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COMPETITION POLICY AND THE INFORMAL ECONOMY

Contribution from Gabon

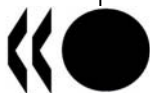
-- Session II --

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COMPETITION POLICY AND THE INFORMAL ECONOMY

--Gabon--

1. Definition

1. From a purely economic standpoint, the informal economy can be defined as all economic activities not subject to regulation and open to competition. These markets fall outside the scope of economic and social rules, as well as State intervention, and go untaxed.

2. The informal economy takes many forms, but the absence of “entry barriers” remains one of its leading features.

3. Administrative formalities and a heavy fiscal burden are the factors behind the expansion of the informal sector, which has developed to such an extent that it now competes with the formal sector.

2. Importance of the informal economy in the Gabonese economy as a whole

4. The informal economy is playing an increasingly major role and contributes substantially to the livelihood of a good share of the population in Gabon. This informal fabric of the economy covers a whole range of activities run by small craftspeople/traders, from Gabon and elsewhere in western and central African, offering goods and services at “reasonable” prices, to suit the obviously limited resources of their clientele.

5. The informal economy therefore comprises productive activities, family micro-businesses and individual initiatives.

6. The informal economy is largely dominated by commercial activities where the main players are economically independent.

7. In terms of competition, many small individual or family firms have emerged with the growth of the urban population, as opportunities arise.

8. At the same time, this expansion in the underground economy has awakened a singular taste for fraud among some of its shadier characters, particularly importers who fail to provide full invoices for the containerloads of goods they bring into the country without paying customs duties. This fraud is said to be highly detrimental to the inland revenue, but also to local producers because it gives rise to far more unfair competition than informal trade/crafts could ever do.

3. Competition in the informal sector

9. The opening up of the market and the entire economy to free competition has led to many informal economic activities, and the introduction of illegal business practices. The informal sector encompasses virtually every field of activity relating to commodities. Besides trade (wholesale and retail), the activities hardest hit by the scourge of the informal economy are “fruit and vegetables, apparel, services, crafts, passenger/freight transport and production, in particular forestry”. The most common illegal practices in the informal sector includes “uninvoiced sales”, “false invoices” and “hiring out business licences”, as well as “fronting” which is common in the pharmacy sector.

4. Application of competition law to the informal economy

10. Faced with the surge in the informal sector now affecting the Gabonese economy, the government is having to come up with answers to a host of questions that remain of great concern to experts in structural adjustment planning. A central issues here is whether or not to adopt a laissez-faire attitude, to what, and to what extent.

11. Some pundits view the emergence of the informal sector as a healthy reaction by the “market” to the interventionism prevalent in African states.

12. They also see it as a real breeding-ground for small entrepreneurs who, thanks to the support they receive and to their competitive prices, will eventually make their way into the global economy.

13. The informal sector is therefore perceived to be a vehicle for economic development, and efforts should be made to ensure that its businesses become more “formal”.

14. In short, the informal economy can be viewed as a necessary evil in developing countries like Gabon, provided there is an economic and institutional environment favourable to that sector so that it will increase its contribution to employment, production, human resource development and the social integration of those it employs.

- **Strategy No. 1**

Adapt the legal and institutional framework to boost spontaneous development and promote free competition, as well as access to physical, financial, technical and educational resources on terms that are as beneficial to informal micro-businesses as they are to modern firms.

- **Strategy No. 2**

Rigorously monitor the informal sector, which involves scheduling one-off inspections in sectors which are detrimental to both the formal sector and consumer health and which, by their very nature, distort free competition.

- **Strategy No. 3**

Support for self-organisation, i.e. the gradual “incorporation” of the informal into the formal sector; this involves training for entrepreneurs in management techniques, competition and the market economy and is aimed at promoting access to the funding required to help enhance techniques and raise productivity.