



The Rebirth: Tunisia's potential development pathways to 2040

Poverty, inequality and subsidies

Jakkie Cilliers and Stellah Kwasi

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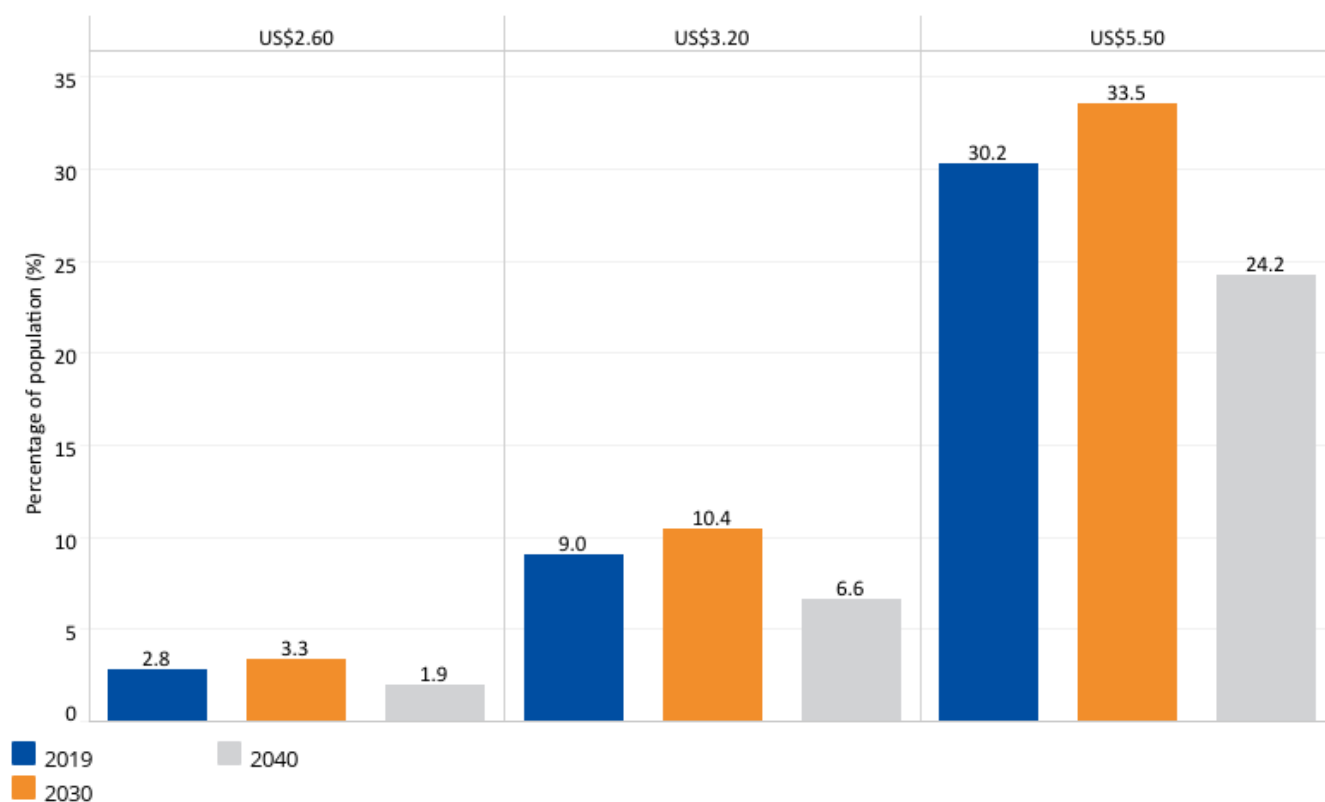
Poverty, inequality and subsidies

Tunisia has already achieved the headline Sustainable Development Goal (SDG) of eliminating extreme poverty as measured at US\$1.90 per person per day. In fact, less than 1% of its population fall below this level of income. Data shows that poverty was generally on the decline in the years leading up to the revolution in December 2010, a trend enabled by economic growth and food subsidies. [1]

Despite having already achieved this important SDG goal, the country will continue to struggle with poverty and social inequality. Chart 10 shows progress on eliminating poverty against the national poverty level of US\$2.60 per day [2], and the World Bank's US\$3.20 extreme poverty level for lower middle-income countries and US\$5.50 per day for UMICs. At all three levels, poverty is projected to increase until 2030 before gradually declining to 2040.

The global Multidimensional Poverty Index (MPI) [3], which measures ten indicators across three dimensions, namely health, education and living standards, estimates that approximately 1.3% of Tunisians are multidimensionally poor. [4]

Chart 10: Poverty rate at US\$2.60, US\$3.20 and US\$5.50 per day in Tunisia



Source: IFs version 7.45

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In addition, poverty is more pronounced in rural areas and among children. In fact, poverty among children [5], estimated at over 21%, is nearly twice as high as poverty among adults, and the rural poverty rate of 30% is far above the urban poverty rate of 5%–12%. [6]

Although inequality as measured by the Gini coefficient is declining and lower than in comparable countries, there are significant disparities beyond income among Tunisians across gender lines and between regions. Inequalities in the labour market and general well-being continue to disproportionately affect women and young graduates. [7]

Tunisia, like many countries in the MENA region, has used government subsidies, including food subsidies, as a key pillar of the social contract to alleviate poverty and inequality. However, subsidies to the energy sector have come at a high cost and now threaten fiscal sustainability in Tunisia, where they have generally been found to be inefficient and wasteful. In fact, more than 16% of energy subsidies accrue to the wealthiest, compared to only 6.1% for the poorest decile of the population. [8]

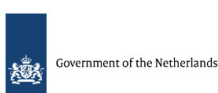
Attempts to reform the subsidy policy, particularly in the energy sector, have not been successful, although cuts to the subsidy bill are crucial to reducing the budget deficit.

Tunisia is aware of the need to move away from universal food subsidies towards targeted social assistance programmes that would optimise the budget allocated to this purpose. A 2013 study by the AfDB examined various scenarios to this effect. [9] Among the various proposals is a universal child allowance to mitigate the negative impact of general food and energy subsidy reform while effectively promoting poverty reduction and investment in human capital development. [10]

Endnotes

1. According to the World Bank, 'subsidies can also introduce relative price distortions that typically provoke: overconsumption and underinvestment in subsidized sectors; the crowding out of more productive investments; delays in economic diversification; weaker current accounts and increasing budget deficits; and adverse effects on health and the environment'. See C Leiva et al, *The Socioeconomic Impacts of Energy Reform in Tunisia: A Simulation Approach*, World Bank, Policy Research Working Paper WPS 7312, 2015
2. The National Institute of Statistics designs and applies the poverty measurement methodology in Tunisia. Three poverty lines in dinars (TND) per person per year are estimated and used to calculate the official poverty rates: metropolitan areas (TND 1 878), communal (TND 1 703) and non-communal (TND 1 501). On average, the poverty line is TND 1 706, which roughly translates into US\$2.60 per person per day. See World Bank, *Poverty and Equity Brief: Tunisia*, October 2019
3. Reading on MPI: see *Oxford Poverty and Human Development Initiative (OPHI), About*
4. OPHI, *Global MPI country briefing of 2019: Tunisia (Arab states)*, September 2019
5. UNICEF, *Tunisie: analyse de la pauvreté infantile en Tunisie, 2014*, Children represent 29% of the population and account for 40% of total poverty. And this is the same for the poverty gap, at 5.1% for children against 2.8% for adults.
6. UNICEF, *Tunisie: analyse de la pauvreté infantile en Tunisie, 2014*, www.unicef.org.tn. The World Bank quotes the Tunisian National Statistics Institute estimate of the national poverty rate (US\$2.60) in 2015 at 15.2%, having declined from 20.5% in 2010 and 23.1% in 2005. This differs from the estimate in IFs, which is 2.4%. The World Bank's Poverty & Equity Brief on Tunisia published in April 2019 estimated the poverty rate using the US\$3.20 threshold at 3.2% or 380 000 people. The IFs estimate is at 8.6% for 2018 (*World Bank, Poverty and Equity Brief: Tunisia, October 2019*). The latest data from the World Development Indicators in 2015 estimates that 3.2% of the population is living on less than US\$3.20. (*The Borgen Project, Causes of poverty in Tunisia*, 23 September 2017; *The Borgen Project, Why the poverty rate in Tunisia is still high*, 29 September 2017; *World Bank in Tunisia, Political-economy context*).
7. OECD, *Economic policy reform: Going For Growth Note – Tunisia*,
8. A Hodges and A-R el Lahga, *Coût, impact et financement de l'allocation pour enfants en Tunisie*, Oxford Policy Management and Partnership for Economic Policy, Report for UNICEF and the Ministry of Social Affairs, Tunis, 6 May 2019.
9. See M Ayedi et al, *Food subsidies and direct social assistance: Towards better targeting of monetary poverty and deprivations in Tunisia*, AfDB, 30 March 2013
10. M Györi and F Veras Soares, *Universal Social Protection in Tunisia: Comparing the Effectiveness and CostEfficiency of Food and Energy Subsidies with a Proposed*

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About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director of the ISS. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria office of the ISS. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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