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**LATIN AMERICAN AND CARIBBEAN COMPETITION FORUM - Session I:
Informal Economy in Latin America and the Caribbean: Implications for
Competition Policy**

- Contribution from CARICOM -

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Session I: Informal Economy in Latin America and the Caribbean: Implications for Competition Policy

- Contribution from CARICOM¹ -

1. Introduction

1. There is no universal definition for the “informal” economy. The term means different things to different people and can refer either to the labour market (i.e. informal employment), in particular, or business activity in general. For this contribution to the Latin America and Caribbean Competition Forum (LACCF), the CARICOM Competition Network (CCN) defines informality based on the observed conduct of the businesses operating within this framework. This business conduct includes: not paying corporate taxes or required import duties on products; not adhering to government regulations; hiding actual employment information; circumventing product quality and safety standards; and infringing intellectual property rights. Furthermore, these enterprises may or may not be registered with a government ministry.² The definition provided, however, excludes hardcore illegal activity such as trade in drugs, weapons or human trafficking, which some may also consider being part of the informal economy.

2. In seeking to understand how the informal economy works in CARICOM³, several studies have sought to measure the size of informality in the member countries (see for example Mootoo et al. 2002; Faal, 2003; Greenidge et al. 2005; Mapp and Moore, 2015; and Peters, 2017). Relying on macroeconomic data and econometric models, these studies have found that the size of the informal economy in each island is significant.

3. Mapp and Moore (2015) is a good example of a comprehensive study on informality in the region. The researchers investigated informality in 12 CARICOM member countries over the period 1991-2011 and found that in most of the islands, the average annual size of the informal economy exceeded 30% of Gross Domestic Product (GDP). Except for Grenada, informality in all the countries trended upwards relative to measured GDP over the analysed period (**see Appendix 1**). Trinidad and Tobago registered the highest average level of informality for the sample while The Bahamas recorded the lowest average level of informality (**see Table 1**). The consolidated CARICOM estimate of informality also expanded from 29.2% of regional GDP in 1991

¹ The paper was prepared by the CARICOM Competition Network (CCN). The CCN was established in August 2016. It comprises the CARICOM Competition Commission and the national competition authorities of Jamaica, Barbados, Guyana and Trinidad and Tobago.

² There is a debate among the CCN members on whether businesses that pay income tax but may under-invoice imports to avoid paying high duties should be classified as informal.

³ CARICOM is a regional bloc which comprises the following countries: The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

to 33.9% of GDP in 2011. According to Mapp and Moore (2014), the highest levels of informality in the region occurred in 2008 at the onset of the global financial crisis.

Table 1. Average levels of informality in 12 CARICOM member countries (% of GDP)

	1991-2001	2002-2008	2009-2011	1991-2011
Antigua & Barbuda	22.0	26.9	27.2	24.4
Bahamas	19.8	19.8	22.6	20.2
Barbados	35.2	38.0	39.7	36.7
Belize	29.8	31.4	34.7	31.0
Dominica	29.5	33.9	36.8	32.0
Grenada	32.6	27.7	27.3	30.2
Jamaica	32.2	36.3	36.1	34.1
St. Kitts & Nevis	23.0	31.3	30.8	26.9
Saint Lucia	33.3	35.4	35.8	34.4
St. Vincent & Grenadines	29.8	32.9	34.9	31.6
Trinidad and Tobago	33.3	40.0	44.3	37.1

Source: Mapp and Moore (2014)

2. Characteristics of the Informal Economy in CARICOM

4. The CCN agreed that there are several characteristics of the informal economy in the region. These characteristics include:

- (i) Many small economic agents (i.e. normally one person with no employees).
- (ii) The informal businesses are fragmented – i.e. acting individually.⁴
- (iii) The businesses pay no corporate taxes or import duties.
- (iv) The markets within which the informal businesses operate mainly supply homogeneous goods. In most of the countries, the agriculture sector is a good example of where informality is high.
- (v) The markets are easy to enter and exit.
- (vi) Except for agriculture, the informal businesses are mobile with no fixed corporate addresses.
- (vii) The informal businesses are not strictly prohibited under national laws unless they pose a health or safety risk to consumers. Some governments may view this liberal approach to informality as encouraging entrepreneurship and creativity in their economies.

⁴ In Barbados fishermen joined together based on the size of the vessel used or the location from which they operate. The alliance is not a trade union and collective joins together to build capacity through training and foster partnerships between the government and the industry. A similar situation exists for coconut vendors in the country.

3. Rationale for Informality in CARICOM

5. The International Labour Office⁵ attributes the persistence of informality in the Caribbean to several factors including:

- (i) A perceived heavy tax burden imposed on businesses;
- (ii) The perceived high cost of registration of businesses;
- (iii) Weak enforcement capabilities of the State;
- (iv) Informal business activity is fleeting – i.e. agents have no plans to stay in business long;
- (v) Lack of information about how to register a business;
- (vi) Lack of understanding of the relevant sector regulations; and
- (vii) Lack of understanding of the benefits of formalisation.

6. To further explain causes of informality in the region, **Table 2** compares the ease of doing business in the member countries of the CCN and 6 developed economies. The table shows that on average it takes almost 4 times as long and costs almost 4 times as much to start a business in the member countries of the CCN when compared to the identified developed economies. The table also shows how onerous it is on businesses operating in the 4 member countries of the CCN as it relates to the paying of taxes.

Table 2. Indicators highlighting the ease of doing business in CCN member countries and selected developed economies in 2017

2017	Starting a Business - Time - Men (days)	Starting a Business - Cost (% of income per capita)	Paying Taxes - Payments	2017
CARICOM Competition Network Members (CCN)				
Barbados	15.0	7.7	28	237
Guyana	18.0	10.7	35	256
Jamaica	10.0	4.3	11	268
Trinidad & Tobago	10.5	0.6	39	210
Average	13.4	5.8	28	243
Developed Economies				
Australia	2.5	0.7	11	105
Belgium	4.0	5.0	11	136
Canada	1.5	0.4	8	131
Hong Kong	1.5	0.6	3	72
United Kingdom	4.5	0.1	8	110
United States	5.6	1.1	11	175
Average	3.3	1.3	8.7	121.5

Source: World Bank, Doing Business database

⁵ See ILO 2018 report, “Informality and Economic Unit in the Caribbean”.

4. Informality and Implications for Competition Law Enforcement in CARICOM

7. For this section, the CARICOM Competition Commission conducted a survey of the other members of the CCN, with the following questions pertaining to the informal sector.

4.1. Estimates of informality are normally generated at the macroeconomic level. Is this information useful for competition authorities or is there a need for data at the sectoral level to guide their work?

8. The CCN members believe information at the macroeconomic level could be useful. The CARICOM Competition Commission is conducting research to develop a general framework for examining if the informal economy acts as a competitive constraint on the formal economy, using the macroeconomic data that is available.

9. However, given the nature of competition investigations, sectoral information would be more relevant. As a result, going forward, including the informal economy in market studies will be important as it will help to paint more realistic pictures of relevant markets.

4.2. Does the definition of business enterprise in your national law apply to operators within the informal economy in your jurisdiction?

10. The CCN members agreed that under their respective national competition laws, a business enterprise refers to a natural or legal person engaged in manufacturing, producing, transporting, acquiring, supplying, storing and otherwise dealing in goods for gain or reward. Using this definition of a business enterprise as a basis, national competition laws in the region also apply to informal businesses.

11. A more important question, however, is how often will the competition authorities in the region be able to enforce national competition laws on informal businesses? Competition law is concerned with market power. Based on the characteristics of informal businesses in the region (i.e. small and fragmented) it is unlikely these agents can attain market power individually or collectively. As a result, the effectiveness of competition law as a tool to curb informality and its impact on competition in markets is uncertain.

4.3. Does your agency believe consumers view products from the informal economy as in the same relevant market as those in the formal economy (i.e. prices may be lower, but what about views on quality, brand loyalty and redress)?

12. The Barbados Fair Trading Commission indicated that anecdotal evidence in Barbados suggests some consumers are indifferent when it relates to consuming certain goods or services from the formal or informal markets. This is particularly observed for agriculture products (e.g. ground provisions and certain meats such as poultry) and services including landscaping, and salons, to mention a few.

13. Similar to Barbados, in most instances, consumers in Jamaica view several products and services sold by informal businesses as being in the same relevant market as those products and services sold by formal businesses. To a large extent, consumers who are purchasing these products and services do not view brand loyalty as being important; they are concerned with the price. This occurrence is seen for example in plumbing, masonry, carpentry, tailoring, dressmaking, barbering, hair dressers, taxi, and car rental services.

14. The Trinidad and Tobago Fair Trading Commission, however, believes that consumers view products from the informal economy as being in a separate market from the formal economy. Moreover, consumers expect and understand there may be a trade-off regarding quality because of the lower prices and greater convenience of acquiring goods from the informal economy.

4.4. Has any research been undertaken at the national level examining the views of consumers and business enterprises on informal competition, or is this an area for future research?

15. No research has been conducted by the national competition authorities to examine the views of consumers and business enterprises on informal competition. This is an area, however, for future research since most of the research conducted has focused on measuring the informal economy.

4.5. If the informal economy operates within the same relevant markets as agents within the formal economy, it might suggest that market share estimates may be understated. Has your agency ever considered the informal economy when estimating market shares?

16. In Barbados, the national competition authority attempts to determine the entire market by, for example, comparing import information with production or sales figures. If it believes the informal sector is insignificant, focus is then placed on the larger and formal players.

17. Where the Jamaica Fair Trading Commission knows that players in the informal sector have a significant impact on a market, an estimate of market share is done based on responses from the formal players.

4.6. During antitrust investigations do formal firms ever mention competition from, or make complaints against, their informal counterparts? Can you specify a few cases as examples?

18. In Barbados, formal enterprises occasionally mention competition or make complaints against informal businesses. These complaints usually emanate from the agriculture sector – e.g. this is an ongoing consideration in the poultry sector. In Jamaica, formal enterprises usually describe the impact of informal players or complain about their behaviour.

4.7. In which markets/sectors have you received complaints from formal firms about informal operators?

19. The Barbados Fair Trading Commission has received complaints about informality in the agriculture sector. These complaints are normally based on the quality of the goods supplied by informal businesses to markets.

20. The Jamaica Fair Trading Commission has received complaints about the conduct of informal businesses in the agriculture or agro-processing sector; markets for the supply of agricultural services; loans to small and medium-sized enterprises and individuals; the distribution of appliances and the furniture industry.

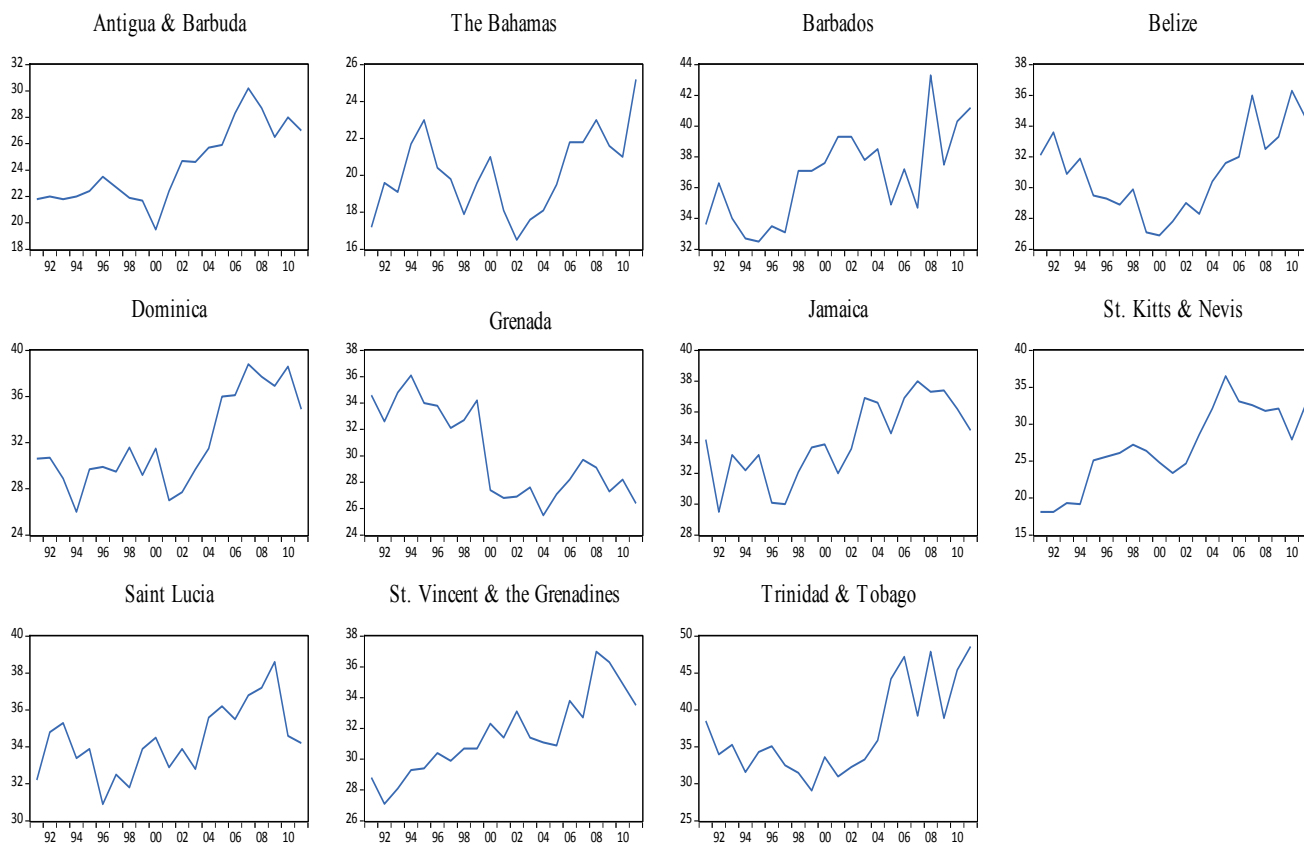
4.8. During your investigations, do formal firms ever use competition from their informal counterparts as an excuse for their conduct? (E.g. formal firms may get together and implement horizontal anticompetitive practices such as price fixing as a reaction to informal competition. Formal firms may suggest price fixing is necessary to maintain quality of products). Can you specify a few cases as examples?

21. In Barbados, during antitrust investigations, formal enterprises have never used competition from informal businesses as an excuse for their conduct. However, the Trinidad and Tobago Fair Trading Commission, through stakeholder interactions (e.g. with the major distributors/sellers in certain sectors including alcohol) have found that these enterprises justify their conduct - e.g. exclusive dealing arrangements and group boycotts – due to illegal imports from the informal economy. These imports threaten the goodwill of formal businesses and may adversely affect the perception of their product's quality as many of the products from the informal economy have the same or similar labelling to their products.

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Appendix 1: Informality in CARICOM, 1991-2011



Source: Mapp and Moore (2014)