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**Session I – Competition and Poverty**

**- Contribution from the RECAC -**

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The attached document from the Central American Network of National Authorities in Charge of Competition Issues (RECAC) is circulated to the Latin American and Caribbean Competition Forum FOR DISCUSSION under Session I at its forthcoming meeting to be held on 28-29 September 2023 to be held in Quito, Ecuador.

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## *Session I – Competition and Poverty*

### *- Contribution from the RECAC\* –*

1. **The Central American Network of National Authorities in Charge of Competition Issues (RECAC)** was established in March 2012 on the foundation of the Working Group on Competition Policy in Central American Economic Integration, as the permanent mechanism for coordination among national authorities responsible for competition matters, in order to collaborate on the issues that concern them and streamline communication.
2. The purpose of RECAC is the collaborative effort of national authorities responsible for competition issues, aimed at creating mechanisms that strengthen the defense and protection of competition in Central American markets. It involves fostering relationships between the national authorities responsible for competition matters in the Central American region through cooperation and mutual assistance, in order to effectively safeguard competition in the markets of the region.
3. Participating as full members in RECAC are the Competition Promotion Commission of Costa Rica (COPROCOM); the Superintendence of Competition of El Salvador (SC); the Commission for the Defense and Promotion of Competition of Honduras (CDPC); the National Institute for the Promotion of Competition of Nicaragua; the Consumer Protection and Competition Defense Authority of Panama (ACODECO); the National Commission for Defense of Competition of the Dominican Republic (PROCOMPETENCIA). As observer members: the Telecommunications Superintendence of Costa Rica (SUTEL) and the Competition Promotion Directorate of the Ministry of Economy of Guatemala.
4. According to figures from the Central American Integration System (SICA)<sup>1</sup>, the region (which includes Costa Rica, Guatemala, El Salvador, Honduras, Nicaragua, Panama, and the Dominican Republic) had an approximate population of 61 million people by the year 2021. Out of this population, 22.7 million people live below the poverty line, which means 37.4% of the population lives in poverty. Furthermore, 7.1 million people live in extreme poverty, representing 11.8% of the total population.
5. Only the countries that are geographically located in Continental Central America make up the sixth-largest economy in Latin America and the Caribbean<sup>2</sup>. Thus, the Gross Domestic Product (GDP) of the region for the year 2020, according to figures from SICA<sup>3</sup>, was approximately \$334.0 billion, with an average growth rate for the last 10 years of

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\* Contribution from the Central American Network of National Authorities in Charge of Competition Issues (RECAC).

<sup>1</sup> Secretariat for Central American Economic Integration (SIECA) "The Central American Region and the Dominican Republic in Figures, May 2021."

<sup>2</sup> Secretariat for Central American Economic Integration (SIECA), "Current State of Central American Economic Integration, third edition 2022," available at [https://estadisticas.sieca.int/documentos/ver/2022126122539454\\_Current%20State%20of%20Integration%202022.pdf](https://estadisticas.sieca.int/documentos/ver/2022126122539454_Current%20State%20of%20Integration%202022.pdf)

<sup>3</sup> Idem

around 3.5%. This growth rate is lower than the average growth of developing countries, except for Panama, the Dominican Republic, and Costa Rica, which experienced higher-than-average economic growth rates among developing countries. According to the Food and Agriculture Organization (FAO) of the United Nations, the population's food consumption in the region for the year 2020 consisted of approximately 46% basic foods, including cereals (rice, corn, wheat, and their derivatives), legumes (beans), and tubers (potatoes and cassava); 30% consisted of meat and sugar products; and 34% was composed of dairy, vegetables, and fruits. On the other hand, food represents 60% of the per capita consumption for households in the poorest quintile of the population and only 25% for the highest income quintile.

6. It is worth noting that when there is no competition in the markets, consumers are estimated to pay a 30% premium compared to what would be observed in more competitive and distortion-free markets<sup>4</sup>, this consequence is even more significant for poorer households.

7. In this context, the competition authorities of the region have prioritized a set of activities in the objectives of their annual Work Plans that favor and promote the emergence of more competitive markets, aiming to enhance economic growth and reduce poverty.

8. In particular, the Competition Defense and Promotion Commission (CDPC) of Honduras has conducted a study based on a computable general equilibrium model titled "The Impact of Competition on Economic and Social Indicators in Honduras Using Economic Tools." One of the main findings of the study suggests that when distortions in the competitive process are reduced or eliminated, it can lead to impacts on economic growth of around two percentage points of GDP and a reduction in poverty by over five points, primarily in markets such as agriculture, agribusiness, fuels, transportation, and trade.

9. In the case of the Dominican Republic, the effect of competition on prices can be highlighted in the "Progresando con Solidaridad" program, which provides conditional cash transfers to poor families for purchasing food. Based on experimental research, it was evident that the entry of new companies into markets that were part of the program resulted in a price reduction of two to six percent and an improvement in service quality after six months.

10. Competition authorities within the RECAC have prioritized, among their strategic actions, the fight against anti-competitive practices in their respective jurisdictions and the promotion of competition. These actions are particularly relevant in markets that impact the consumption of the poorest households in the region. To achieve this, competition authorities have also designed monitoring and market tracking mechanisms that proactively alert to issues related to anti-competitive practices or behaviors, tailored to their specific jurisdictions.

11. For example, in the Dominican Republic, the Market Competition Conditions Observatory was established. It monitors market competition conditions based on general economic behavior criteria, as well as the characteristics and dynamics of goods, services, and inputs markets. This allows for the identification of risks that might foster anti-competitive behavior. Similarly, this tool is being developed in El Salvador.

12. Additionally, within the framework of RECAC, collaboration mechanisms have been designed to promote regional competition. This is achieved through the sharing of actions and experiences among countries, enabling the exchange of knowledge, technical assistance, and joint training activities, in accordance with each country's legislation. These

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<sup>4</sup> Anderson, Robert D. and Müller, Anna Caroline, "Competition Policy and Poverty Reduction: a Holistic Approach," February 20, 2012.

efforts enhance the technical capacities of the members of this Network. Furthermore, in pursuit of regional competition that creates a more favorable economic environment, a series of regional market studies have been conducted. These studies include pro-competitive recommendations for policymakers who aim to enhance market efficiency.

13. It is important to note that the effects of the defense and advocacy efforts for competition by the competition authorities in the region, in favor of goods and services markets, fulfill common citizen needs. These efforts have particularly positive impacts on consumers with lower incomes. For instance, anti-competitive practices like cartels result in significant harm, especially to individuals with lower incomes, particularly when essential goods are involved.

14. To illustrate, in accordance with their national legislation, enforcement in the region has encompassed the investigation of unfair competition practices in the Dominican Republic<sup>5</sup>, as well as the imposition of sanctions on a cartel in self-managed construction processes initiated by a municipality<sup>6</sup>. However, competition authorities in the region also promote competition in public procurement through competition advocacy, indirectly contributing to poverty alleviation by enabling more efficient use of public spending through competitive bidding facilitated by objective technical specifications. These specifications include descriptions of functional performance and unbiased evaluation criteria that are technically linked to the actual need. For instance, the CDPC has a Guide of Pro-competitive Guidelines in Public Procurement<sup>7</sup>, a common type of publication among the authorities in this region.

15. Similarly, exercising the powers granted by their legal frameworks, these authorities generate other acts of public policy that provide relevant inputs for pro-competitive decision-making. These include: a) studies that diagnose competitive conditions in sectors crucial for the country's productivity; for example, COPROCOM published a study and a competition-focused public policy opinion on professional services in Costa Rica<sup>8</sup>; b) training in Competition Law for various target audiences, such as the ones provided by PROCOMPETENCIA to sugar mills in Nicaragua<sup>9</sup>; and c) Public Policy recommendations, such as the one issued by ACODECO to enhance competition conditions in public procurement of medicines<sup>10</sup>, or the analysis conducted by SUTEL in its role as a sectoral competition authority, which concluded that an exception in the Administrative Contracting Law limits fair competition and favors state telecommunications operators over other companies<sup>11</sup>. Additionally, competition is safeguarded through effective analysis of mergers in line with national legal frameworks, even in regulated sectors.

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<sup>5</sup> <https://procompetencia.gob.do/resoluciones/consejo-directivo/>

<sup>6</sup> <https://www.sc.gob.sv/index.php/project/investigacion-de-oficio-sobre-procesos-libre-gestion-relacionados-con-construccion-sc-037-o-pi-nr-2021/>

<sup>7</sup> <https://www.cdpc.hn/sites/default/files/Privado/Promocion/Gu%C3%ADa%20Lineamientos%20pro%20competitivos%20en%20las%20Licitaciones%20P%C3%BAblicas.pdf>

<sup>8</sup> [https://www.coprocom.go.cr/publicaciones/estudios\\_mercado/Inf\\_ColegiosProf240222.pdf](https://www.coprocom.go.cr/publicaciones/estudios_mercado/Inf_ColegiosProf240222.pdf)

<sup>9</sup> <https://procompetencia.gob.ni/sector-azucarero-comprometido-con-la-competencia/>

<sup>10</sup> [https://acodeco.gob.pa/inicio/wpcontent/uploads/2021/11/AC\\_LicitacionPublica\\_CSS\\_FijacionPreciosUnitarios\\_AlmacenamientoTransporteMedicamento\\_2021.06.14\\_2021.08.14\\_52\\_a.m.pdf](https://acodeco.gob.pa/inicio/wpcontent/uploads/2021/11/AC_LicitacionPublica_CSS_FijacionPreciosUnitarios_AlmacenamientoTransporteMedicamento_2021.06.14_2021.08.14_52_a.m.pdf)

<sup>11</sup> <https://www.sutel.go.cr/noticias/comunicados-de-prensa/mecanismo-de-contratacion-publica-distorsiona-competencia-en>

16. Under RECAC, efforts have been combined for the development of competition condition studies that have allowed for a better understanding of the analyzed sectors from a regional perspective. The national-level outcome provided a comprehensive understanding of sector operations, along with an increased awareness regarding the functions and capacities to be strengthened in terms of competition and economic regulation. At the regional level, it facilitated enhanced knowledge exchange among the countries concerning the development of competition and regulation policies in sectors from a common Central American perspective. Likewise, it yielded greater insights into long-term public policies that would favor competition, growth, and standardization in the fertilizer, pharmaceutical, and air transportation sectors in Central America and Panama – all of which are strategically important for economic growth contributing to poverty alleviation.

17. Through the aforementioned examples, the national authorities responsible for competition matters within RECAC contribute to addressing the challenges posed by the current economic reality in markets directly and indirectly relevant to these segments. These markets are characterized by complexity, volatility, and susceptibility to distortions. This is done with the strong conviction that healthy competition and more competitive markets will foster sustained economic growth. Moreover, this approach will lead to greater market choices, which will, in turn, facilitate a better allocation of consumer resources, thus positively impacting the sustainable improvement of purchasing conditions in households facing poverty.