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# DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS COMPETITION COMMITTEE

**Global Forum on Competition** 

#### COMPETITION AND POVERTY REDUCTION

**Contribution from Benin** 

-- Session I --

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#### Introduction

- 1. Competition means a confrontation of enterprises where each seeks to increase its market share, usually at the expense of others. Each enterprise is exposed to the risk of losing market share and is thus driven to make the best use of the resources it can mobilise and to offer buyers the most attractive prices possible.
- 2. The purpose of this paper is to show how competition can serve to lower the prices of essential goods and services for poor people, and how the competition authorities are helping to reduce poverty.
- 3. This paper will stress the objectives of competition policy and will show how the achievement of those objectives contributes to reducing poverty.

# 1. Objectives

- 4. The essential purpose of competition policy is to ensure that the profits resulting from the free play of market forces are not siphoned off for the sole benefit of a minority of dominant market players, to the detriment of the public interest.
- 5. Among the objectives of competition policy we may cite the following:
  - Protecting consumers.
  - Fighting inflation.
  - Promoting economic development.
  - Creating conditions for healthy and fair competition among enterprise.
  - Promoting free market access.

## 2. The burden of poverty

- 6. Poverty today constitutes a major concern for governments. Despite economic growth, progress in reducing poverty has been weak. According to the most recent statistics, the incidence of poverty nationwide was estimated at 35% in 2009, versus 37% in 2006. This aggregate figure in fact conceals sharp disparities between rural and urban zones, between regions, and between men and women.
- 7. The poverty rate stands at 29.8% in urban areas, and 38.4% in the countryside. It is 36.2% in households headed by a man, and 30.4% when the head of the family is a woman.

8. The burden of poverty constitutes an obstacle to development, given the proportion of the population affected in urban and rural areas alike. When speaking of poverty it is important to highlight the inadequacy or nonexistence of income for meeting basic needs.

## 3. The contribution of competition to poverty reduction in Benin

- 9. The increase in productivity brought about by competition is crucial for economic growth and poverty reduction. Decades of economic research have confirmed the positive impact that higher productivity can have on poor households at three levels:
  - Lower prices for consumers.
  - Higher revenues for producers, and
  - The spillover effect of growth in the economy as a whole as demand for goods and services rises.
- 10. The objectives of competition policy are all related to poverty reduction.
- 11. Indeed, the first objective of competition policy is to protect consumers by guaranteeing them the freest and the broadest possible choice of needed goods and services at the lowest price, and to ensure the welfare-enhancing quality of those goods. Consequently, it prohibits any activity that might:
  - Limit the free play of competition by restricting market access for other firms;
  - Limit or control production and investment in technical progress.
- 12. Another objective of competition policy is to combat inflation. In the free play of competition, the prices for goods and services are freely determined. Competition policy offers the possibility of regulating prices and sectors where price competition is limited because of monopoly conditions or persistent supply problems. In this way competition policy restrains excessive price increases that would undermine people's purchasing power.

## 3.1 Agriculture

- 13. Of all sectors of the economy it is agriculture that contributes the most to reducing poverty.
- 14. In the case of developing countries where agriculture is dominant, the expansion of markets for these products should normally offer new possibilities for improving the incomes of the rural poor whose means of livelihood depend on agriculture.
- 15. However, while the growth and transformation of the agriculture sector have created opportunities, it is not certain that they can be fully exploited by people living in poverty and in marginalised areas. With the sharp growth of demand for food products in certain parts of the developing world, the agriculture sector must now strive to produce the greatest possible output at the lowest cost, with due regard for the free play of competition.
- 16. The emphasis placed on quantity, prices and the play of competition, among other aspects, has created a bias in favour of large-scale, intensive farming as market failures have been brought under control.
- 17. Agriculture represents an important source of livelihood for many rural women, men and children living in poverty. It fills a number of different functions, from the creation of income and the supply of

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inputs for mixed production systems to the cushioning of environmental and economic shocks. Policymakers must take into account the many functions that agriculture fulfils in securing the means of subsistence and reducing poverty.

- 18. Small farmers need support in order to seize the opportunities offered by growth in this sector, to cope with the risks associated with increased competition and to come to terms with modern value chains.
- 19. Today there is a need for bold and sustained innovations in national, regional and global agricultural systems and a strategy for linking political and institutional change, capacity development, technological innovation and investments in ways that will enhance productivity in support of competitiveness.
- 20. Policymakers must take into account the gap between the relative capacities of large enterprises and small producers for adapting to change. Some small producers will not be able to remain competitive in a sector that is modernising swiftly and they will have to abandon farming in light of the increased opportunity cost of family labour. This in turn could frustrate the objective of reducing poverty through creating employment and raising incomes.
- 21. Policymakers must also appreciate and preserve the safety net function that agriculture plays for the most vulnerable population groups in terms of:
  - health and food security;
  - access to capital and credit for financing investment;
  - access to services and to markets for inputs and products;
  - improving transportation and communication infrastructure.
- 22. The capacity to adapt to shifting contexts and conditions is crucial for the future of small producers. This capacity has to do not only with financial and technical means and infrastructure but also involves the introduction of procedures and networks that, together with appropriate policies, will allow technology and other forms of knowledge and information to be put to productive use so that farmers can become competitive and stay in the race.
- 23. Unless these conditions are met, some small producers will not be able to remain competitive because of the growing concentration in the sector and its absorption into modern circuits of transformation and marketing.
- 24. A further aspect of the competitive challenge facing farmers is to find outlets for their products.
- 25. In economic terms, competition implies the presence of various players seeking to access a limited resource, for example economic agents making simultaneous use of the same raw material or attempting to sell simultaneously on the same market. This represents a situation of free confrontation between supply and demand on the market.
- 26. The strong demand for food products of agricultural origin and the increasingly complex systems of transformation and marketing hold real possibilities for growth and for poverty reduction at all stages.
- 27. Given these new prospects for marketing and alternative incomes, it is clear that the conditions of competition, consumer preferences and commercial standards are rapidly evolving, and this could undermine the capacity of small farmers.

28. Benin has considerable comparative advantages in agriculture, thanks to its geographic location and its trading relations, and these can help to reduce poverty. It will be important, then, to build upon the comparative advantages of agriculture by diversifying and revitalising the cotton industry, which accounts for more than 60% of export proceeds, while positioning Benin as a profitable, transparent and well-managed economy with a business climate that is attractive for the investments that will be increasingly focused on regional markets in general and the Nigerian market in particular.

#### 3.2 Telecommunications

- 29. In addition to agriculture, there is at least one other sector telecommunications where competition plays an important role in reducing poverty, given the number of people involved in the distribution of GSM products.
- 30. Initially there was only one operator offering GSM service. Today, the telecommunications sector in Benin comprises:
  - The fixed-line telecommunications operator: BENIN TELECOMS SA. This is the historic carrier, a government-owned corporation, which is still active in the sector. Procedures are currently under way to open its capital to private investors.
  - Mobile telecommunications operators: SPACETEL BENIN SA (MTN), ETISALAT BENIN SA (MOOV), GLO MOBILE BENIN (GLO), BELL BENIN COMMUNICATIONS (BBCOM) and BENIN TELECOMS MOBILE SA (LIBERCOM), which are:
    - Internet access provider: BENIN TELECOMS SA;
    - Internet service providers: Bénin Télécoms SA, Isocel Télécoms, Connecteo Bénin, Pharaon Services Plus, Communitec, OTI, Firsnet and Campus Numérique Francophone (for the University Community).
- 31. With five carriers now operating, consumers can obtain service at lower cost. This is tangible evidence of the benefit of having several operators established in the same sector.
- 32. Better yet, each of the mobile telephone companies employs many people, and this is helping to reduce poverty through the various attendant activities.

# 3.3 Micro-finance

- 33. It was the goal of reducing poverty that inspired the creation of micro-finance institutions. The Government of Benin, through the Ministry of Micro-Finance, grants credits to women at attractive interest rates. The significant number of micro-finance institutions is an asset when it comes to competition as it alleviates the burden of documentation that must be provided in order to obtain a loan.
- 34. To this end, the micro-finance sector deserves special attention as a tool for reducing poverty in the world as a whole and in Benin in particular. Access to bank credit is very difficult for a certain category of individuals, given the conditions required.
- 35. Thus, to allow this category to meet their needs for running a business, the development of microcredit has become a real concern for some countries including Benin. These micro-credits are allowing some citizens to launch or expand their business.

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- 36. It must be noted that micro-finance offers services to the poor whereby they can protect, diversify and expand their sources of income. Small loans for taking advantage of opportunities or for filling a liquidity gap, or the use of simple and guaranteed savings accounts can be the means of breaking the vicious circle of poverty.
- 37. Micro-finance is an effective tool for becoming self-sufficient, and it empowers even the poorest people to take active responsibility for improving their lives. The competition that occurs with the diversification of products constitutes an opportunity for the poor. Today micro-finance is helping vulnerable groups to cope better with the vicissitudes of life and to develop their micro-enterprises, and when it is associated with other development policies such as those for agriculture it can do even more for combating poverty.

#### 4. Conclusion

38. From this analysis of the three sectors selected – agriculture, telecommunications and microfinance – it is clear that fair competition contributes to job creation and to poverty reduction as well, provided the people involved receive in return a remuneration that will allow them to meet their needs.