

<b>Institution:</b> University of Birmingham		
<b>Unit of Assessment:</b> UoA17, Business and Management Studies		
<b>Title of case study:</b> Formalizing informal trade in Tunisia through tariff reform		
<b>Period when the underpinning research was undertaken:</b> 2013-2019		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b>	<b>Role(s) (e.g. job title):</b>	<b>Period(s) employed by submitting HEI:</b>
Sami Bensassi	Senior Lecturer in Managerial Economics	2012-present
<b>Period when the claimed impact occurred:</b> 2015-2020		
<b>Is this case study continued from a case study submitted in 2014?</b> No		
<b>1. Summary of the impact</b>  <b>Research by Dr Sami Bensassi has directly contributed to the formalization of cross-border trade in Tunisia</b> , essential if the Government is to maintain authority, as well as manage prices, control import/export revenues, and reduce smuggling and violence at the border. Based on this work, <b>the Tunisian government has changed its Finance law, introduced tariff reform and reduced VAT</b> . As a direct consequence, <b>‘informal trade’ has been reduced and government authority strengthened and revenue increased</b> . Reduced tariffs have also benefited Tunisian households as <b>access to important consumer goods has been improved</b> , potentially lowering household expenditure by 2.5–6% for the poorest households.		
<b>2. Underpinning research</b>  <p>Before 2011, authoritarian governments in North Africa limited the growth of smuggling whilst simultaneously profiting from informal trade where it occurred. After the Tunisian revolution and the start of the civil war in Libya in 2011, neighbouring states often lost control of their border regions. Local actors, particularly local traders, gained more independence in their trading activities and smuggling increased. When the new Tunisian Government attempted to reassert its authority in the border region in 2013, it had to negotiate a new way of working with these local actors in order to regain control over trade. In particular, it had to assess how much trade was passing through the border without proper controls and tariff payments.</p> <p>Controlling informal trade was fundamental for the Government in Tunisia in order to limit lost tax revenue and negative impacts on economic activities in the border regions. Bensassi’s research calculated that, according to the most conservative valuation, in 2013 the total value of goods smuggled into Tunisia was 1.2 billion TND (approx. 495.86 million GBP 2020), resulting in a loss of 424 million TND (approx. 187.72 million GBP 2020) in tax revenue for the Tunisian Government. Additionally, large gaps in regional trade data for a variety of products, revealed from the comparison of Algerian, Libyan and Tunisian customs data provided to UN agencies, suggested large-scale smuggling operations were ongoing in this period (R1, R2). Bensassi’s work on informal trade in West Africa provided useful contextual evidence of how informal trade could develop, especially in border regions if government regulation is weak, and the consequences of this (R3, R4).</p> <p>In a major report on informal trade in Tunisia, co-authored with a senior customs analyst and two lead public-sector specialists at the World Bank, Bensassi recommended the adoption of an alternative tariff model to harmonize prices at the regional level in order to limit incentives for smuggling, and called for “increased regional coordination between Tunisia and its neighbours in terms of tariffs, tax levels, and subsidies” (R1). Bensassi conducted the field research during the survey implementation in April 2013 and subsequently produced all of the calculations.</p>		

Bensassi's research has provided new analyses of the nature and scale of informal trade (R1, R2, R3, R4), the resulting losses to tax revenue and the socio-economic impacts on the population in Tunisia (R1, R2). Below are the **key findings (KF)**:

- KF1.** The research identified the wide variety of goods being smuggled and the regional specialization of these goods. For example, brown goods and textiles were entering Tunisia from Libya, and construction materials from Algeria (R1, R2).
- KF2.** These patterns of informal trade have significant socio-economic benefits for local communities. Informal trading represents important economic activity, providing much-needed income and keeping goods within budget for consumers (R1, R3).
- KF3.** Tax burdens and subsidy levels are the primary drivers of this informal trade (R1, R3).
- KF4.** Price differences lead to informal trade and increased corruption even where sanctions are tougher and where attempts to control this through technology and equipment have been stepped up, suggesting that the effectiveness of these strategies is limited (R1, R4).
- KF5.** In order to limit incentives for smuggling, a comprehensive policy was required that included changing tariffs for certain products, as well as strengthening internal controls within customs to limit the emergence of local deviant practices (R1, R3).

### 3. References to the research

- R1.** Ayadi, L., Benjamin, N., Bensassi, S., and Raballand, G. (2013) "Estimating informal Trade across Tunisia's land borders", *Policy Research Working Paper*, The World Bank, WPS 6731 DOI: 10.1596/1813-9450-6731
- R2.** Bensassi, S., Ayadi, L., Benjamin, N., and Raballand, G. (2014) "An Attempt to Estimate Informal Trade Across Tunisia's Land Borders", *Articulo - Journal of Urban Research*, 10 DOI: 10.4000/articulo.2549
- R3.** Bensassi, S., Jarreau, J., and Mitaritona, C. (2018) "Regional Integration and Informal Trade in Africa: Evidence from Benin's Borders", *Journal of African Economies*, 28, 1: pp. 89–118 DOI: 10.1093/jae/ejy016
- R4.** Bensassi, S., and Jarreau, J. (2019) "Price discrimination in bribe payments: Evidence from informal cross-border trade in West Africa", *World Development*, 122, pp. 462–480 Available on [Science Direct Website](#)

### 4. Details of the impact

#### 1. Economic policy change and tariff reform in Tunisia

Drawing on Bensassi's research, the Tunisian Government implemented **economic policy change and tariff reform** in the 2016 Finance Law (R1, KF3 and 5; S1). The law dramatically reduced the tariffs on non-EU goods and harmonized prices at the regional level through an elimination and/or reduction of the VAT on a large variety of goods. The reform **eliminated tariffs on many goods considered essential** for the Tunisian economy and **reduced tariffs to 20% of the value on non-essential goods**. Prior to this law, Tunisian tariffs on non-EU goods amounted to 30% of the value of the goods, on average.

The change in regulation and the reduction in tariffs was a direct result of Bensassi's work (R1–R2; KF3–KF5). In December 2013, Bensassi and colleagues made clear recommendations that tariff and internal tax reduction were necessary **to curb informal trade and strengthen government authority** (R1). Specifically, the report called for "increased regional coordination between Tunisia and its neighbours in terms of tariffs tax levels and subsidies" (R1; KF5). It argued that without a tariff reduction and greater harmonization of prices at the regional level, it was likely that the level of informal trade would continue to grow and formal imports would be impeded, as evidence from Western African contexts had also strongly demonstrated (R3). This would likely lead to higher levels of corruption among customs officials based on the border, further

undermining government control. Bensassi has drawn on evidence from other global contexts to demonstrate that the strengthening of controls, especially with more technology alone does not address smuggling (R4). Instead, a more **effective way of dealing with informal trade is a comprehensive policy change** to limit the incentives for smuggling, such as **changing tariff policy and/or VAT** for some products and to strengthen internal controls within customs to limit the emergence of local deviant practices. For example, Bensassi's report pinpoints the high level of taxation on products such as coffee, tea and bananas that have been targeted by the 2016 reform (R1, R2; S1).

These recommendations **shaped across-the-board changes to tariff and VAT reform** in Tunisia and ultimately led to a major change in regulation. On publication, the report stimulated significant public debate about tariff reform in Tunisia. French and Arabic media extensively covered the World Bank paper's policy recommendations, as did the international press, including BBC News and Al Jazeera (S2). Pressure for reform was further generated by the publication of the Tunisian General Labour Union's report on informal trade (S3) and a website close to the Government's security forces (S4), both of which cited Bensassi's World Bank research (R1; KF2, KF3). In 2014, Bensassi was invited to present his findings and discuss potential solutions to the smuggling crisis to a conference organized by the Institut Tunisien de la Compétitivité et des Etudes Quantitatives (ITCEQ) and the United Nations Economic and Social Commission for Western Asia (UN-ESCWA). The ITCEQ has close links to the Prime Minister's office. In attendance were The Director of the ITCEQ, the Director for the Tunis World Bank Office, the director of the UN-ESCWA and a delegate for the Tunisian Presidency and Prime Minister.

That Bensassi's work **led to the legislation change** is confirmed by General Director of ITCEQ who states that: "the study authored by Ayadi, Benjamin, Bensassi, and Raballand has informed the decisions taken by the Tunisian government regarding its taxation policies through (i) more understanding and awareness of the issue, (ii) the organization of workshops in which the authors of the study have been invited and informal discussion with the authors" (S5). The Head of the Commercial Section of the European Union Delegation in Tunis also corroborated this, stating that the research (R1, R2) "was [...] taken into account in the decision, via the Finance Law for 2016, to streamline the customs duties to only 2 rates, and most importantly reduce or eliminate the consumption taxes on a wide range of products including alcohol" (S6). In addition, a Tunisian NGO criticizing the tariff reform also cited R1 as the study that influenced the new law (S7).

## **2. Increased revenue for the Tunisian government and decreased smuggling**

The tariff and VAT reforms implemented by the Tunisian Government, shaped by Bensassi's work (R1, KF 3 and 5), have led to an **increase in customs revenue of the equivalent of 5 million GBP** between 2015 and 2016 (S1: Tableaux "A"). The 2016 tax reform **made informal trade less attractive**, as reduced tariffs and VAT decreased the economic gains of informal trade and additional security measures made it higher risk. Moreover, as a reduced number of goods are now taxed, custom agents now have the time to focus on and tax effectively those remaining taxable goods. Furthermore, there is evidence that the 2016 tax reform has resulted in **increased legal imports in Tunisia**. For example, a World Bank consultant reported that, following the reform, legal imports of tyres increased by 175%, resulting in an increase in tax revenue for the Tunisian Government (122 million TND, close to 40 million GBP) (S8 p.3).

These changes and additional spending on securing the Tunisian borders also enabled the **government to reassert presence and control of borders and trade**. A World Bank report on the impact of the crisis in Libya on Tunisia in 2017 notes: "The tax reform initiated in the (2016) Budget Law — consisting of reducing the number of customs duties to two (0% and 20%) and eliminating consumption taxes on most products — has had a **positive effect on reducing non-fuel goods contraband**" (S9, p. 64, 3.53).

## **3. Improved access to consumer goods resulting in increased socio-economic welfare**

The change in legislation, informed by Bensassi's work (R1; KF1,3 and 5), has led to **increased access to consumer goods and improved socio-economic welfare** for some of the poorest Tunisian households by decreasing the prices of many products. For example, some **goods that**

**are considered important for Tunisian consumption (coffee, condensed milk, sugar) now have reduced tariffs and VAT**, which helps Tunisian households. Recent research on the impact of tariffs reform in Tunisia (S10) has found that a complete elimination of tariffs translates into a reduction in price of at least 10% for imported goods. This reduction in price implies an increase in socio-economic welfare that is more pronounced for poorer households and amounts to between 2.5% to 6% of initial household expenditure for low income households (S10).

#### **5. Sources to corroborate the impact**

**S1.** Financial Law 2016 and 2017 (Loi n°2015-53 du 25 décembre 2015, portant loi de finances pour l'année 2016, Article 41– 43, article 44, Tableaux et Annexes, Loi n°2016-78 du 17 décembre 2016, portant loi de finances pour l'année 2017, Tableaux et Annexes) [Available as PDF]

**S2.** Media reports citing Bensassi and team's research findings, collected between 05/02/2014 and 20/12/2015 by the World Bank and by Bensassi until 01/04/2018. [Available as PDF]

**S3.** Tunisian General Labour Union's report on informal trade: (2014) "Current State of the informal economy in Tunisia as seen through its stakeholders: facts and alternatives" (citations on p.6 and in the Bibliography). [Available as PDF]

**S4.** Marsad, Observatoire tunisien du secteur de la sécurité (12/2015), [La contrebande en Tunisie : Toute une économie dans l'économie et de grands risques sécuritaires](#). [Smuggling in Tunisia: an economy in the economy and high security risks] [Available as PDF]

**S5.** Testimonial (email) - General Director of Tunisian Institute of Competitiveness and Quantitative Studies (ITCEQ) (7<sup>th</sup> July 2017) [Available as PDF]

**S6.** Testimonial (email) - Head of the Commercial Section of the European Union Delegation in Tunis (24<sup>th</sup> November 2016) [Available as PDF]

**S7.** Chafik Ben Rouine, Senior Policy Analyst, 14/12/2015 La réforme douanière sous ajustement structurel: lutte ou promotion du commerce informel? Note analytique, Observatoire de l'Economie Tunisienne [Custom reform under structural adjustment: fighting or promoting informal trade? Analytical note, Tunisian Observatory of the Economy] [Available as PDF]

**S8.** Interview, Consultant World Bank following his work on the informal tyre trade in Tunisia: Estimates and recommendations (2018) p.3 [Available as PDF]

**S9.** Report No: ACS16340, "[Republic of Tunisia Impact of the Libya Crisis on the Tunisian Economy](#)" (February 2017), The World Bank, p.64, 3.53. [Available as PDF]

**S10.** Martínez-Zarzoso, I., Baghdadi, L., and Kruse, H., 2016. "[Is Tunisian Trade Policy Pro-Poor?](#)", Working Papers 1033, Economic Research Forum, revised August 2016. [Available as PDF]