

Unclassified

DAF/COMP/GF/WD(2008)50

Organisation de Coopération et de Développement Économiques  
Organisation for Economic Co-operation and Development

04-Dec-2008

English - Or. English

DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE

## Global Forum on Competition

### COMPETITION POLICY AND THE INFORMAL ECONOMY

#### Contribution from Mongolia

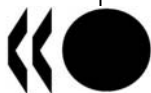
-- Session II --

*This contribution is submitted by Mongolia under session II of the Global Forum on Competition to be held on 19 and 20 February 2009.*

Contact: H el ene CHADZYNSKA, Project Manager of the Global Forum on Competition  
Tel: 33 1 45 24 91 05; email: [helene.chadzynska@oecd.org](mailto:helene.chadzynska@oecd.org)

JT03256949

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format



DAF/COMP/GF/WD(2008)50  
Unclassified

English - Or. English

## INFORMAL ECONOMY EFFECT ON COMPETITION IN MONGOLIA

### --Mongolia--

1. There are statistical evidences showing an increasing role of informal economy since 1990 where Mongolia transferred from centralised economy to market economy. For instance, during middle of 1990-s informal economy comprised less than 5% of GDP whereas according to the statistical data 2004, it reached 11,3%. However, some informal reports confirm that it was more than 11,3% and might have reached even 40%.

2. Therefore, we would like to briefly discuss meat market as meat is mostly supplied by informal sector to the market.

#### **Meat market:**

3. Our country consumes about 250 tons of meat yearly, 12,7% of which is prepared and supplied by formal sector, i.e. enterprises, and the rest (87,3%) is by informal sector which means hand prepared. In other words, meat market is a unique market that is basically occupied by the informal sector.

4. Product market of the product is not limited by one another, as they can replace each other (cow, horse, goat, sheep, and camel meat) and therefore can make up a common market. In the market research, geographical market of them defined to be Ulaanbaatar as a whole one market.

5. Hand preparing process belongs to informal sector for it includes mainly not registered, part time workers who don't pay tax, social insurance, and middle men or 'profit reseller'.

6. Meat preparing process for the meat to consume by Ulaanbaatar contains following stages:

	<b>Hand prepared/Informal sector</b>	<b>Prepared by industrial method (manufactured)/ formal sector</b>
<b>Stage 1</b>	Negotiate with local herdsman /in countryside/ on price and buy livestocks from him/her	Negotiate with local herdsman /in countryside/ on price and buy livestocks from him/her
<b>Stage 2</b>	Supply to and butcher in stocks from central and western provinces the wholesale market at west edge of Ulaanbaatar, and stocks from eastern province to 'Nalaih' wholesale centre at the west edge of the city.	Prepare/ butcher stocks, and supply to relevant shops.
<b>Stage 3</b>	- Between 9 and 10 middle men at wholesale markets such as Nalaih, Huchit shonhor and Emeelt resell their products they bought early in the morning, to slaespersons of Huchit shonhor or salespersons of other city markets and retail shops. - or they personally transport them to retail shops.	
<b>Stage 4</b>	- Salespersons from retail food shops purchase meat graded/ sorted and prepared in Huchit shonhor - Middle men personally transport the meat to shops and sell it.	

7. In the first stage, herdsmen prefer to sell their stocks to middle men /informal sector/ as to manufacturer for number of reasons such as many kinds of documents they asked to provide.

8. Cost per 1 kilogram meat shown in the table. /As an example, average price for sheep and beef is displayed/: /as of 1.12.2008 1USD=1165₴/

	Hand prepared		Manufactured	
	Sheep	Beef	Sheep	Beef
<b>Stage 1</b>	3000	3500	3300	3750
<b>Stage 2</b>	3150	3800	-	-
<b>Stage 3</b>	3650	4300	-	-
<b>Stage 4</b>	3770	4500	4200	5000

9. Based on the data above, we can see that manufactured meat cost more than hand prepared meat. Although in terms of quality and hygiene, manufactured meat is far better, customers tend to buy more from hand prepared meat.

10. Moreover, the fact that they can hand prepare meat and supply them on less price than otherwise is a leverage in competition to others and encourages therefore to run a 'unregistered' business.

11. For reasons above mentioned, tax, social insurance structure and standardisation requirements individuals tend to run an informal business. Thus, manufacturing method is not still prominent. By providing services and products that meet consumer immediate need Middle men and Profit reseller /business men in informal sector/ make their living. Although that is a source for living for many people, government is putting more importance in transforming informal into formal sector.