



“What is the Future of the Compensation System in Tunisia?”

On November 9th, 2018, Afkar organized a special conclave around the question: "What is the Future for the Compensation System in Tunisia?" More than thirty participants took part and contributed to the discussion. Around the table were representatives of the Tunisian government, various associations, private sector companies, parliamentarians and representatives of international organizations. The discussion was moderated by activist Chaima Bouhlel and had as rapporteur the president of Solidar Tunisia Lobna Jeribi. This fifth edition of Afkar in 2018 began with a speaker presenting a diagnosis of the subsidy system in Tunisia and the main challenges that need to be met.

The compensation or subsidy system plays an important role in sustaining and developing the Tunisian economy. In place since 1970, this system aims to preserve the purchasing power of low-income households. Nevertheless, we can see that the Tunisian state can no longer restrain these subsidy costs to a suitable level within its current financial situation. The current subsidy system is a controversial topic that divides politics and public opinion, as this system is associated with economic stability and social justice. Nevertheless, over the years, there has been a good deal of abuse and misuse of the primary function of this system. As we approach the 2019 Finance Act, the debate around compensation has become more and more prominent. Beyond political considerations, the future of the compensation system in Tunisia deserves a thorough reflection.

Afkar gathers a critical mass of empowered stakeholders around a problem requiring urgent action to establish a dialogue between the diverse entities in order to address the issue and to develop implementable solutions. This year, Afkar is implementing six editions of Afkar to address economic challenges in Tunisia.



THE CHALLENGES:

1. A Problem of Targeting:

Today, the subsidy system is general and broad. Comprehensive compensation is in and of itself an obstacle in determining the true cost of subsidies. Targeting can either exclude needy people, or conversely include non-eligible people. The problem of targeting and identification lies in the choice of eligibility criteria for the subsidy.

1. Subsidizing Hydrocarbons:

Subsidies for fuel and oil are a major part of the subsidy system, and this heavy support could jeopardize the effectiveness of the entire system. Public transportation companies are in deficit and the state budget supports these losses. In the absence of a clear public transport policy, the financial problems of the transportation companies (especially regional ones) persist. Subsidies for public transportation amounted to 450 million dinars in 2018, under the subsidy for school and university transportation as well as transportation at free or discounted rates, and those reserved for people with special needs.

1. Irreconcilable objectives of the General Compensation Fund:

The General Compensation Fund in Tunisia has become over the years a multi-objective instrument. The main objectives of the Compensation Fund are to support the following: producer prices, consumer prices, price stabilization, fluidity and continuity of supply. These multiple objectives are not always reconcilable. This extension of the Compensation Fund's scope of activity, along with the absence of corrective measures over time, has resulted in cyclical slippages in the fund's effectiveness.

1. Lack of Institutional Support:

Subsidies involve several state entities: the Ministry of Commerce, the Ministry of Energy, the Ministry of Transportation, state-owned enterprises, and the office of cereals. The compensation fund is an



administrative body that lacks a great deal of technical expertise. Its financial resources are also limited.

1. The Truth About Prices:

Solutions for the compensation system in Tunisia cannot be considered without facing the problem of insufficient sales prices for products on the Tunisian market. The value of the subsidy is increased as a result of the increase in the prices of these products internationally, but also with regards to national consumption and therefore quantities imported. Sales prices at the local market level have been virtually stuck for a decade under the current subsidy system. This burden has become exorbitant given the continuous upward movement of commodity prices and the price of oil on the world market, as well as the sharp depreciation of the Tunisian dinar.

1. Illegal Trade and Smuggling:

The subsidy system also suffers from illegal trade and smuggling. The distortions of commodity prices (wheat flour, milk, vegetable oil, etc.) encourage unauthorized exploitation by professionals through contraband trade. According to the Ministry of Commerce, 23% of subsidized commodities do not benefit households and indeed 7% of subsidies benefit wealthy households.

RECOMMENDATIONS:

During the debate, participants discussed specific and achievable solutions to resolve these issues. The following ideas have been proposed:

1. Establish a precise targeting mechanism and a unique identifier system:

The system would benefit from the creation of a progressive targeting mechanism. To do this, it is necessary to identify households in need and to create a database containing their information. Subsequently, measures can be taken under the auspices of the Ministry of Finance, along with monitoring and evaluation of this targeting for greater efficiency and transparency. A progressive approach would also include determining which subsidies can be reduced without a major impact on consumers, or creating a system of unique identifier numbers for people in need.



1. Make citizens aware of the costs of subsidies:

A real national debate on compensation in Tunisia including all stakeholders and political parties would be beneficial to the future of the system. Tunisian citizens must be given an idea of the burden of compensation and made aware of the current annual costs of the subsidy program, its objectives, measures and benefits. Citizens should be able to choose whether or not to participate in the system by which people who are not in need of compensation could declare their wish to no longer benefit from it. This could also facilitate targeting.

1. Encourage the development of renewable energy for households, agriculture and the public administration:

Energy subsidies benefit mostly the better off and add an unaffordable burden to government resources. Therefore, energy prices should be adjusted with stricter control of public property, for example, the automobile fleet of public institutions. The most suitable alternative would be renewable energies. The use of solar energy for thermal purposes is widespread in Tunisia and can be considered a success but one should capitalize further on that.

1. Establish automatic price-adjustment mechanisms:

The private sector is a real growth engine. The public sector cannot directly create jobs at the scale needed given high levels of deficit and debt. The private sector would increase the purchasing power of families by promoting competition. Competitive prices would reduce the pressure on the compensation system. The public sector should instead focus on its regulatory role to strengthen the business climate, expand access to finance and improve governance.

1. Regularize and combat illegal trade:

The state can step up control of distribution channels and fight corruption through the digitization of the public administration. In addition, the Court of Auditors must be strengthened in order to properly perform its role as an institution of control of public funds and to provide it with effective intervention mechanisms to combat illicit trade which benefits from subsidized products. According to the Ministry of Commerce, at present, a quintal (100 kg) of flour is sold for 82 dinars, while a baker buys it for only 4.5 dinars. Thus, a baguette is sold for 190 millimes, while its real price is 320 millimes.



Conclusion:

Rethinking the compensation system in Tunisia would allow for a strengthening of and better targeting by existing social safety nets for the most vulnerable social groups. This in turn would improve education, health, and assistance to the poor and the disabled as well as to support public transportation and direct transfers of public funds.