

FAIR TRADING COMMISSION

Ensuring a competitive marketplace



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Impact of the Informal Sector on Trade & Competition

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Outline

- Jamaica's Informal Sector
 - Features
- Types of Operations in Informal Sector
- Types of Activities
- Interface between Formal & Informal Sectors
 - Supply & Distribution
- Integration into Authorities' Control
 - Policies/reforms to reduce informality
- Regulating Trade & Competition
- Conducting Investigations & Market Studies
 - Critical considerations

Jamaica's Informal Sector

Informal Economy:

economic activities in the production and trade of goods and services that are unregistered or which are conducted by unregistered entities, and which operate outside of government regulation and taxation systems.

Considered the norm in Jamaica

Reasons:

- ✓ High cost of doing business as a formal establishment
- ✓ Tax avoidance
- ✓ High costs of the bureaucracy

Jamaica's Informal Sector

Features include:

- the use of cash or bartering or swapping goods or services.
- receiving payment that is not traceable, and income is not reported because of tax implications.
- labour laws, health conditions, safety standards, and location of activities according to zoning laws are all largely ignored.
- Self-financed and/or under-financed. Experience difficulties accessing credit.

JAMAICA'S INFORMAL SECTOR

Features give them a competitive advantage

- paying lower wages
- non-compliance with tax requirements including avoidance of customs duties and statutory payments
- non-compliance with established regulations and standards

Types of Operations/Firms in Informal Sector

- Concentrated in low-productivity, labour-intensive activities – 60% engage in wholesale/retail trade
- Do not have a bank account - total financial self-sufficiency or go through other informal financial institutions
- No business plan - Do not have skills to produce business plan, and unable to pay someone
- High start-up cost - entrepreneurs delay registering and formalizing their operations
- Deliberately remain invisible to escape meeting tax and regulatory requirements
- Less likely to secure large contracts or overseas contracts

Types of Activities

- MSMEs & medium and large enterprises that operate in several markets and sub-markets.
- Street vendors or itinerant traders selling from vehicles, hand pushed carts or stalls.
- Domestic helpers and cleaners.
- Production and distribution of music.
- Art and craft primarily for tourists e.g. figurines
- Tailoring, dressmaking, barbering, hairdressers, cosmetologists.

Types of Activities

- Production and selling of food products, eg. ground provisions, vegetables and poultry, etc.
- Agro-processing, eg. jams, jellies, sweets, etc.
- Technical agricultural services, eg farm preparation, artificial insemination of animals.
- Technical construction services such as land preparation, masonry, carpentry, electrical, roofing.
- Unregistered taxis compete with registered taxis and bus operators.

Interface Between Formal & Informal Sectors

Formal Firms supply Informal Firms

- Street vendors purchase final goods or intermediate products from wholesalers & supermarkets for re-sale
- Manufacturers and distributors supply goods to MSMEs and corner shops in inner cities
- Supermarkets provide vendors with expired or soon to be expired goods to sell on the streets
- Formal firms therefore compete with Informal firms at their level, and gain advantages over their rivals in the formal sector
- Formal firms sell into markets which they otherwise would not.

Interface Between Formal & Informal Sectors

Informal Firms supply Formal Firms

- Large formal firms purchase furniture, craft, food products primarily in agricultural sector
- Large formal firms draw consumers away from the informal sector by offering better terms of payment:
 - hire purchase arrangements with guarantees
 - manageable monthly payment for lower income groups
- Employees in formal firms provide services in informal sector
- In several markets the formal firms are facing more and more competition from informal ones

Integration into Control of Authorities

- Informality comes at a cost to competition and economic development
- Government policy efforts to simplify entry into markets can and do make a difference.
- Governments should and do recognize:
 - contribution to economic stability of informal sectors;
 - need to facilitate the informal economy;
 - social benefits that comes;
 - capturing and harnessing the gains/benefits which arise from it;
 - improving the relationship and interaction between formal and informal sectors.

Integration into Control of Authorities

Policies/reforms to reduce informality:

- Education, Information Dissemination and Hand-holding
- Registration
- Similar tax incentives/exemptions/subsidies for all size enterprises
- Training
- Specialised Services to all size enterprises
- Formalizing productive activities
- Simplified Taxation system & Stronger Tax collections
- Collaboration between Government Agencies
- Collaboration with Financial Institutions
- Employment Protection Legislation

Regulating Trade & Competition

- Informal sector is an important part of the economy
 - has always been active and will always be present
- Recognize it at all times and keep track of it
 - conduct surveys and questionnaires
 - collect data: Customs Department, Companies Office, financial information of 'formal' companies
- Fair Competition Act (FCA): all businesses, regardless of size, are under the jurisdiction of the Fair Trading Commission (FTC)

Investigations & Market Studies

- Problems in identifying market players and in defining relevant markets
 - grey areas in terms of market segmentation and obtaining relevant data
- Acknowledge that markets are segmented: by income level, by geographical region, by socio economic background
- Ongoing advocacy with other MDAs
 - encourage conformation with government regulations and reporting requirements

Investigations & Market Studies

- Illegal or informal status of firms is considered
 - determine cost price by including the cost of paying all relevant government obligations
 - may result in selling price being below cost
- direct competition between informal & small ‘formal’ firms
- ‘formal’ firms become ‘informal’ by not registering and paying taxes or give up their premises to cut cost and to compete.
- ‘formal’ firms can be affected significantly as they are at a competitive disadvantage by similar ‘informal’ firms
- persons/firms in several markets begin operating informally and remain informal
 - challenges by the FTC & other MDAs in identifying players, the true size of these markets and in effect the real contribution to consumer welfare and to the economy.

Agriculture *vis* Public Policy

- Government Subsidies on key inputs
- Make key inputs readily available
- Facilitate bulk purchasing of inputs & distribution through Farmers Markets
- Financing arrangements
- Tax structure
- Above are available to all players
- Mechanism that allows informal players to filter output into formal sector
- Trade discussions & negotiations should consider the needs of informal sector

Conclusions

- *Informal sector generates significant income & employment*
- *Cover a wide range of economic activity*
- *Features give them a competitive advantage*
- *Formal & Informal Sectors interface with each other*
- *Government must acknowledge & recognize & plan for them*
- *10 policies/reforms to reduce informality*
- *Challenges in conducting investigations & market studies*
- *Ongoing advocacy with other MDAs*