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Global Forum on Competition

COMPETITION POLICY AND THE INFORMAL ECONOMY

Contribution from Egypt

-- Session II --

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--Egypt--

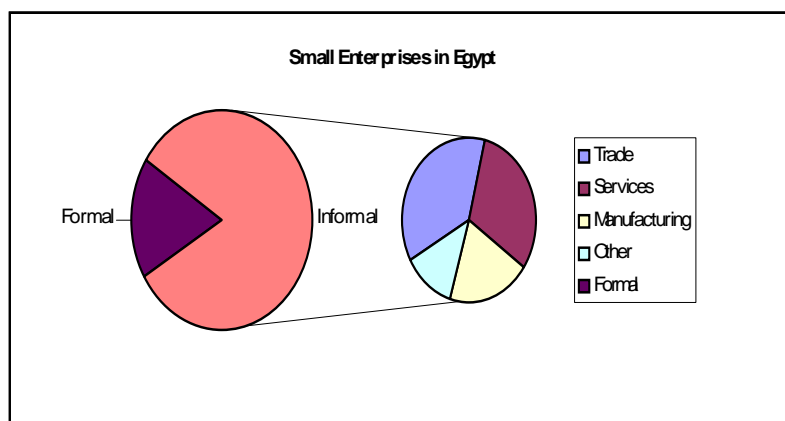
The Egyptian Competition Authority (ECA)

1. Overview

For the sake of this report, informal sector in Egypt is defined as enterprises that lack any of the following three conditions: license, registration and regular bookkeeping.

The main characteristics of the informal sector in Egypt are [1]:

- The ratio of informal enterprises to total small private sector enterprises in Egypt is 82%. This percentage is the same as 1988!
- Respectively, Trade and Services account for 38.32% and 30.74% (total 69.06%) of the economic activities in the informal sector. Manufacturing, by contrast, accounts only for 19.04%.
- Compared to formal enterprises, informal enterprises are poorer in terms of capital, employ fewer workers, and have very limited access to formal finance.



2. Causes and Concerns on Competition

- *Government Regulations:* Egypt applies cumbersome business entry procedures; the World Bank [1] ranks Egypt as 114 (out of 181 economies). The lengthy and taxing steps of setting/running a business provide potential opportunities of corruption, hinder investment, and push small entrepreneurs into the informal economy. The effect on competition cases is the absence of potentially important data when identifying market structure or determining market power of companies. For example, the ECA is currently conducting a study on the edible oil sector in Egypt, where we estimate that the informal sector accounts for about 11% of the market, but we have no tangible access to the specific data of that sector. However, we do know for sure that practices in this sector are largely illegal and result in the production of inedible/carcinogenic types of oil. Thus, there is also a concern on the effects of informal sector on consumers' health.
- *Lack of entrepreneurship support:* Existing government's credit programs for small business seem ineffective. The main sources of finance remain predominantly through personal/spouse's savings (50%) and Inheritance (27.4%). Also these programs stop short from adequate training on business expansion, setting business plans, and prediction of market growth. The effect on competition is a stagnant informal sector, as indicated above. In other words, lost opportunities of new entrants that can compete more efficiently, improve products' quality or lower prices.
- *Cultural and Economic Factors:* Based on [4], Egyptians prefer to act as members of a life-long group or organisation, favour rules and structured circumstances, and accept/respect

paternalistic/autocratic relationships to others based on where they are situated in formal and hierarchical positions. Also unemployment rate is about 9%, but it is highest among high educated sections (20%) than among illiterate or below intermediate (1%) [2]. This negative rate-of-return on education indicates migration of educated entrepreneurs to informal sector. Taking cultural consideration into account, these entrepreneurs would rather minimise future risks of their business by lowering their cost structures and avoiding registration with formal societal institutions. Also, they would keep their business small, funded by family and relatives and serving their local communities. The consequence on competition is, again, lost opportunities of growth which in turn could stimulate the market dynamics with new competitive entrants. Finally, the cultural dimension of “appreciating hierarchical relationship” poses a problem in acquiring qualitative data. In researching the Oil Sector in Egypt, we encountered claims of informal sector that buys frying oil from factories to later pack it and resell it for small restaurants or household consumption. Since the ECA is associated with the government it was quite difficult to verify these data from restaurant owners; the image and affiliation of the ECA was just too intimidating. To circumvent this obstacle, our investigators resorted to informal discussions with friends and those conversant with the subject. The “group” dimension of Egyptian culture, together with informal atmosphere, has paid off and the ECA could eventually acquire the needed information.

3. Methodologies and Recommendations

For qualitative data that cannot be reached through formal means, the ECA would consider alternative means of informal interviews and [seemingly] casual focus groups with relative stakeholders. For quantitative data, and economic analysis, the ECA usually adopts the information gathered from the formal sector as representative for the whole market. The justification here is that, as indicated by the discussion above, the informal sector in Egypt is fragmented, stagnant, and inefficient. Thus it poses no tangible threats on existing market powers or potential formal entrants. If anything, the informal sector represents a wasted opportunity for strengthening the competition in the Egyptian market.

In order to attract the informal sector into the mainstream business community, the ECA envisage a stronger role for the media, namely public education campaigns. The effect of such campaigns has already been felt in the Egyptian monetary sector. In 2005, Egypt has launched a nation-wide media campaign to increase public awareness of societal benefits of tax, change the attitude of tax evading persons towards the Egyptian Tax Authority. As a result, two million Egyptians filed taxes in 2005, doubling the corresponding number in 2004. Also, the tax revenue of 2006 has increased to 9% of the country’s GDP, compared to 7% in 2005. Thus, much like individuals evading taxes, we believe that cost-minimising informal sector can be swayed to join civic institutions if provided with the proper awareness and long-term benefits of such an action, e.g. access to capital, sources of finance, and power to enforce contracts.

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ANNEX

DIFFICULTIES FACING THE EGYPTIAN COMPETITION AUTHORITY WHEN DEALING WITH THE INFORMAL SECTOR (MILK CASE)

- Lack of data/information about informal sector traders, producers and manufacturers, their relationship nature, cost structures, amounts of production, assets, distribution channels, and other needed information in order to conduct a milk market study.
- Difficulties in understanding the informal sector behaviour as the sector's knowledge about the market isn't at the same level of the registered formal farms, in terms of market structure, legal frame work, prices of inputs, necessary administrative facilities needed as well as essential hygienic requirements.
- The informal sector does not have the culture of cooperation due to the lack of trust in the government bodies. Some of the formal sector farms or companies do not have this cooperation spirit, regarding the informal sector; the situation is even worse.
- Difficulties of sector analysis, around 80% of the drinking milk market is informal. This figure is based on estimates of the formal sector and needs further assurance.
- The perception of the unfairness of the competition law, having the formal sector claiming unfairness "are you enforcing your power against us and leaving the informal sector deregulated?" They consider this as an unfair environment.

The benefits of turning informal sector into formal:

- being under veterinary supervision will result in good quality of feeding, therefore good quality of output (milk);
- having records about the number of firms, animals, will result in reliable figures and analysis;
- increase in supply of healthy milk and dairy products;
- increase in the supply of milk will increase the competition among the market players to the benefit of end consumers.

Some advantages of the informal sector:

- there are no entry/exit barriers to the market at any period of time; given a low cost of entry (one cow is sufficient), resulting a less concentrated market (millions of producers and thousands of manufacturers);
- create numerous jobs;
- low overhead expenses and transportation costs, i.e. they distribute their products in the surrounding neighbourhood. This enables most of the informal producers to distribute their products to a big number of customers at the lowest possible cost;
- lower prices of products that a large number of the Egyptian society favours over quality.