between rules and market institutions with the government's role as resource provider and rule maker that can promote and safeguard competition throughout the economy.

Despite their importance, many MICs present gaps in their market institutions and regulations. Sample MICs linger to a greater extent on the existence of independent institutions for competitive markets, especially for the role of the government as a financier (support to firms), followed by its role as a supplier (SOEs) compared to young HICs (Figure 4.9). Market interventions for the government role in allocating resources (business support, public procurement and BOS/SOE) are less aligned with competition principles than in setting rules (Figure 4.10).

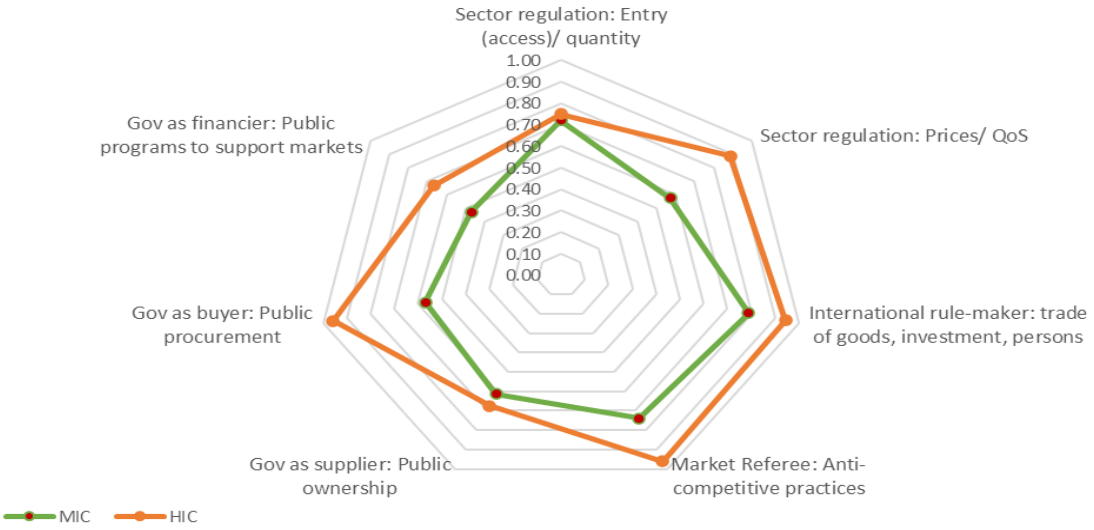
Figure 4.9: Existence of market institutions that support well-functioning markets



Source: Authors; estimated based on a compounded indicator using selected aspects of available regulatory restrictiveness indicators and primary data collection.

Notes: MIC – Argentina, Bulgaria, Indonesia, Malaysia, Mexico, South Africa, Viet Nam; and (young) HIC – Chile, Estonia, Korea, Poland (MIC that transitioned into HIC in 2001-2012). Latest data available for each country up to 2023. Weighted average of scores across types of markets (natural monopolies, partially contestable and competitive) based on number of industries. A score of 1 means separate authorities are responsible for the various mandates under each government role. In the case of network industry regulators, it also accounts for the selection of head or board members and the existence of a cooling-off period and in the case of competition for operational, financial and technical independence in line with the competition law and institutional framework indicator (Box 4.2).

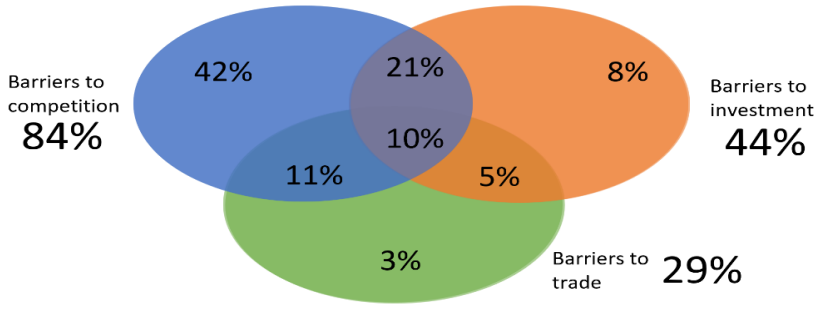
Figure 4.10: Market interventions in MICs do not fully support well-functioning markets



Source: Background analysis prepared for this report; estimated based on a compounded indicator using selected aspects of available regulatory restrictiveness indicators and primary data collection.
Notes: Weighted average of scores across types of markets (natural monopolies, partially contestable and competitive) based on number of industries. 1 denotes full alignment of regulations and policies with competition principles and international good practices. Based on a collection of answers to questionnaires used for the calculation of OECD PMR, OECD FDI Index and WB Procuring Infrastructure indicators, the competition law indicator created under the PASA and other indicators on tax expenditures and subsidies transparency, among others. Includes MIC – Argentina, Bulgaria, Indonesia, Malaysia, Mexico, South Africa, Viet Nam; and (young) HIC – Chile, Estonia, Korea, Poland (MIC that transitioned into HIC in 2001-2012). Latest data available for each country up to 2023.

Fixing one of the government's role in markets alone is not sufficient. Concentrating only on the government's role as international rule maker, for example, may not yield expected benefits. For example, given that competition, trade, and investment barriers often coalesce, opening up economies to FDI and trade does not improve market outcomes, if domestic competition restrictions are overlooked. Figure 4.11 reveals that the overlap of competition, trade and investment restrictions is a systematic challenge across sectors and geographies. Among sectors facing any type of restriction, half contend with more than one obstacle. Specifically, in 21 percent of country-sector pairs, both competition and investment restrictions exist (without trade restrictions). In 11 percent of cases, there are competition and trade restrictions (without investment restrictions). In 5 percent of cases, trade and investment restrictions coexist (without competition restrictions). Notably, in 10 percent of scenarios, all types of restrictions are present. Overlapping restrictions can reinforce the distortions to the sector and worsen outcomes for consumers. This underscores the need for a comprehensive reform approach that addresses these barriers collectively, thereby fostering competition and private sector development.

Figure 4.11: Industry regulatory restrictions stem only partially from trade or investment rules
(out of 123 country-sector pairings that present restrictions)

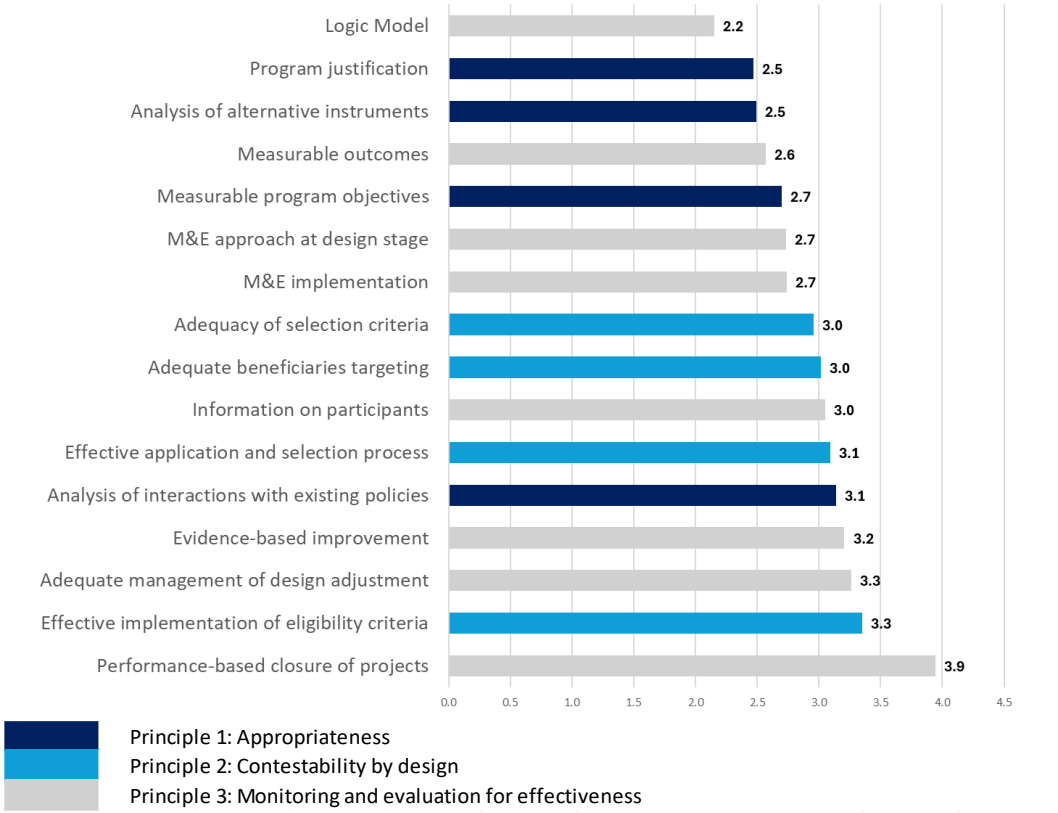


Source: Drozd and Ciborowska (2024). Note: The figures show the share of 123 country-sector pairs facing each combination of restrictions out of country-sector pairings analyzed combing various regulatory databases (WBG ALP, WB-WTO STRI, OECD FDI restrictiveness, WITS tariffs, NTB data from Kee and Nicita (2022) and UNCTAD TRAINS data). Sample of countries used: 1 HIC; 18 MIC (11 LMIC and 7 UMIC); 1 LIC.

Many governments finance innovation and private sector development without ensuring these resources are competitively allocated and preserve incentives to compete.[14] Support programs are generally not appropriately designed[15], not designed in ways that ensure contestability, and lack monitoring and evaluation for effectiveness.[16] Governments can improve their theory of change (logical framework), analysis of alternative instruments, measurable outcomes, or program justification (Figure 4.12). Disregarding competition principles could lead to wasteful public expenditure and to launching support programs that could be less effective than alternative instruments that address market failures more directly. Countries with a lower alignment of programs with competition principles present higher operational risks for businesses.[17] It is critical to have a consistent legal framework for regulating the provision of economic advantages to firms (Box 4.1). One way to ensure consistency is to apply common state support control rules to transfers directed to private firms (including those operating in Special Economic Zones) and also to SOEs and PPPs.

Figure 4.12 Relatively low score of alignment with competition principles in innovation and private sector development firm-level support programs

(Full compliance =5)



Source: Background analysis prepared for this report.
Note: Based on WB's Innovation and PSD policy effectiveness reviews (PER) excluding support given to individuals, researchers and universities. 183 programs covered across 10 countries (Bulgaria, Chile, Colombia, Croatia, Peru, Philippines, Poland, Romania, Sri Lanka, and Viet Nam). A score of 5 denotes full compliance with the selected PER criterion that captures alignment with competition principles, based on documents review as per the PER methodology.

Box 4.1: Integrating competition principles in the allocation of public resources

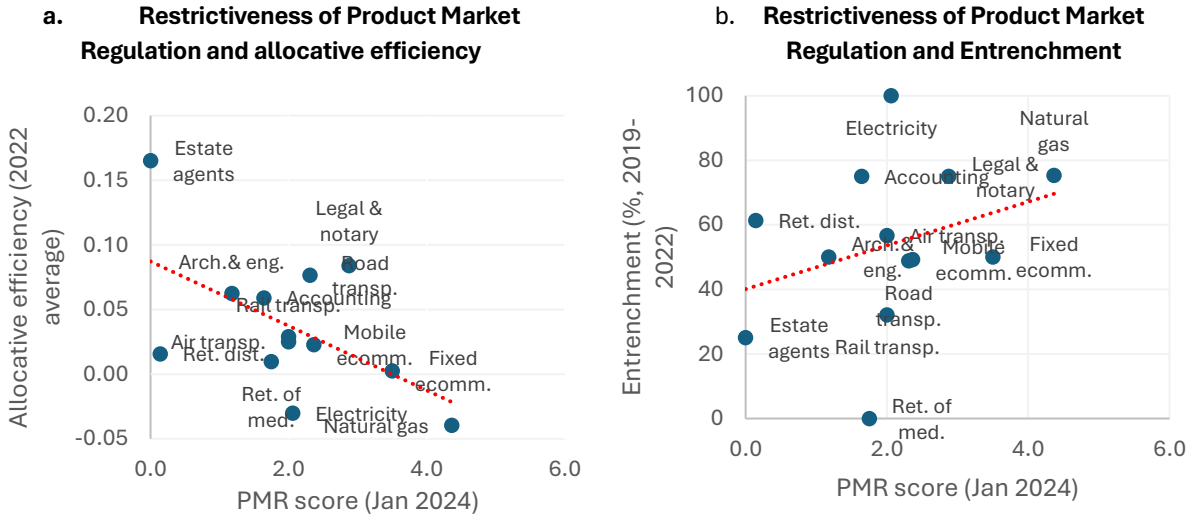
Many countries put in place state aid control frameworks to minimize distortions to competition. The European Union (EU) and some other Eastern European and Central Asian countries and Dominican Republic provide for state aid control. Regional blocs in Africa, such as ECOWAS and EAC, also provide for such tool to minimize distortions on intraregional trade, but implementation is limited. Other countries such as Colombia, Philippines, Brazil and Chile, although they lack a full state aid control framework, they have some mechanisms to assess certain aspects such as value for money or effectiveness.

Governments use state aid control rules to ensure that the benefit of offering the incentive offsets the potential costs of distorting competition and trade. This framework include ex ante evaluation at the design phase and ex post evaluations. At the design stage, the proposed support measure is evaluated balancing the expected positive and negative effects, its necessity, its potential to change firms' behavior, and whether it is the most appropriate tool to achieve the policy goal. The amount of support must also be proportionate to the intended objective. Ex post evaluations focus on: (i) direct effects related to the measure's goals (e.g., enhancing innovation, investment, or SME survival); (ii) indirect effects on markets, competition, and regional trade; (iii) proportionality of support; and (iv) overall appropriateness.

Interventions at odds with market and competition principles are costly

More restrictive product market regulation in upstream sectors affect productivity of downstream sectors and the performance of industries with restrictive regulation (World Bank – OECD 2017). For example, a lack of integration of competition principles in regulation is associated with lower allocative efficiency (misallocation) and limited market dynamism in Armenia. Misallocation of resources and entrenchment[18] of market players are higher for sectors with more restrictive regulations. Allocative efficiency levels in network industries, retail, and professional services tend to be lower when product market regulations are more restrictive (Figure 4.13, left). Entrenchment levels are positively correlated with regulatory restrictiveness (Figure 4.13, right).

Figure 4.13: In Armenia, sectors with more restrictive regulations present lower allocative efficiency and higher entrenchment



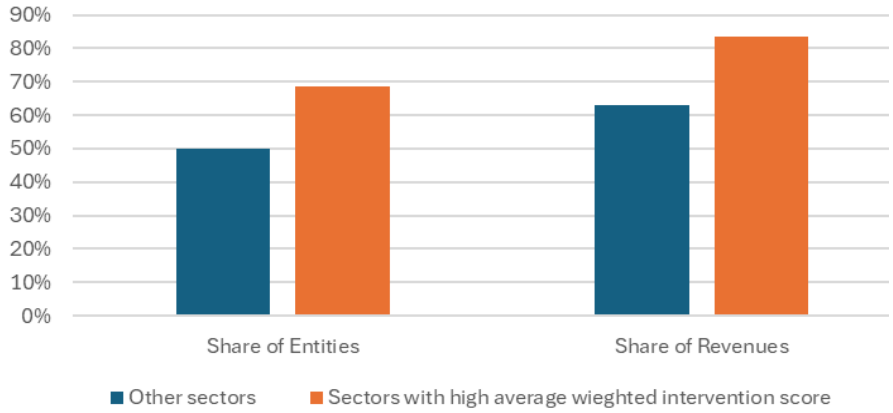
Source: Allocative efficiency and entrenchment calculated with firm-level data (2019-2022); Product Market Regulation sectoral scores from OECD-World Bank PMR Dataset (2023). Background analysis conducted for Armenia's CGJR. Note: Allocative efficiency is measured using the within-industry covariance between firm size and revenue-based total factor productivity in 2022. Entrenchment captures the probability of survival among the top 4 firms during a 3-year period. Air transp. = Air transport; Rail transp. = Railways transport; Road transp. = Road transport; Water transp. = Water transport. Fixed ecomm. = Fixed-line e-communications; Mobile ecomm. = Mobile e-communications. Accounting = Accounting services; Arch.& eng. = Architectural and engineering activities; Estate agents = Real estate agents; Legal & notary = Legal & notary services. Ret. dist. = Retail distribution; Ret. of med. = Retail sales of medicines.

Restrictions to competition result in poor market outcomes for families and individuals, including those in sensitive sectors. In the Philippines, the Sugar Regulatory Administration's controls on sugar production and pricing, combined with limits on foreign investment, have caused prices to rise and reduced flexibility to adapt to poor harvests, with a 50 percent price increase in 2023 after a bad crop. In Serbia, a licensing system for intercity bus transport gives exclusive rights to incumbents, resulting in high market concentration and inefficiency, with fares double the EU average. While these regulations aim to ensure safety and quality, they also create supply constraints. Alternative policies that reduce restrictions while addressing concerns such as food security for vulnerable populations through vouchers or safety in passenger transportation would deliver better outcomes for the population.

Furthermore, policies that create risks to competition can favor certain groups, complicating the political economy that underpins market regulation. In the Philippines, industry-support measures are more prevalent in sectors tied to high-net-worth individuals, with conglomerates in

these areas accounting for over two-thirds of firms and more than 80 percent of revenues (Figure 4.14). In Viet Nam, the share of companies belonging to conglomerates is higher in sectors reporting high levels of industrial policy interventions.[19] Regulatory barriers to entry (restrictions on cross-border capital flows and cross-border trade) and political connections also facilitate entrenchment (Faccio and McConnell 2020).[20] Political ties can also affect competition in sectors. In telecommunications, where more politically connected operators – those with a higher fraction of executives who have experience in the country's government or parliament – are present, regulations are less likely to favor competition, ultimately raising consumer prices (Faccio and Zingales 2022).

Figure 4.14: In the Philippines, firms with ownership links to high-net-worth individuals are more important in sectors with higher level of industry support measures



Source: Background analysis prepared for this report. Based on the Orbis database and Forbes list of wealthy individuals in the Philippines, and Global Trade Alert. Interventions include trade and FDI protections, subsidies and other preferences.

Roadmap to systematically integrating competition principles into the state's role in markets

National Competition Policies can govern regulations and institutions that shape how governments intervene in markets and whether they do so in pro-competitive ways. Several governments worldwide have introduced National Competition Policies to boost competition systematically across the economy. This section can guide governments in such efforts by laying out a roadmap of regulations and institutions that would need to be strengthened. Table 4.1. identifies the institutions that implement each specific role of the government (as resource provider or rule-setter). These include sector regulators, ministries of finance and line ministries, agencies in charge of investment or SME support as well as competition authorities. Similarly, in each of these roles there are key aspects that are particularly influential for market functioning (e.g. regulation of access to essential infrastructure segments). (Table 4.1)

The relevance of institutions and optimal design of market regulation to enable competition depends on the type of market. There are different types of markets with different features and failures: natural monopolies, partially contestable and competitive markets.[21] Optimal government intervention will vary across these markets. Government interventions to ensure that markets are open (entry), prices provide adequate signals, and players compete on the merits differ across markets. The nature of the intervention depends on market characteristics (extent of market failures) and the government's role (Figure 4.7). For examples of interventions, see Annex 4.1.

Figure 4.15: Examples of government interventions by market type





Factors affecting market efficiency / Market taxonomy	Natural monopolies	Partially contestable	Competitive
Entry	Designing concessions (competition for the market)	Ensuring access to essential inputs (infrastructure)	Reducing undue burden from registering and licensing, no trade barriers
Price and other product/service characteristics	Tariff /quality regulation to "mimic" competition	Access prices and quality of service (interconnection in telecom, wheeling/TPA in electricity)	Ensure prices are free and sale conditions are transparent so consumers can choose
Level playing field	Governance of SOEs Control of support measures	Governance of SOEs/BOS, procompetitive private participation	Non-discriminatory access: i) to public procurement of goods and services or ii) state support measures for industrial policy

Source: Authors' own elaboration

Table 4.1. Procompetition interventions and market institutions vary by market type

Areas for government intervention in markets		Elements of the institutional ecosystem	Stylized market types		
			Natural monopolies	**Partially contestable**	**Competitive**
		Market characteristics	One or very few players High upfront investment, cost subadditivity	Oligopolies - few players Structural barriers to competition (e.g., access to essential resource); externalities; information asymmetry	Multiple firms Low economic barriers to entry
		Examples	*Electricity transmission and distribution, (air)ports/highways, broadband backbone*	*Mobile telecom, electricity generation, air transport, fishing, mining, forestry and oil, financial services*	*Retail, manufacturing, construction, accommodation*
Market regulation	**Sector regulation: Entry (access)/ quantity**	**Key government intervention**	Licensing to ensure technical and financial strength	Access to essential infrastructure/ natural resources (rights' auction); Licensing to ensure technical and financial strength and enable contestability	Business registration and permits with proportionate requirements; no quantity restrictions (e.g. minimum distances between establishments, limits on number of permits)
		Market institutions	*Independent sectoral regulator*	*Independent sectoral regulator*	*Various economy-wide agencies (including competition authorities, RIA agencies) and ministries*
	Sector regulation: Prices	**Key government intervention**	Incentives-based regulation of final prices	Access price regulation; market-based regulation of fees for natural resources	No price regulation
		Market institutions	*Independent sectoral regulator*	*Independent sectoral regulator for network industries and finance, Regulator/Commission for natural resources*	*Various economy-wide agencies (e.g. competition authority, consumer protection authority) and ministries*
	Sector regulation: Quality/service conditions	**Key government intervention**	Quality and service conditions regulation	Sector-specific consumer protection Rules to address externalities (prudential regulation in finance, sector-specific environmental rules)	Standards, labelling, information transparency
		Market institutions	*Independent sectoral regulator*	*Independent sectoral regulator for network industries and finance, Regulator/Commission for natural resources*	*Consumer protection authority, standards, quality and metrology agency, competition authority*
	International rule maker: trade of goods, investment, persons	**Key government intervention**	Foreign participation in essential infrastructure, access to essential imported inputs (low import duties)	Rules on FDI, no import quotas, access to foreign inputs, access to foreign labor	No quantity restrictions (e.g. no import quotas, NTM or export bans, mutual recognition for professionals); no ownership restrictions
		Market institutions	*Investment Authority, Ministry of Trade*	*Investment Authority, Ministry of Trade, Competition Authority*	*Investment Authority, Ministry of Trade, Competition Authority*
	Market Referee: Anti-competitive practices	**Key government intervention**	Abuse of dominance, merger control (vertical integration)	Abuse of dominance, cartels, merger control (horizontal, vertical, conglomerates)	Abuse of dominance, economic cartels, merger control
		Market institutions	*Competition authority in collaboration with independent sectoral regulator*	*Competition authority in collaboration with sector regulator/other agencies*	*Competition authority*
Market development/ creation	**Gov as supplier: Public ownership**	**Key government intervention**	Governance of sectoral SOEs	Governance of SOEs/BOS, Procompetitive private sector participation (divestitures, PPPs)	Systematic evaluation of the need to maintain state ownership, competitive neutrality
		Market institutions	*SOE oversight agency/system*	*Privatization Authority, PPP agency, SOE/BOS oversight agency/system, competition authority*	*PPP agency, state aid control agency, BOS oversight agency, competition authority*
	Gov as buyer: Public procurement	**Key government intervention**	Government as off taker for public institutions (connectivity and electricity in remote areas)	Competitive neutrality, competitive procurement by public institutions	Competitive public procurement (limits to single source, proportionate requirements to supply)
		Market institutions	*Independent sectoral regulator, state control agency (competition authority)*	*Public procurement authority, competition authority*	*Public procurement authority, competition authority*
	Gov as financier: Public programs to support markets	**Key government intervention**	Transparency on universal service obligations and transfers; proportional support measures that minimize market distortions	Ex ante and ex post evaluation of support measures (e.g., tax incentives, low interest rates, guarantees) for proportionality and minimization of market distortions	Ex ante and expost evaluation of support measures (tax incentives, innovation/tech adoption support, SEZ) for proportionality and minimization of market distortions
		Market institutions	*State aid control agency (competition authority), sector regulator*	*State aid control agency (competition authority), Centralized budget and contingent liabilities control system, Agencies/ministries that design and administer measures*	*State aid control agency (competition authority), Centralized budget control system, Agencies/ministries that design and administer measures (e.g. science and innovation, investment, SME development, agriculture)*

Competition authority role is essential

Competition authority role is important to integrate competition principles

Source: Authors' own elaboration

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Notes

[1] See for example, Productivity Commission, 2005; Loayza et al., 2010; Barnes et al., 2011; Arayavechkit et al., 2022; and Schiffbauer et al 2022.

[2] Trade policy changes that reduce tariffs and non-tariff measures—import quotas—reduce monopolistic power among importers and improve market dynamics in resource-dependent economies (Arezki et al. 2024). Stronger competition amplifies the benefits of trade liberalization, such as lower prices and increased consumer surplus. Conversely, in less competitive markets, the gains from tariff reductions are more limited due to firms' market power (Grossman and Helpman, 1994). In India, trade reform in the way of tariff reductions on final goods and inputs boosted firm productivity, with input tariffs having a greater positive impact, especially in import-competing industries and those with less domestic regulation (Topalova and Khandelwal, 2011).

[3] This included replacing industry-specific support with a 'functional support' system in which all industries were, in principle, treated equally and opening most of its industries to international competition through trade liberalization.

[4] A difficulty in measuring Industrial Policy is that toolset is vast, and some tools are easier to observe than others. Moreover, some of the policy tools may exist but not classify as an industrial policy. The best-known example of this problem is the import tariff. While a tariff can and is used for industrial policy purposes, there are many other motivations for deploying tariffs, from raising fiscal revenue (Cagé and Gadenne, 2018) to special interest politics (Goldberg and Maggi, 1999) and terms of trade rationales (Broda, Limao, and Weinstein, 2008). Juhász, Lane, Oehlsen and Perez (2022)'s natural language processing mechanism relies on the fact that textual descriptions of policy often convey information about the objectives of political actors, and thus allow researchers to identify whether a policy has industrial policy goals versus alternative objectives. Juhász et al. (2022) operationalize this idea.

[5] Juhász et al (2023) apply a supervised machine learning algorithm to identify policy descriptions from the Global Trade Alert database that fall under the definition of industrial policy and classify them to construct a global dataset of industrial policies from 2010 to 2022.

[6] Redonda, Von Haldenwang, Aliu (2021) GTED Flagship Report 2021. Shedding light on worldwide tax expenditures. Based on reporting by 218 governments worldwide.

[7] Redonda, A., von Haldenwang, C., & Aliu, F. (2023): Global Tax Expenditures Database [data set], Version 1.1.5, https://doi.org/10.5281/zenodo.7825791

[8] Based on the Global BOS database, which not only considers SOEs but also companies where the state is a minority shareholder (with at least 10 percent share)

[9] Based on the Global BOS database that comprises enterprises where the state is a minority shareholder (with at least 10 percent share, considering direct and indirect links). Calculated considering 77 NACE two-digit code sectors. See also World Bank (2023).

[10] The OECD Economy-wide Product Market Regulation (PMR) indicator measures governance of SOEs, considering five sub-indicators: rationale for ownership, degree of protection from political interference, degree of insulation from market discipline, and public service obligations. The latter assesses whether there are clear legal obligations in place to ensure functional separation or, at least, accounting separation between the activities undertaken to comply with the public service obligations and the activities undertaken to provide commercial services for SOEs, and if so, whether commercial SOEs are provided with adequate compensation – based on the costs incurred – for fulfilling their public service obligations.

[11] World Bank staff analysis based on SWF data and Orbis for 2019 covering 13 MIC and 1 LIC, excluding China.

[12] It is important to acknowledge the measurement difficulties involved in estimating public expenditure. Common methodologies involve either a top-down approach that takes public expenditure from national accounts, or a bottom-up approach, which collects data from national authorities on the number and size of procurement projects. The estimates from these two distinct methodologies may differ widely (WBG 2021). Numbers are based on the following references:

WBG (2020) “How large is public procurement”, Open Contracting Partnership (2020) “How governments spend: Opening up the value of global public procurement”

[13] Juhász et al. (2022) apply a supervised machine learning algorithm to classify policy descriptions from the GTA database. Applying this algorithm to the entire database allows them to construct a global dataset of industrial policies from 2010 to 2022, overcoming a number of challenges associated with measuring industrial policy. First, given the broad range of policy measures covered by the GTA, it encompasses a vast array of policy levers that can be used for industrial policy purposes. Notably, the GTA includes both trade policy measures that entail no fiscal spending, as well as those that do. There are also cases where coordination policies show up in the data. Second, within policy measures, it is possible to distinguish industrial policy from other reasons for intervention; for example, a subsidy used for industrial policy versus one used to accommodate macro-economic shocks. Third, the model is able to classify policies at scale using off-the-shelf textual data. However, an important limitation of this approach is that it yields count-based measures of industrial policy interventions. This means that a subsidy to a single firm and a major sectoral policy such as China’s consolidation of its shipbuilding sector can both count as one policy in the GTA.

[14] Some evidence shows that government support implemented in response to the pandemic went to less productive and larger firms, indicating that support measures during the COVID-19 crisis may have had adverse effects on competition and productivity growth (Bruhn, Demirguc-Kunt, and Singer 2023a). Furthermore, weaknesses related to the effectiveness of business support has been identified since the effects of the support vanished for the latest rounds of the schemes (Bruhn, Demirguc-Kunt, and Singer 2023b). The effectiveness of the support varied with its timing. Firms that received government support by Round 1 (first half of 2020) performed better in terms of Round 3 sales (generally mid-2021), but only if they did not receive continued support in Round 2 (second half of 2020 or early 2021).

[15] The appropriateness principle responds to the question: is firm-level support/state aid the right solution? The contestability by design principles responds to the question: does the design minimize distortions of the level playing field? And the monitoring and evaluation for effectiveness refers to the question: is the measure achieving its intended effect while minimizing costs?

[16] Analysis conducted for 10 countries: Chile, Colombia, Croatia, Peru, Philippines, Poland, Romania, Sri Lanka, Viet Nam and Bulgaria. Alignment with competition/market principles are assessed by applying three competition principles to the program features screened in the World Bank’s innovation and private sector development policy effectiveness reviews conducted in 10 countries for 183 support programs to firms. Programs supporting universities and individuals (e.g., students and researchers) were excluded from the analysis. A score of 5 denotes full compliance with the selected PER criterion that captures alignment with competition principles, based on documents reviewed as per the PER methodology. Scores are based on survey responses and interviews not on the monitored implementation of best practices. A mapping of the selected PER features and the respective competition principle is presented in the annex.

[17] There is a negative correlation between the level of alignment with competition principles and operational risks at the country level as calculated by the Economist Intelligence Unit’s Risk Tracker for 2024.

[18] Entrenchment captures the probability of survival among the top 4 firms during a 3-year period; higher entrenchment is less favorable to competition.

[19] The difference between the two sector groups is 3.16 percent of firms belonging to conglomerates in high intervention sectors and 1.81 percent in low/no intervention sectors. The means are statistically significant at the 95% confidence interval. Estimates using the new Green Industrial Policy database which includes Global Trade Alert, the Climate Policy Database, EU state aid database, and the IEA energy subsidy database. The data on measures are pooled for 2018-2023.

[20] Based on data from circa 1910 to 2018 on the largest 20 firms in 60 countries including 39 countries classified as low-income or middle-income in 2024.

[21] Natural monopolies have one or very few players given high upfront investment and cost subadditivity given the level of demand, such as electricity transmission and distribution, (air)ports, highways, and broadband backbone. Partially contestable markets are generally oligopolies due to structural barriers to competition (e.g., access to essential resources), externalities and information asymmetry. Examples include mobile telecommunications, electricity generation, air transport, fishing, mining, forestry, oil extraction, and financial services. Finally, competitive markets are expected to have multiple firms given low economic barriers to entry and fixed costs. This is the case of many markets in retail, light manufacturing, construction, and accommodation. See (Dall'Olio et al, 2022). Depending on supply characteristics (technology used, production costs) and demand characteristics (size and preferences), a market can belong to one type or another. For example, fixed retail e-communications were considered a natural monopoly in the 1990s but now they would fall under the ‘partially contestable’ category. This implies that regulation has to migrate from regulation of final user prices to access regulation of essential facilities and deregulation of final prices.

Chapter 5 – The way forward: competition empowering markets for effective development policies

Key messages

- Economic policies should integrate an understanding of how markets function, placing competition principles at the center of policy design, implementation, and evaluation to reduce distortions and enhance effectiveness.
- Governments should adopt a cross-sectoral strategy that incorporates competition considerations across all regulatory and policy instruments, including those in strategic sectors.
- While governments must intervene in markets to correct failures or meet legitimate objectives, such interventions should support rather than distort competition.
- Competition policies are essential tools for promoting efficient markets. Competition authorities play a dual role: enforcing rules against anticompetitive behavior and advising on policy to foster market competition.
- The emphasis of competition policy varies depending on the country's context:
    - Low-income and fragile contexts: Focus on embedding competition in procurement, improving governance, and facilitating trade and investment without necessarily establishing formal authorities.
    - Lower-middle-income countries: Prioritize competitive neutrality, stronger sector regulators, and initiate functional competition authorities.
    - Upper-middle-income countries: Shift focus to enforcement, sectoral regulation, and curbing distortive business support measures.
- Even where vested interests are strong, targeted advocacy—such as analyzing politically connected firms—can help open markets and enhance competition.
- Policymakers must assess both domestic and international markets to address resource misallocation and identify opportunities for reform, especially considering complex business ownership structures.
- Promoting systematic monitoring of markets is essential to advance reform efforts. Regular firm-level surveys, administrative data, and subnational assessments are vital for generating competition indicators and identifying distortive policies.

Effective policy requires embedding competition principles through a whole-of-economy approach

Policymakers can leverage healthy competition and market functioning to achieve better outcomes stemming from their economic policies. Policies that foreclose markets or distort the level playing field often fail to achieve the intended benefits as they lead to inefficient allocation of resources or harm incentives to produce efficiently. Therefore, actions are needed to integrate the understanding of markets into the design, implementation, and evaluation of economic policies. Competition policies and their implementation play this role.

Policies, including those in strategic or sensitive sectors, can be designed procompetitively to minimize market distortions. Governments inherently face political and social pressures to address public interests in sensitive sectors, for example, for food security, public safety or job creation. In any such sector, there are various policy options to protect public interests, some of which have unintended consequences and may not, in fact, further the intended public interest. For example, price controls can create shortages rather than foster availability at affordable prices. Job creation efforts by SOEs in competitive product markets can drain fiscal resources and discourage private capital. Programs that subsidize individual firms without a competitive process or ex post evaluation can further entrench the dominance of incumbents. Programs and complementary policy actions can be designed to ease transition costs (Licetti et al. 2018).

Governments can adopt a whole-of-economy approach with competition principles at the center of market institutions to enhance policy effectiveness. This implies ensuring that market assessments and competition considerations are integrated into all relevant policies and regulations. While competition law enforcement can tackle and deter anticompetitive conduct or harmful consolidation by market participants, among developing economies, there are only a few competition authorities that have the necessary tools and resources to act effectively (see Chapter 3). However, economic, administrative and even social regulatory and policy instruments shape the ability and incentives for private and public firms to compete in any developing country (boxes in blue in Figure 5.1). Governments can introduce mechanisms to ensure that the design of such policies considers market functioning, such as regulatory quality instruments to assess regulatory impact on competition. Procurement policies can foster competitive bids. Licensing and concession rules can enhance competition in the adjudication process while tenders to access public resources can be designed to prevent excessive market power (Box 5.1). And industrial policies can be designed in ways that foster competition, as the example of Korea shows (Box 5.2).

Box 5.1: Competition principles in tender design can lead to greater access and more affordable services

In spectrum auctions, caps on existing market players help prevent excessive concentration in broadband services. In **Colombia**'s 2013 auction, the telecom regulator reserved certain spectrum blocks exclusively for new entrants, while limiting the dominant player to a separate block shared with other incumbents. New entrants were allowed access to existing infrastructure at regulated rates, leading to US$56 million in mobile internet savings and a 22 percent increase in users by 2014, with two new providers gaining market share. Similarly, in **South Africa**, ICASA's 2022 auction used spectrum caps to enable smaller operators like Rain and Telkom to access sub-1GHz frequencies, improving rural coverage and competition. In **Mexico**, regulators designed the Red Compartida auction to prevent the rural wholesale network operator from competing in downstream services, introducing safeguards to avoid reinforcing incumbents' dominance.

Box 5.2: Industrial policy and market contestability must go hand-in-hand to achieve sustained growth - The case of South Korea

South Korea evolved from a low-income country in 1960 to a high-income country by 1995, largely driven by industrial policy strategies that evolved from fostering large industrial and financial conglomerates, the *chaebols*, to enabling open and contestable markets with effective start-up and innovation ecosystems. In the first phase, the government supported chaebols, providing them with preferential financial access and controlling market forces to foster economic growth. By the 1980s, however, the country faced the need to transition to a more market-driven growth model, which led to significant pro-competitive reforms, including liberalizing financial policies, reducing tariffs, and enhancing the role of the Korea Fair Trade Commission for competition law enforcement and regulatory review.

The Asian Financial Crisis (AFC) in the late 1990s catalyzed further market-oriented structural reforms, shifting the focus of industrial policy towards supporting small and medium-sized enterprises (SMEs) and technology startups. The emphasis moved from specific firms to broader innovation and technology support, with R&D spending increasing significantly and shifting from public to private sectors. South Korea overcame the "middle-income trap" by fostering contestability, enhancing productivity, and driving innovation. After the AFC, productivity growth was particularly impressive in industries formerly controlled by chaebols that had been opened to competition. Moreover, South Korea went from lagging in patent application in the 1980s to having 30 percent more patent applications than Germany in 2012, despite having half the population. Patents filed by chaebols stopped growing, while patents by non-chaebol companies accelerated (Aghion et al 2021).

Sources: Aghion et al. (2021), World Bank Group (2023), Jai S. Mah (2007)

Such a whole-of-economy approach also implies integrating market principles into development programs across sectors, including infrastructure, healthcare, and education. The combination of market failures and justifiable policy objectives mandates government intervention in markets. Whether acting as a buyer, seller, or financier (see Chapter 4), the government can leverage the power of markets. Ensuring competition in the procurement of school supplies or medicines prevents wasteful spending.[1] Transparent and proportionate regulation can uphold service quality without stifling innovation. In the context of infrastructure, setting tariffs that encourage efficiency in natural monopoly segments while ensuring open and non-discriminatory access in other segments is critical for electrification and digitalization in developing economies.

A symbiotic relationship connects competition authorities with other market institutions that allocate public resources or set rules to create or fix markets. Competition authorities are responsible for detecting and preventing anticompetitive practices (enforcement) and advising line ministries and market regulators on how to foster competition as part of their respective roles (policy advice and advocacy). Failure to integrate competition principles in economic policy design and implementation means an environment where abuse or collusion can more easily take place, as firms are shielded from market discipline and merit-based competition.

Figure 5.1: Competition authorities help integrate competition principles across government policies

Channel	RESOURCES *Allocating public resources to support market creation*			RULES *Setting rules and parameters for the markets to operate*		
	Supplier	**Buyer**	**Financier (Subsidies)**	**International rule maker**	**Sector regulator and supervisor**	**Market referee**
Government role	Provision of goods and services (including information), co-investor through SOE-BOS/SOFIs and PPPs	Public procurement through SOEs, ministries and government agencies	Changing the relative costs for certain market players through industrial policies, tax incentives, credit support, other state aid	Exposure to international markets through trade and investment rules including through bilateral and regional agreements	Statutory requirements (e.g., licenses, standards); ex ante regulation of industries with market failures (e.g., network industries, finance, mining)	Enabling competition and tackling anticompetitive practices through competition law enforcement
Competition authority's role	Investigating anticompetitive practices by SOEs	Combating bid rigging (detecting signs of potential bid rigging)	Identifying aid that reinforces dominance or facilitates collusion	Identifying rules that facilitate collusion	Combating anticompetitive behavior and consolidation	Enforcement
	Advising on market-based alternatives to SOEs, designing PPPs to enhance competition, and competitively selecting partners for privatization and PPPs	Advising on rules that foster participation and reduce opportunities for collusion	Identifying less distortive solutions for market failures and assessing their impacts on competition and outcomes.	Advocating for rules that promote entry and competition (reduction of limits on FDI, elimination of NTBs)	Identifying restrictions to competition and rules to enable competition, and assessing whether price regulation is needed	Policy advice and advocacy

Source: Authors' own elaboration.

One example of the synergies between competition law and market policies is evident in public procurement. Anticompetitive behavior overlaps and interacts with other forms of illegal conduct, including bribery, and regulatory capture to hinder market entry. Although anti-corruption initiatives seek to enhance procurement processes, excessive transparency may inadvertently facilitate bid-rigging by enabling firms to monitor competitors. In practice, competition authorities have been effective in detecting bid-rigging cartels in public procurement that, in many cases, are also aided by government officials infringing anticorruption laws, for example in Colombia and Peru.[2] While collaboration between competition and procurement authorities has strengthened, access to detailed data remains a challenge. Advanced machine learning techniques applied to e-procurement systems offer promising tools for identifying tenders with a higher risk of collusion, as evidenced in Bulgaria, where over one-third of tenders may have involved collusive practices (Fazekas et al. 2023).

Global changes in the market dynamics, ownership structures, and policy priorities prompt competition policy to evolve, too.

Regulators and policymakers should assess both global and local markets to identify risks of inefficient resource allocation and opportunities for pro-competition reforms. National-level analysis of competition alone is insufficient. Digital transformation, along with other trends, has exposed traditionally non-tradable services, such as telemedicine, to international competition. Global digital market players now challenge traditionally concentrated sectors, however, they may also engage in strategies to suppress potential competition.[3] When creating new regulatory frameworks, such as for fintech, the unbundling and re-bundling of products and services present challenges to ensuring worldwide open markets while preserving incentives for local players to invest and innovate.[4] Situations that involve cross-border connectivity underscore the need for supranational actions to regulate market power (see Box 5.3 – Shipping). Yet, harmful violations of competition principles also emerge in small, local markets. Price-fixing and market division

agreements on local passenger transport have been detected in Chile, Brazil, Peru, Poland, and Romania; and on subnational cargo transport in Egypt and South Africa. About 40 percent of the detected cartels in the World Bank's ACED 2017-2022 are local.[5]

Box 5.3 Anticompetitive practices outside a single jurisdiction – maritime shipping

Practices by shipping liner conferences are not consistently evaluated under domestic competition law, leaving loopholes for potential anticompetitive practices affecting international maritime transport. Until 2024, shipping companies were allowed to operate joint liner shipping services without the risk of breaking antitrust rules in the European Union. As of 2021, several jurisdictions, such as the United States, Europe, Australia, Japan, India, Malaysia, and Singapore, had exempted the container shipping industry from their competition laws, with some countries even exempting all agreements, including on prices (OECD 2021). Jurisprudence is varied on whether national competition law applies to these agreements given the 1974 international Convention on a Code of Conduct for Liner Conferences. Peru's and Chile's competition authorities pursued cartel cases, arguing that the ratification of the Code was never developed into national legislation[6] or that the Code did not justify or exempt anticompetitive practices.[7] However, in Costa Rica, the Code, being an international agreement, was deemed to supersede any national law by a 2004 decision of Costa Rica's Supreme Court and liner conferences could not be analyzed as an anticompetitive agreement.[8]

Policy design and enforcement actions should consider the more complex international and domestic structure of business ownership links to preserve competition and discipline market dominance. The risks associated with the increasingly intricate global ownership structure (see Chapter 1) have direct implications for competition law enforcement–e.g. merger control reviews and abuse of dominance cases. In some countries like Chile, competition law prohibits the simultaneous participation of a director or executive in two or more competing firms and mandates the notification of acquisitions of minority shareholdings in competing firms by companies belonging to the same economic group. Other policies and practices, such as evaluations of independent bid certificates or the evaluation of competition conditions for decisions on network sector regulation, should also consider the full business ownership structure. Information on beneficial ownership is critical for this. Enterprises with State shareholdings can also benefit from implicit and explicit advantages (World Bank 2023) and, in some cases, are out of the scope of competition law enforcement. Finally, heightened attention should be given to firm-level support measures in cases where business ownership is vertically integrated. For example, a support program for a mid-size agricultural producer may have different market impacts if that producer belongs to an economic group that controls agricultural inputs.

Actions to boost competition are not only relevant and effective in large and advanced economies

Debunking common myths about the relevance of competition policy across country contexts. There are several prevailing myths around the role of competition policy across country groups. First, competition policy is perceived to be less relevant for small countries as markets will naturally tend to be concentrated.[9] Second, competition policy is presumed to only be a priority for countries with higher income levels. Third, competition policy is assumed to be futile in countries with entrenched vested interests, cronyism, and weak governance. These myths can be debunked by understanding better the role of competition principles in broader economic policy making.

Competition principles can help small economies set proper incentives for dominant players to operate efficiently. Small economies may naturally exhibit few competitors and concentrated economic groups, especially in non-tradable services, where a single operator may be most efficient. In such cases, well-designed concession or auction design, including participation by international firms can ensure competition and efficiency. In other sectors, fostering integration with international markets and minimizing regulatory barriers can broaden the range of suppliers and keep domestic market power in check. Competition analysis in small economies needs to pay particular attention to the definition of the relevant market, which usually includes foreign markets.[10]

In poor countries or even fragile contexts, small improvements in the functioning of incipient markets may have a great impact on accessibility to essential goods. Low-income countries often struggle with basic government functions and lack the financial or human capital to build sophisticated market institutions. But even in LICs or FCV contexts, economic performance and delivery of essential goods and services partly rely on markets, and steps can be taken to improve their functioning.[11] Competition policy can extend beyond having a competition law. As shown in Chapter 4, other market interventions can also affect market competition and have positive development effects. For instance, local actions, such as facilitating access to distribution channels, ensuring price transparency, and supporting storage infrastructure, can enhance competition and reduce buyer power. A transparent and level playing field for importers can improve the availability of goods and lower consumer prices, as demonstrated in Haiti, where preferential customs duties and market concentration led to higher import prices (Box 5.4).

Box 5.4: Import services preferences and unlevel playing field

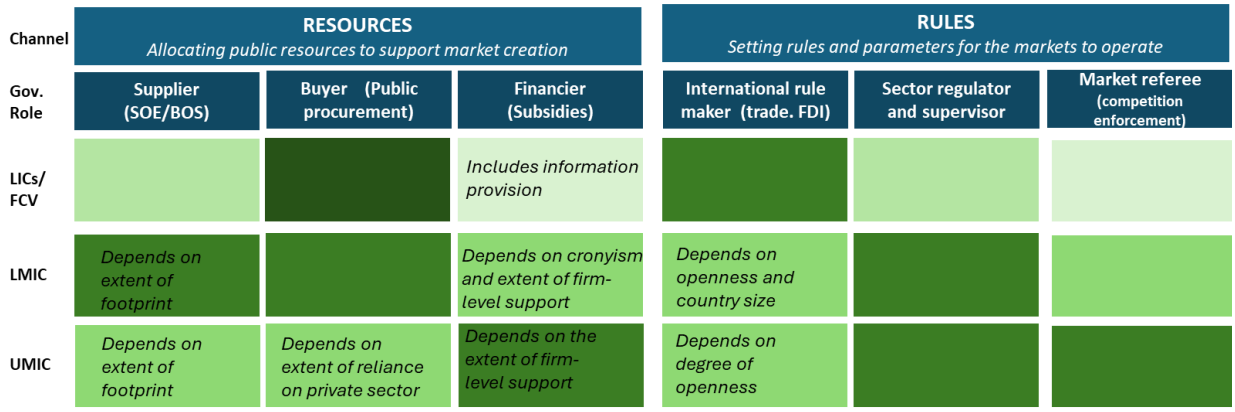
In Haiti, goods imported into highly and moderately concentrated markets accounted for around 70 percent of total imports in 2011–2012. Prices for several food products in these markets were 35 to 77 percent higher than in comparator countries, even after adjusting for income levels, container import costs, and tariffs. Analysis showed that certain economic groups benefitted from reduced customs duties across a wide range of products, distorting competition. Five major groups operating in concentrated sectors paid, on average, 13 percent lower duties, with reductions between 5 and 22 percent. These companies, among Haiti's most influential economic groups, had an average of 45.2 family links, compared to 23.7 for the broader elite (Naidu, Robinson, and Young 2021).
Source: Pop (2015)

Low-income countries in the early transition towards market-based economies may face significant risks to competition. Countries that transition from predominantly state-led growth models to a market-based economy can benefit from competition analysis to inform decisions on how to crowd in the private sector or sequence the dismantling of command-and-control regulations. In Brazil and South Africa, business associations and firms involved in informing government price regulations were part of cartels later detected by the competition authorities. Competition culture may be weak in such contexts, and a particular emphasis can be placed on advocacy for pro-competitive conduct by emerging private firms.

Since markets, economies, and policy interventions evolve as countries develop, the emphasis of competition policy also changes. Figure 5.2 illustrates this across the six roles that governments can play in markets. For LICs and FCVs, establishing a well-resourced, technically solid and independent authority may not be feasible. In these contexts, embedding competition principles in public procurement by removing barriers to participation, promoting price and quality competition,

and strengthening governance is essential for market creation. Additionally, facilitating trade, foreign direct investment, and information provision support market creation and attract new firms. For LMICs, additional priorities include ensuring competitive neutrality vis-à-vis SOE/BOS and politically connected firms, strengthening sector regulators, and promoting transparent, independent market institutions.[12] This is a good stage to support the establishment of a functional competition authority. Finally, for UMICs, greater emphasis shifts toward sectoral regulation, control of business support measures, and antitrust enforcement, with priorities influenced by the degree of openness of the economies and the footprint of the state in business. In general, priorities across the channels of market influence will also depend on whether the economy is primarily state or private sector led and on its size.

Figure 5.2: The emphasis of competition policy varies depending on the country's context
(simplified framework to illustrate relative relevance of procompetition policy tools)



Source: Author's own elaboration.
*Note: **A darker green denotes government interventions with greater relevance** within the national competition policy for a given type of country – i.e., where the need to integrate competition principles is more necessary to foster market competition in the economy. Text in italics highlights additional considerations to determine the relevance of the given procompetition policy tool.*

Independent of the income level, entrenched vested interests and cronyism should not be an obstacle to successful competition reforms. Vested interests and cronyism are perceived as major risks to competition in UMICs (Economist Intelligence Unit Risk Tracker 2024). Although these countries have greater regulatory capacity, strong ties between economic and political elites make it essential to embed competition principles across policies to prevent undue advantages for incumbents (Box 5.5). Hundreds of examples of successful advocacy efforts by market institutions, submitted in over a decade of the WBG-ICN Competition Advocacy Contest demonstrate that even in environments with entrenched interests, targeted advocacy and strategic actions—such as mapping politically connected firms and analyzing their sources of advantage—can promote competition (Licetti et al. 2023; see Spotlight 3.2).

Box 5.5. Connections to the political elite that distort the level playing field have led to inefficient market outcomes

Political connections can distort competition by influencing regulatory decisions or access to key inputs. In Tunisia, firms linked to former president Ben Ali held 6 percent higher market shares and benefited from investment code exemptions (Freund, Nucifora, and Rijkers 2014).[13] In Brazil, firms donating to winning candidates were more likely to receive loans from the state-owned development bank, BNDES (Lazzarini et al. 2015).[14] More broadly in Latin America, market concentration often stems from inherited wealth tied to

natural resources, political favoritism, or weak regulation, rather than merit-based growth. Nearly half of the region's billionaires have wealth rooted in such sectors, with a third concentrated in non-trade areas like retail, media, and telecommunications (Freund 2016).[15]

The generation and proper use of data to assess competition becomes a shared agenda for international institutions and national agencies

Regardless of the policies or market of focus, all countries can improve their monitoring of markets and government policies to address unintended market distortions and preserve competition. However, many lack systematic monitoring. Periodic firm-level surveys and censuses are essential for generating competition indicators, as discussed in Chapter 2, to better understand competition dynamics. Regulatory indicators and assessments can help identify gaps in pro-competitive policies. For instance, regulators in Peru and Mexico have systematically identified distortive government policies at the subnational level,[16] while agencies in Indonesia and the Russian Federation have tracked subnational competition indicators.

To effectively analyze competition dynamics and the effects of concurrent policies, it is crucial to develop more nuanced analytical tools alongside improved monitoring. Even countries with high-quality firm-level data generally do not use them systematically to monitor market dynamics. Such data should be made available in a timely manner to the competition authorities, policymakers, and academia. Generic competition assessments often focus on a single indicator, whereas multiple indicators from the same datasets can yield deeper insights. For policy design and enforcement actions, such analysis must always be complemented with more in-depth competition assessments (see World Bank's *Markets and Competition Policy Assessment Toolkit*).[17] A good practice is using firm-level data to create industry-level indicators, which aids in selecting sectors for in-depth market studies. Countries that track beneficial ownership through digitally integrated business registries can also leverage this information for ownership analysis. The UK's competition authority used a global commercial database of ownership information for analysis in financial markets, while South Africa's Competition Commission employed detailed firm-level data from various sources to report on market structure in key industries for its economy.

Administrative data from customs and tax authorities can be a starting point in data-constrained contexts. Given the financial and technical capacities required for producing high-quality firm-level data, governments can first leverage existing data from administrative authorities. Customs and tax data will not represent the informal sector well, but capturing the largest players in product markets with economies of scale will often be sufficient to gauge competition intensity. Granting the national market institutions access to such data for competition screening can be a first step. Since the current structure of the corporate sector is not firms producing only one product in one market, further efforts are needed to systematize information on business ownership networks and multiproduct firms. International development institutions play an important role in supporting the collection and systematization of disaggregated data to assess market outcomes and market policies.

Institutions, policies and monitoring to unleash the power of markets for development

This report suggests that governments should systematically integrate competition principles in the design and implementation of economic policies and support market institutions. For that, countries should aim to make progress along three Ms: market institutions, market policies, and market monitoring. Table 5.1 presents a simple scorecard for governments to assess the progress in empowering markets through competition. The scorecard encompasses actions across the various policy channels of government influence in markets.

To support the practical application of the indicators on market institutions, policies, and monitoring, the table can be transformed into a government-facing scorecard. Each indicator can be assessed using a simple scoring system—for example, 0 for "not in place," 1 for "partially implemented," and 2 for "fully implemented." This allows governments to systematically track progress, identify implementation gaps, and prioritize reforms. The scorecard can be used as part of a regular self-assessment or peer review process, visualized through traffic light dashboards to facilitate high-level policy discussions. It can also be aligned with national reform strategies or donor frameworks, making it a valuable monitoring and evaluation tool. Over time, the scorecard provides a feedback loop for institutional learning, supports inter-agency coordination, and helps guide targeted technical or financial interventions to strengthen market governance.

Table 5.1: A scorecard to integrate competition principles in economic policies – three Ms: market institutions, market policies, and market monitoring

Dimension		Indicator
Market institutions and interinstitutional collaboration	Rules	A competition agency and well-resourced regulatory bodies exist for key sectors like telecom, energy, transport, and finance. Appointments in these bodies are merit-based and independent of policymakers. Competition law bodies have cooperation protocols with other prosecutorial entities and can request information for inquiries, with public bodies required to respond to competition authority recommendations.
	Resources	Authorities managing concessions and public procurement consult competition authorities for competitive tender design and to identify bid rigging. Programs supporting firms collaborate with competition authorities, which also evaluate state-aid programs. Foreign investment reviews are separate from merger control.
Market policies	Rules	Regulations are designed to avoid reinforcing market dominance, preventing collusion, and reducing entry costs while ensuring fairness and transparency (see MCPAT). This is included in Regulatory Impact Assessments and frameworks to combat anticompetitive actions and bureaucratic barriers. Price controls apply only in non-competitive market segments where economic tariffs encourage efficient production. Market entry is generally open, except where a few competitors can effectively provide the service. In cases of scarce resources (like spectrum or fish stocks), access is allocated through auctions or quotas. Trade and foreign direct investment rules support open market competition among domestic and foreign players.

Dimension		Indicator
	Resources	State-owned enterprises (SOEs) operate under a transparent policy that evaluates their competitive neutrality and the need for periodic review of state ownership. Public procurement rules encourage participation and value for money and avoids discrimination Firm-level support is provided fairly, considering competition impacts and the opportunity costs of state aid, ensuring that it promotes contestability without discrimination.
Market monitoring and evaluation	Rules	Competition authorities and regulatory bodies have key performance indicators (KPIs) that include conducting market or sector inquiries, studies, and assessments and systematically evaluating the effects of significant decisions. Regulatory bodies periodically review tariffs, service provision standards, and entry requirements according to a predetermined schedule.
	Resources	Firm support measures are regularly monitored and evaluated to assess their impact and any unintended anticompetitive effects. A comprehensive public registry of firm support measures and beneficiaries across various government programs exists. Information on MSMEs and firms falling under public procurement preferences as well as information on number of bidders by tender and percentage of single source contracts by procuring entity is published systematically.
	All	Public institutions, researchers, and academics have access to appropriate data for market monitoring. This includes access to firm-level data from administrative sources such as customs, tax authorities, structured surveys, and business registries, as well as mechanisms for obtaining statistical data from business surveys while preserving data integrity and privacy.

Source: Authors' own elaboration.

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[1] Estimates suggest that the bid rigging scheme in the purchase of insulin and saline solution cost the Mexican Social Security Institute 622.7 million pesos (USD 57 million) between 2003 and 2005. (COFECE. 2015. *Estimación de los beneficios obtenidos por la sanción de un cártel en licitaciones públicas del IMSS en México*). Schools in developed and developing countries have been repeatedly affected by bid rigging in books, milk, sports equipment and other contracts.

[2] In 2017, Colombia's competition authority ordered the termination of a major infrastructure contract and the initiation of a new tender process after evidence revealed that a public official manipulated the bidding to favor a company linked to bribes from the Odebrecht group. Similarly, in 2020, Peru's competition authority indicted 35 construction firms and 28 executives, including Odebrecht, for operating a bid rotation scheme between 2002 and 2016, affecting 112 tenders and approximately $3.8 billion in public works.

[3] Over 60 percent of anticompetitive practices cases in digital platforms in MICs involve foreign firms, according to the World Bank Global Digital Antitrust Database.

[4] Technological advances have disrupted traditional financial services, enabling local market entry and expansion of global or regional players. Specialized providers unbundle products like deposits and payments, while global platforms rebundle services, leveraging customer relationships to enter financial markets. This is illustrated by the presence of Mercado Livre in financial services in Brazil and the offering of payment services by Apple and Google.

[5] Based on the World Bank Anticartel Enforcement Database.

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[10] Identifying the market is the first step in a competition analysis. Recognizing the boundaries of a market involves assessing factors such as the products or services being offered, the geographic area in which they are sold, and the consumers or businesses involved. Defining a relevant market from a competition perspective covers two dimensions: a set of products and a set of geographic areas. Defining a relevant market is critical for antitrust cases since decisions on competition law infringements usually depend on it (Licetti et al. 2023).

[11] Exceptions include economies in crisis, military-controlled supply chains or areas supplied predominantly through humanitarian services.

[12] Regulatory independence can be fostered by objective rules for appointing and removing members of regulatory bodies, ensuring due process, budgetary predictability, among others.

[13] Freund,Caroline; Nucifora,Antonio; Rijkers,Bob. *All in the family: state capture in Tunisia (English).* Policy Research working paper. (2014).

[14] See Lazzarini, S. G. et al (2015). "What do state-owned development banks do? Evidence from BNDES, 2002–09. World Development 66 (2015): 237-253.

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[17] World Bank. 2025. The Markets and Competition Policy Assessment Toolkit. © Washington, DC: World Bank.

Annex 1.1 Methodology for identification of Top 1000 Forbes' ownership links

The companies linked to the top 1000 Forbes firms are obtained using a process developed for the Business of the State (Dall'Olio et al. 2022). More details about this process are available online[1]. In summary, the process consists of capturing both the direct and indirect subsidiaries of the top 1000 Forbes firms using an ownership threshold of 10 percent based on Orbis data. The list of subsidiaries excludes marine vessels, branches, and inactive linked firms that are also captured by Orbis. To avoid linkages to firms through private equities, we also remove from this list all subsidiaries owned by the top private equity firms such as Bain Capital, Blackstone Group, Apollo Global Management, Carlyle Group, EQT, Advent International, CVC Capital Partners, etc.

This report uses the Orbis raw database downloaded in 2023 to construct the ownership links. As a result, there are important caveats to consider. First, the ownership information is taken from Orbis. and data coverage differs across countries and across time. For instance, there is a better coverage for ECA countries than for smaller countries. Similarly, earlier years have better coverage than most recent ones because Orbis updates the data over time. Nonetheless, most large firms have good coverage in many countries. This caveat means that the number of subsidiaries uncovered through this process can be regarded as a lower threshold.

[1] Dall'Olio et al. 2022 available at https://documents1.worldbank.org/curated/en/099800112132221252/pdf/IDU03d9586040b28504839081120922e33694f65.pdf

Annex 2.1 Methodological elements for the estimation of the level of risks of weak competition in industries

Firm-level datasets with census characteristics

Firm-level data is essential for assessing competition. There are different types of firm-level datasets available for this type of work and their characteristics need to be assessed before using them. Firm-level data in developing countries vary in structure, sources, and coverage (Table A2.1). Some types of datasets are very complete covering the full population of firms or important segments of it—e.g. all formal firms above a given threshold—, and thus, suitable for the type of comprehensive analysis proposed in this report. However, other datasets may only be representative of populations, and as such they may be more suitable for competition analysis based on single indicators where population requirements are less critical. Understanding the characteristics of available firm-level data in a country is essential before assessing competition in that context.

Table A2.1: Firm-level datasets available and their strengths and weaknesses

	Data requirement		Pros	Cons
1	Business Census		(1) Enumeration of all establishments and so more complete and closer to the universe of all firms.	(1) Often not available on an annual basis. Some are available every five years. (2) Enumeration can be based on all firms in select sectors (i.e., most industries) and not all sectors.
2	Survey: a) Structured	*Annual*	(1) Often available annually (2) Often capture the universe of large firms.	(1) Require survey weights. (2) Firms change over time in the random sample part, and so may mot be a panel data at firm level in the random sample part.
	b) Non-structured	*WBES*	(1) Readily available for 155 countries via same methodology.	(1) Very small sample size. (2) Each country is surveyed every 3 to 4 years.
3	Administrative	*Tax*[i]	(1) Likely capture large firms.	(1) Capture only tax-registered entities that filed their taxes with the revenue authority.
		Custom	(1) use for capturing import penetration.	(1) Of very limited use.
4	National accounts[ii]	*4-digit*	(1) Easily available for several countries.	(1) Difficult to compare across countries due to differences in industry classification used. (2) Does not capture firm variations and so unable to be used for firm level analysis. (3) Should be more granular (e.g., 4-digit level), (4) Of very limited use in terms of broader analysis.
	Proprietary	*Orbis*	(1) Available for multiple countries.	(1) Quality of data for small countries may not be ideal. (2) Data on key variables could be missing or "N/A".
		CompNet		(1) Not at the firm level but aggregated sector level. (2) Available for selected EU countries.
		Compustat		(1) covers only publicly traded companies.

Source: Authors

For the type of competition assessment suggested in this work, the data used needs to have census characteristics. This is because the analysis in this report—especially calculating concentration—requires firm-level data that cover the full population of firms, or at least a complete segment, ideally including the largest firms. Thus, the needed data should have census-like coverage.

In that sense, the analysis in this report is based on structural annual surveys or administrative tax data. Based on the need to use information with census characteristics, the only two types of firm-level datasets used for the analysis in this report are structural annual surveys or administrative tax data.

Competition indicators used

a) Concentration ratio of the top 4 firms (CR4): The CR4 measures the revenue share of the top four firms in an industry and year:

$$CR_4 = \sum_{i=1}^{4} s_i$$

where s_i is the market share (measured using operating revenue) of firm i.

b) Entrenchment of the top 4 firms: Entrenchment is the share of top four firms in an industry from the three prior years that remain in the top four in the current year:

$$Entrenchment_{(t-3 \to t)} = \frac{\#\ of\ top\ 4\ firms\ in\ year\ (t-3) remaining\ in\ top\ 4\ in\ year\ t}{\#\ of\ top\ 4\ firms\ in\ year\ t}$$

c) Price-cost margin: The price-cost margin (PCM) is defined as the ratio of the difference between operating revenue and total variable costs to operating revenue:[1]

$$PCM_{it} = \frac{p_{it} - c_{it}}{p_{it}} = \frac{(p_{it} - c_{it}) * q_{it}}{p_{it} * q_{it}} = \frac{\text{Operating revenue}_{it} - Total\ variable\ cost_{it}}{\text{Operating revenue}_{it}}$$

For each firm i, p is output price and c is marginal cost. Since firm-level data on prices and marginal costs are typically unavailable, PCM is approximated using operating revenue and total variable cost, where the latter includes the cost of materials and labor.

d) Labor productivity: Labor productivity (LP) is the ratio of operating revenue to the number of employees:

$$LP_{it} = \frac{\text{Operating revenue}_{it}}{Number\ of\ employees_{it}}$$

Sample of countries

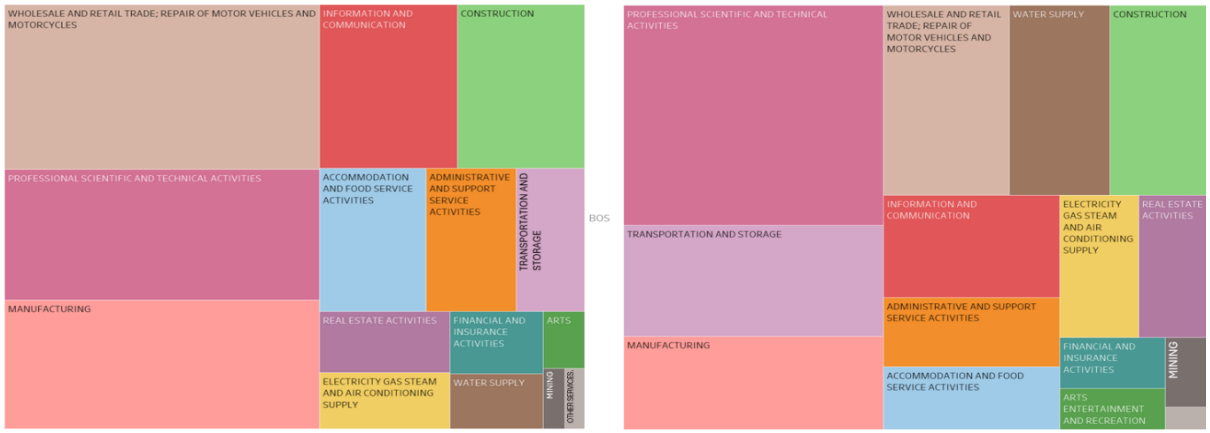
Country	Region	Period	Source	Type
Philippines (PHL)	EAP	2015-2021	Philippines Statistics Authority	Structured survey
Vietnam (VNM)	EAP	2007-2020	General Statistics Office of Vietnam (GSO)	Census
Armenia (ARM)	ECA	2018-2022	Ministry of Finance	Tax registry
Croatia (HRV)	ECA	2008-2020	Central Bank	Tax registry
Georgia (GEO)	ECA	2007-2019	National Statistics Office of Georgia	Structured survey
Moldova (MDA)	ECA	2015-2019	National Statistical Office	Structured survey
Romania (ROU)	ECA	2011-2020	Ministry of Finance	Tax registry
Serbia (SRB)	ECA	2006-2019	Statistical Office of the Republic of Serbia	Tax registry
Peru (PER)	LAC	2007-2017	National Statistics Office (INEI)	Structured survey
India (IND)	SAR	2008-2020	Ministry of Statistics and Programme Implementation	Structured survey

[1] The price-cost margin (PCM) is a Lerner index, and it measures the ability of firms to set output prices above their marginal cost of production. Total variable costs is the sum of material and labor costs.

Figure A2.1: Private and State conglomerates are present in the same sectors – commerce, construction and manufacturing

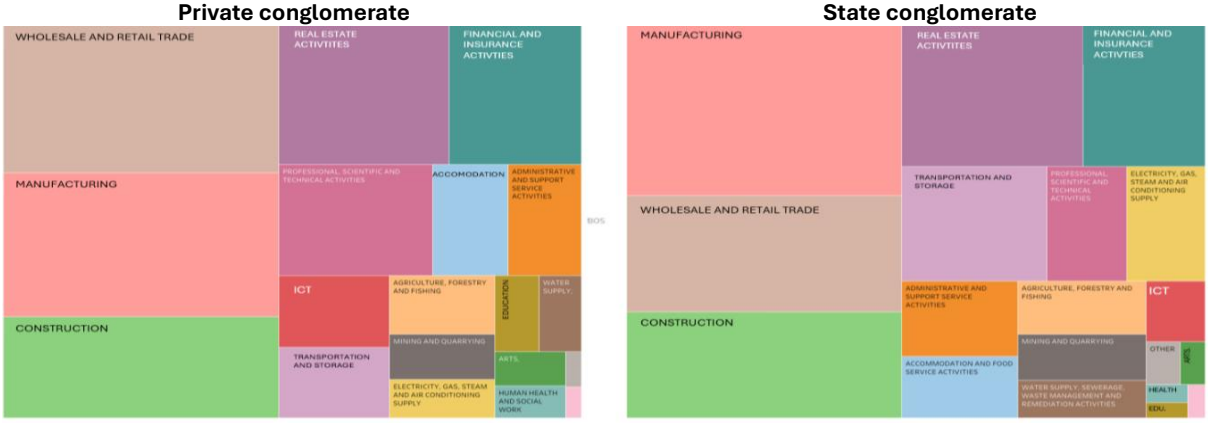
a. Presence of private and State conglomerates in Serbia (share of sectors by firm count)

Private conglomerate **State conglomerate**



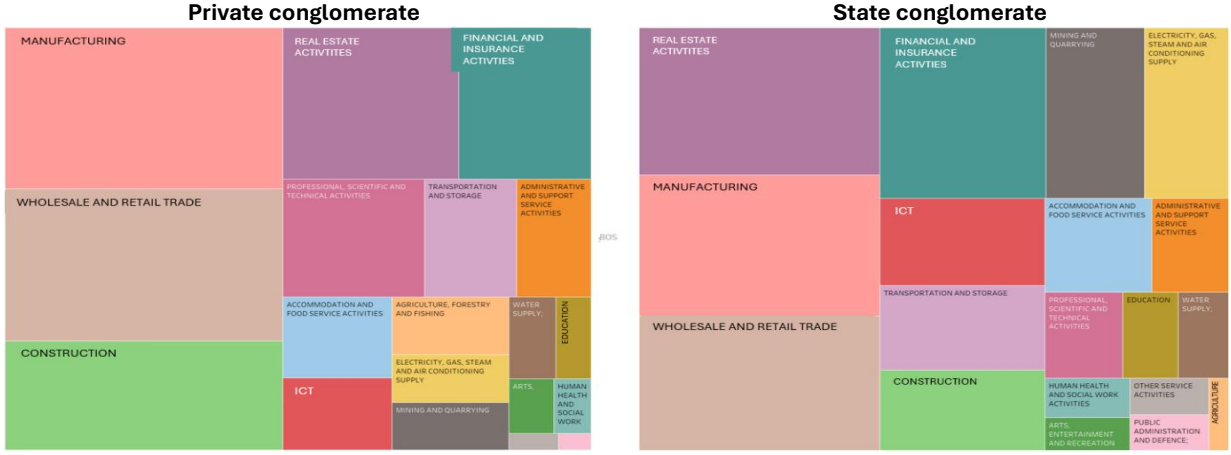
b. Presence of private and State conglomerates in Viet Nam (share of sectors by firm count)

Private conglomerate **State conglomerate**



c. Presence of private and State conglomerates in Philippines (share of sectors by firm count)

Private conglomerate **State conglomerate**



Source: Based on ownership analysis using the Orbis database and country firm-level data from national statistics offices.
Note: State conglomerates are defined as groups of at least two firms connected through direct and indirect ownership networks, using a 10 percent ownership threshold linked to state public authorities (e.g. Ministry of Financial, Municipal Governments) and previously identified enterprises with state shareholdings from BOS database (where available). Private conglomerates are defined as groups of at least two firms connected through direct and indirect ownership networks, using a 10 percent ownership threshold without links to government authorities.

Annex 3.1 Methodologies for the Competition policy effectiveness indicators

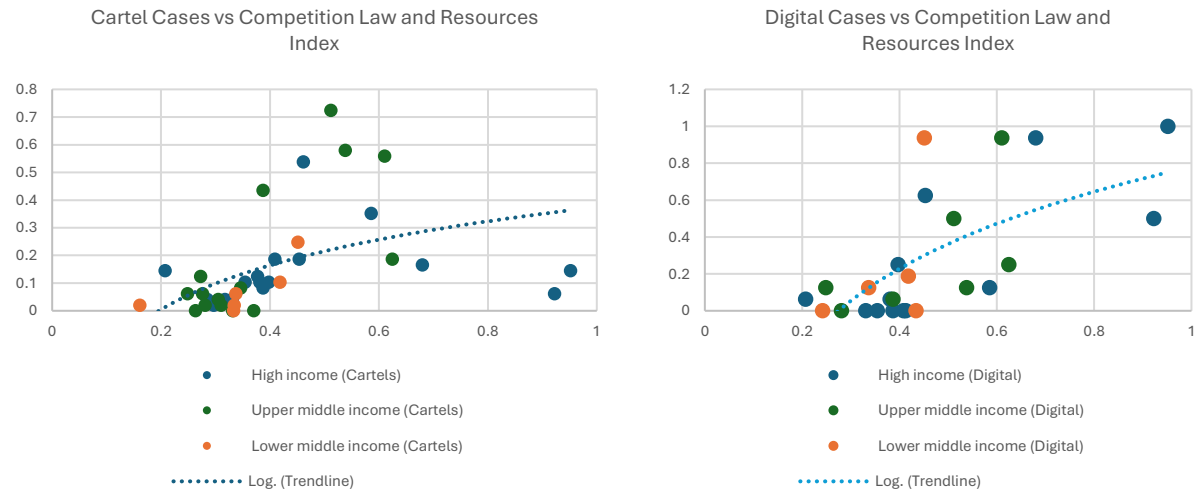
Cartel Cases, Digital Cases and the Competition Enforcement Tools and Resources Index

For the Cartel and Digital Cases, the Anticartel Enforcement Database (ACED) and the Global Digital Antitrust database (GDAD) updated as of September 2022 were used. We counted the number of cartel cases sanctioned between 2019 and 2021 in 81 countries ("Cartel Cases") and the number of digital cases (including the categories of 'Abuse of Dominance,' 'Anticompetitive Agreements,' and 'Merger') handled by 56 competition authorities between 2006 and 2022 ("Digital Cases").

The Competition Enforcement Tools and Resources Index encompasses three elements, each weighted equally: (i) the adoption of the recommended competition enforcement rules, i.e., the adoption of practices that, in their absence, make it significantly more difficult for the authority to enforce competition rules. To estimate this first element, we used the scores assigned to the following subcategories: Cartels, Abuse of Dominance, Merger Control, Sanctions, Remedies, and Enforcement (the specific best practices are encompassed by these subcategories are in Table A3.1 below; (ii) the number of staff dedicated to competition law within an authority for 2021 or the latest year available; (iii) the budget assigned to each authority for the same year. The last two elements were obtained from publicly available resources such as annual reports and from the initiative with the Africa Competition Forum to assess the institutional design of institutions in Africa.

To normalize each of the variables indicated above, the following methods was followed: (i) estimated the z-value for each country (i.e., subtract each country's value from the mean and divide by the standard deviation); and (ii) using the minimum z-score from the entire sample as the lower bound and 2.5 as the upper bound[1], normalized the values to a 0–1 scale.

Figure A3.1: Countries with better competition frameworks and tools handle more investigations



Notes: *The Y-axis shows the Digital and Cartel Cases, while the X-axis represents the Competition Enforcement Tools and Resources Index. The graph on the left includes 13 HICs, 7 UMICs, and 5 LMICs; the right one, 17 HICs, 15 UMICs, and 6 LMICs. The number of countries shown in the graph is lower than those in the cartel or digital datasets because countries have to also be present in the competition enforcement and institutional framework scoring.*

[1] When a z-value exceeded 2.5, it was replaced with 2.5 instead of dropping it to account for outliers. Since the digital dataset had no value exceeding 2.5, no country value was truncated.

Table A3.1: Weights for the Scoring Framework for Competition Laws and Institutions

Category	Category Weight	Subcategory	Subcategory Weight	Provision / Description	Question Weight
Scope of mandate	0.25	Cartels	0.0625	Cartels are per se prohibited	0.021
				Predetermined and specific grounds for horizontal agreements exemptions	0.021
				Leniency program with full immunity for the first applicant	0.021
		Dominance Abuse	0.0625	The regulatory framework defines market dominance	0.031
				If there is a market share threshold, it is a rebuttable presumption[1]	0.031
		Merger Control	0.0625	Ex ante merger control with thresholds	0.031
				Objective criteria for thresholds, such as turnover	0.031
		Advocacy / Policy	0.0625	Provisions for market studies and powers to compel data for market inquiries[2]	0.021
				Rules, protocols, or memoranda of understanding to enable collaboration with other agencies/regulators[3]	0.021
				Mandate to ensure government policies and regulations do not hinder competition and to justify any deviations	0.021
Scope of powers	0.25	Exclusions	0.0833	There are no economic activities/sectors excluded from the application of the law (e.g. maritime shipping)	0.042
				SOEs are not subject to any form of exclusion from the scope of the competition law	0.042
		Sanctions	0.0833	The maximum applicable sanction in case of cartels, dominance abuses and gun jumping are a percent of the turnover [4]	0.083
		Remedies	0.0833	Authority has powers to impose behavioral/structural conditions/remedies in mergers, agreements & abuse of dominance cases[5]	0.042
				The regulatory framework confers on the Competition Authority the power to impose monetary sanctions	0.042
Institutional Setup	0.25	Financial	0.0625	Budget is allocated by the Parliament/Congress[6]	0.063
		Institutional	0.0625	There is a two-stage appointment process, with independent bodies	0.016
				The nomination/appointment process consider minimum qualifications	0.016
				There is a fixed mandate and rules for removal are objective	0.016
				Rules against conflict of interest and cooling off periods after leaving the agency	0.016
		Procedural	0.0625	No interference in decision making by Minister/President (capacity to overturn decision, present opinion, provide guidance) in merger or anticompetitive cases[7]	0.063
		Transparency[8]	0.0625	The authority publishes all antitrust and merger control decisions online	0.021
				The authority publishes an annual report	0.021
				The authority publishes advocacy initiatives (market studies and opinions)	0.021
Effective tools	0.25	Enforcement	0.125	The authority has used leniency	0.028
				The authority has settled cases[9]	0.028
				The regulatory framework establishes a multiphase merger control procedure	0.028
		Advocacy	0.125	Experience in carrying out market studies/inquiries[10]	0.083
				Experience reviewing laws/regulations for policy advice as reported in annual report or published statements[11]	0.083

[1] For countries where B-ready does not address this topic, the item "The regulatory framework defines market dominance" is assigned 1 point.
[2] B-ready only considers whether authorities conduct analytics; it does not cover the mandates or powers that enable such analytics.
[3] B-ready only captures agreements with international organizations.
[4] B-ready includes a single question regarding maximum fines for anticompetitive practices and mergers.
[5] B-ready covers the ability to impose remedies solely for mergers.
[6] B-ready covers instances of compromised financial independence, rather than examining the institutional design for funding.
[7] B-ready covers cases where operational or decision-making independence was compromised.
[8] B-Ready only covers whether the authority publishes all antitrust and merger control decisions online. The score for those countries relies on that practice only and weighs 0.063.
[9] B-ready covers incentives to reduce fines once an investigation has been initiated.
[10] B-ready captures any reports on relevant practices.
[11] B-ready only covers the scope of the authority's mandate.

Annex 4.1. Examples of government interventions by objective and market type

To make sure markets are open to entry, reducing undue burden from registering and licensing, as well as keeping trade and FDI barriers to the minimum would be effective for 'competitive' markets. However, in partially contestable markets, the government would have to worry about ensuring access to essential infrastructure (i.e., broadband backbone in telecom, automated clearinghouse network in payment systems) – otherwise, even if licenses are granted, new companies trying to enter the market will face very challenging conditions to compete (i.e. typically facing higher input costs or even refusal to deal). In the case of natural monopolies, governments should consider the high upfront investment required to enter these markets along the need for economies of scale, and thus opt for fostering competition for the market (i.e. through competitive allocated concessions) instead of competition in the market.

To ensure efficient pricing, price controls are needed for final services in the case of natural monopolies and only for essential inputs for partially contestable markets, while price controls can completely undermine market signals in markets categorized as competitive. Since technology and demand evolve over time, some markets characterized as natural monopolies or partially contestable can become competitive, so government regulation needs to evolve as well to avoid restricting competition. Pitfalls in proper and timely ex ante regulation can lead to the creation of sluggish incumbents that deter innovation and affect other sectors of the economy.

To preserve a level playing field that incentivizes competition on the merits, various actions can be taken with respect to preferences and protections - toward SOEs to shield them from competition, certain suppliers in public procurement, or toward selected firms that benefit from state support programs. Measures, such as direct support to specific markets, firms, or objectives (e.g., R&D subsidies and SME support), would also need to avoid distorting the level playing field. Even when the government supplies services directly or procures goods and services, it must be mindful of market dynamics and rules that can help markets function better and achieve policy objectives more effectively.

Annex 4.2. Policy Effectiveness Review on Innovation and Private Sector Development Programs and competition principles

Program feature from PER (Short Name | Description)		Competition principle
Program justification	Justification for government intervention to address objective	Principle 1
Analysis of interactions with existing policies	Explicit analysis of interaction of the program with existing policies	Principle 1
Measurable program objectives	Explicit program objectives which are measurable and achievable	Principle 1
Analysis of alternative instruments	Rational selection of the instrument among alternative instruments	Principle 1
Adequate beneficiaries targeting	Targeted beneficiaries with a fair chance to enter selection process	Principle 2
Adequacy of selection criteria	Technical and legitimacy dimensions of the selection criteria	Principle 2
Effective implementation of eligibility criteria	Quality and effectiveness of implementation of eligibility criteria	Principle 2
Effective application and selection process	Quality and effectiveness of application and selection processes	Principle 2
Logic Model	Articulation of the theory of change from inputs to outcomes	Principle 3
Measurable outcomes	Alignment and measurement of expected outcomes at design stage	Principle 3
M&E approach at design stage	Monitoring and evaluation approach and system at design stage	Principle 3
Evidence-based improvement	Learning evidence during implementation to improve performance	Principle 3
Adequate management of design adjustment	Management of design adjustments during implementation	Principle 3
Information on participants	Program database and information on participants and applications	Principle 3
Performance-based closure of projects	Specifications of conditions and procedures for project closures	Principle 3
M&E implementation	Effective M&E during implementation with results and lessons	Principle 3

Notes:
Principle 1: Appropriateness. Is firm-level support the right solution?
Principle 2: Contestability by design. Does the design minimize distortions of the level playing field?
Principle 3: Monitoring and evaluation for effectiveness. Is the measure achieving its intended effect while minimizing costs?

Source: Background analysis based on Public Effectiveness Review methodology and the Markets and Competition Policy Toolkit.