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## Global Forum on Competition

### COMPETITION AND POVERTY REDUCTION

#### Contribution from Senegal

-- Session I --

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## COMPETITION AND POVERTY REDUCTION

-- Senegal \*--

1. Poverty is most commonly defined as the situation of an individual who does not have the resources deemed sufficient to be able to live decently in society and its context. Poverty entails a lack of material assets with regard to food, access to drinking water and health care, clothing, housing and overall living conditions. It also implies a lack of intangible assets such as access to education, engaging in meaningful employment, respect from fellow citizens and personal fulfilment.

2. In 1990, the World Bank set the absolute poverty line at USD 1 per person per day. Since 1997, the United Nations Development Programme (UNDP) has measured poverty using a composite index that is variable, depending on whether it refers to developing countries or industrialised nations. For example, in developing countries, the index takes into account life expectancy, the adult illiteracy rate, the number of people without access to health care and drinking water, and the child malnutrition rate.

3. In Senegal, monetary and non-monetary criteria have been aligned in the definition of poverty.

4. The proportion of the population living below the poverty line fell from 67.9% in 1996-1999 to 57.1% in 2001-2002.

5. The stratified poverty line stands at XOF 1 053 (West African CFA francs) in the Dakar conurbation, XOF 798 in other urban centres and XOF 598 in rural areas. Between 2001/2002 and 2010/2011 this line rose by 19.8%, 11.9% and 20.1% respectively. This increase factors in the level of inflation measured by the harmonised (composite) index of consumer prices. Price increases are due to world commodity prices (imported inflation), current domestic economic policy (particularly fiscal and monetary policy) and competition policy or policy with regard to the prices of goods and services. At the same time, the country-wide poverty incidence has fallen slightly, from 55.2% in 2001/2002 to 46.7% although there has been an increase in the number of poor Senegalese over the past five years.

6. The poverty indicator used is a consumption aggregate that includes expenditure on food, non-food items and own consumption.

7. The market basket measure comprises 26 of the most commonly consumed items that make up 80% of households' total expenditure. Each item is shown in the basket in proportion to its share of total expenditure, in quantities such that the basket provides a total of 2 400 calories (2400 Kcal) per day per adult equivalent.

8. From a subjective point of view, poverty is perceived as the "lack of assets, knowledge and power". People questioned during the 2001-2002 household survey gave the following definition of absolute poverty: "persons are poor if they have nothing, cannot satisfy their basic social needs, and have no opportunities." This is a translation from the vernacular Wolof which describes a person living in

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\* Contribution submitted by the Chairman of Senegal's Competition Authority (*Commission de la concurrence*).

poverty as, “someone who is alive but lacks everything”. A similar idea is found in another native language, Rutebeuf, with the proverb, “I cannot count all I own since I have nothing”.

9. But what are the causes of poverty? There are many (war, natural disasters, physical disability, unemployment, etc.). In Senegal, the main factors are:

- the large size of households, which affects the level of consumption. A Brazilian proverb seems particularly apposite in this respect: “The poor man’s table is bare, but his bed is fertile”;
- low incomes, particularly among heads of households with low education levels (see UNDP index);
- the high level of under-employment.

10. Also, poverty-generating sociocultural mechanisms are active in both the rural and urban sectors. These include extrovert consumption patterns that are inconsistent with household incomes, ostentatious behaviour such as extravagant family ceremonies and the many family and religious festivals, the traditionally rigid hierarchical structuring of institutions that hampers equal opportunities, including for women (while poverty tends to affect women more than men, the poverty incidence is lower in households run by women), social tolerance of begging that generates a hand-out culture, structural adjustments, etc.

11. It is one thing to define poverty and establish its causes; it is another to find ways of eliminating or alleviating it.

12. In Senegal, as in all Heavily Indebted Poor Countries (HIPC)s, the fight against poverty is the framework for government policy. This is most comprehensively expressed in the Poverty Reduction Strategy Paper (PRSP) prepared in 2003-2005 and updated in 2011, and which has become the current National Strategy for Economic and Social Development (SNDES).

13. However, there is still a significant proportion of the population living in poverty today, particularly in rural areas. But to attain the Millennium Development Goals (MDGs), especially the alleviation of poverty – or at least to work towards it – public policies need to be combined and coherent with competition policy at the core. Admittedly, since poverty has many causes, competition policy and its related instruments of competition law and greater awareness to build a truly competitive culture cannot reduce poverty on their own. Nonetheless, they can help alleviate it. This statement is not just the result of a theoretical approach to competition (1.1) but is based on observations which, although grounded on evidence from our societies where competition policy is still in its infancy, show that the absence of competition tends to aggravate poverty (2.1). They also indicate that competition can open up opportunities for the poorest members of the population (2.2). The following discussion will consider all these issues while keeping in mind the legitimate reservations as to competition’s effect in the fight against poverty (1.2). The conclusions will then set out the need for an effective competition policy as part of the approach to combating poverty (3).

## **1. The effect of competition in combating poverty**

14. From a theoretical standpoint, competition is a mechanism that helps alleviate poverty (1.1). However, in the view of some, this positive effect is not always borne out in reality (1.2).

### **1.1 *The positive effect of competition in combating poverty***

15. Competition, as taught by economic theory, enables consumers to buy goods and services at a low cost which can then remunerate enterprises for their factors of production without detracting from their goal of profitability. Indeed, in a perfectly competitive market, prices are set at the marginal cost level and there are no excess profits. In this case, competition is an effective weapon in the fight against poverty because it enables economic operators to access resources at the optimum price. Furthermore, each enterprise in a competitive market strives to minimise its costs. Competition fosters technical progress, innovation and efficiency and works to prevent resources being wasted.

16. However, pure and perfect competition, as a general term, is not feasible in the real world. The underlying premises can never be fully verified. Nevertheless, this model does serve as a framework for analysing markets, particularly monopolistic competition and oligopoly markets which often take the form of mergers or concentrations which put the interests of producers ahead of those of consumers. It is precisely such circumstances that justify the use of competition law to protect consumers' interests but those of producers as well.

17. While competition law and arguments in favour of competition are mechanisms for promoting a competition-friendly environment by fostering an atomised market, *i.e.* removing market-entry barriers to encourage the creation of companies, and setting a fair price which covers production costs to the detriment of no economic stakeholder (consumers or producers), and by discouraging speculation, then they can contribute to alleviating poverty by creating jobs and boosting purchasing power through lower prices.

18. Competition is a weapon against price speculation. It must also be kept in mind that pricing policy is dictated by the environment (competitive market or not) as well as the price of the factors of production and the scarcity of resources. The scarcity of some of those factors, such as oil, is frequently reflected in the volatility of certain product prices. When scarce resources make supply less than demand, the ensuing price increases stem not from any breach of the rules of competition, but from higher production costs. Against this background, competition spurs innovation and technical progress as more efficient production techniques can replace current processes and usher in economies of scale.

### **1.2 *Reservations as to competition's role in combating poverty***

19. Some observers claim that practical experience shows that competition achieves mixed results in terms of the expected outcomes with regard to well-being. While the theoretical model for pure competition presents a situation that unquestionably improves consumer well-being without harming producers' interests, the imperfect competition practices of real life often result in a loss of well-being and a disincentive to invest, seek technological developments or create jobs. For this school of thought, the liberal concept of the pursuit of individual freedom cannot necessarily be translated, on the assumption of competition, into prosperity for all.

20. It is even argued that a competition policy is not a pro-poor policy in the short term and that competition, considered as the implementation of competition law and policy, cannot contribute to reducing poverty. By definition, the price of a particular good (here a composite good from the income poverty line market basket), when there is a balance between supply and demand in a competitive market, is beyond the reach of poor consumers. They lack the means to buy this basic basket of goods because of insufficient income. There remains one niggling question: why then are there still poor people in developed countries despite the various public policies that have been implemented, including competition policy?

21. Notwithstanding this pessimistic view of the role of competition in alleviating poverty, it is clear that in developed and developing countries alike, the existence of an effective competition policy has made many products, goods and services (air travel, telecommunications, etc.) accessible to a great majority of the population. In our new States, particularly Senegal, two conclusions can be drawn: that a lack of competition tends to aggravate poverty; and that competition generates opportunities in certain sectors.

## **2. The aggravation of poverty from the lack of competition; and the opportunities generated by competition in certain sectors**

### ***2.1 The aggravation of poverty from the lack of competition in Senegal***

22. Competition is weak in many sectors in Senegal as a consequence of high concentration and inefficient enterprises which enjoy political or legal protection. This results in high market prices and continued unwarranted earnings for companies.

23. As already mentioned, price levels that determine access to the consumer products included in the market basket used to measure the poverty line in Senegal are important. The prices of consumer staples have risen considerably in recent years, not only as a result of the global food crisis, but also because of dysfunctions in the domestic market due to anti-competitive practices, monopolies and abuses of dominant positions.

24. By way of example, in the milling, cement and other highly concentrated sectors, price levels remain high. The State's many interventions to set the prices of flour, bread and cement are evidence of the dysfunctions that reign in these market segments. Between 2008 and 2011, direct and indirect subsidies of over USD 700 million were paid out for basic necessities such as rice, cooking oil, gas, milk, sugar, etc. These attempts by the government to set prices and subsidise essential items have not brought about the desired outcomes.

25. Also, despite the opening up of the telecommunications market, major efforts are still needed to improve service quality, ensure mobile number portability and provide access to and develop value added services by SMEs. The number of internet service providers has shrunk drastically in recent years, resulting in significant job losses.

26. Furthermore, hydrocarbon prices are uniform across the country and are always at the government-set price ceiling. This is why fuel was removed from the scope of the Public Procurement Code in 2011.

27. In the banking sector, interest rates are still high (over 12%). Private-sector investment, particularly for SMEs-SMIs, is thus affected by these rates that are applied almost universally by the banks. This also makes it more difficult for poor lenders to repay consumer loans.

28. For the distribution of goods, particularly in large-scale retailing, competitive pressure is non-existent. On top of this, the local retail trade is vital for consumers who buy essential items at high prices.

29. Public procurement, which accounted for 5% of GDP in 2009, is a major source of business opportunities for enterprises, particularly SMEs. However, collusive tendering or bid rigging, which is insufficiently investigated, inflates the budgetary appropriations of the contracting authorities and stifles efficiency in public spending.

30. Lastly, 70% of the labour force works in agriculture, in rural areas where the poverty rate is above 60%. Agricultural markets are facing difficulties as a result of competition, especially in upstream markets (for fertilisers, seeds) and downstream markets (agro-processing industries) which undermine the

combined efforts of farmers, the State and NGOs. Indeed, farmers are often forced to sell their crops at low prices to food processing firms, which further impoverishes rural communities.

## **2.2 Opportunities generated by competition in poverty reduction**

31. This section will provide several examples to illustrate that a sound competition policy can contribute to alleviating poverty by lowering prices and creating low-paying jobs as sources of earnings for people who previously had no income and were living in a state of absolute poverty:

- Prices for some farm produce are not as high in certain areas.
- The opening up of the groundnut market to foreign buyers and the ensuing competition have helped increase growers' incomes (farmers in rural areas who are the most affected by poverty). Although the State-set market price is XOF 190, growers preferred to sell their crops to foreign buyers who offered better prices, *i.e.* 5% to 10% above the official price.
- Competition on the money market can foster access to microcredit and enable the development of income-generating activities which help to alleviate poverty. It also makes it much easier to transfer money. The proliferation of money transfer companies has led to a drop in the price of remittance services. Recently, while specialised money transfer agents were offering their services at a fee of XOF 500, the Senegalese post office introduced a charge of just XOF 200 for cash transfers.
- Competition as a result of demand for certain staple items (cooking oil, sugar, powdered milk, soap powder, etc.) has led to the creation of new sole-proprietor businesses which have transformed the way these products - previously dispensed by the spoonful, glassful or in tiny plastic bags - are sold. These "micro-retail" enterprises have innovated by launching the sale of more hygienic and competitively priced packets containing 25, 50 or 100 grammes. They also sell 100-gramme packages of distilled water which are safer than buying water of dubious quality from street vendors.
- Unbridled competition among mobile telephone operators (three in Senegal) through promotions and customer benefits has led to the emergence of street vendors selling mobile top-up cards.

32. Admittedly these are low-paying jobs, but they can be a source of income that was previously non-existent and foster the birth of a true entrepreneurial spirit to encourage the emergence of more innovative and more rewarding activities which help create jobs.

## **3. Conclusion**

33. Ultimately, in light of the above, is there a link between competition and poverty reduction? Or does this question prompt another one, *i.e.* the connection between competition and development? But then, what is development?

34. This paper cannot claim to answer all these questions. Nonetheless, certain conclusions can be drawn from it.

- At first sight, competition alone does not appear sufficient to alleviate poverty since there are many different causes which do not always stem from anti-competitive practices. Competition may even be perceived as favouring the well-off first. For some observers, it brings no short-term benefits to the poor, who are not, by definition, employers.

- Also, the first instinct of our new States is not always to favour competition. When the prices of staple foods increase as a consequence of the volatility of commodity prices, governments rely on subsidies and repealing or cutting taxes. By doing so, price hikes are simply shifted to the State. And some pro-poor social policies are affected, such as those for health care, education, etc.
- In Senegal, the new government has decided to introduce, alongside basic universal health cover, the annual family protection allowance for the poorest families. And the National Union of Merchants and Industrialists (*l'Union Nationale des Commerçants et Industriels du Sénégal - Unacois*) is planning to open thousands of *Jaapo*<sup>1</sup> shops which, free from all forms of speculation, will sell essential items at the lowest prices.
- But such initiatives must not preclude the existence of any competition policy. Indeed, the absence of competition has an adverse effect on prices which may be maintained at high levels and cause the economy to stagnate to the detriment, first and foremost, of the poorest sections of the population.
- The efficient and lasting impact of competition on prices and the economy in general can only be beneficial for the poor if, through lower prices, they can afford to buy a wide range of good quality products and services.
- Thus, competition can contribute to alleviating poverty if it is considered as an engine for growth. Poverty reduction requires strong and sustained growth which creates wealth and jobs. This presupposes a sound macroeconomic framework and the proper and transparent management of resources, all underpinned by strong economic and judicial governance.
- Competition policy must play a central role in good economic governance and, where necessary, ensure coherence between the various public policies.
- This vision gives the competition authorities a major role in combating poverty by ensuring the effective and efficient application of competition law and constantly reminding all stakeholders of the benefits of competition.

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<sup>1</sup> *Jaapo*: the Wolof word *Jaapo* can be translated as “solidarity”. The *Jaapo* stores are reminiscent of the shops known as *magasins témoins* and *boutiques de référence* which implemented price controls but were not as successful as expected. Will the *Jaapo* outlets live up to expectations or are they simply a clever way of circumventing competition rules within the framework of a large business organisation? Only time will tell.