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Contribution from Tunisia

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COMPETITION AND POVERTY REDUCTION

-- Tunisia* --

Reducing Poverty in Tunisia through Competition Policy: Abstract

This paper is devoted to give an overview on poverty in Tunisia, with a discussion of its main characteristics and causes. Actually, the inland regions, in particular rural areas, remain the most affected regions by poverty. The latter has been arisen from two main factors which are corruption and imbalanced development strategies. In addition to the known mechanisms undertaken by the Government to get rid of poverty, this paper points out the contribution of the competition policy in fighting poverty. Also, we put emphasis on the role of the Tunisian competition law and the Tunisian Competition Council in reducing poverty and enhancing consumer's welfare.

1. Introduction

1. Tunisia has a special story with poverty since the latter has been the main cause triggering a social instability leading to a revolution in 14 January 2011, later known as the Arab Spring. In fact, since the independence in 1956, Tunisia has paid attention to poverty phenomenon and has implemented several policies to reduce poverty. Among these policies we cite the free education for all children in all regions of the country, the birth control through family planning policy, the participation of women in development efforts through policy emancipation of women and the promulgation of the Civil Code. These policies have yielded significant improvement in the rate of poverty and have contributed in enhancing the living standards of Tunisian people.

2. Convinced by the fact that competition is a stimulus for economic growth and poverty reduction, Tunisia relies on its competition policy for poverty alleviation. In fact, Tunisia has a well-established competition policy and was the first country in the Arab world in enacting a competition Act in 1991. In this paper, we attempt to give an overview on poverty in Tunisia. We discuss how Tunisian competition policy could contribute in reducing poverty. This paper is organized as follows. Section 2 gives a background on poverty in Tunisia, its characteristics and its causes. Section 3 is devoted to exhibit the contributions of competition policy in reducing poverty through the Tunisian competition law and the role of the Tunisian Competition Council. Section 4 summarizes this paper.

2. Poverty in Tunisia

2.1. Characteristics of Tunisian poverty

3. Historically, Tunisia has witnessed three main phases of poverty. The first phase, which lasted from 1956 to 1970, was known as the mass poverty phase and characterized by a lot of poor people. In

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1960s, the poverty rate was estimated at 40%¹. In the second phase, which lasted from 1970 to 1985, Tunisia has implemented several development programs to fight poverty. Among these programs we cite the Regional Development Program (1973) and the Integrated Regional Development Program (1984). In that period, the deployed efforts of the State have been focused on the creation of sources of income for poor people, especially rural poor, and enhancement of their purchasing power. The third phase, which lasted from 1985 until today, was characterized by intensive intervention of the State to handle the problem of urban poor. The actions undertaken by Tunisia were essentially the creation of Integrated Urban Development Program (1992), the creation of the National Fund of Solidarity (1993) and the creation of the Tunisian Bank of Solidarity (1997).

4. One of the most important feature that characterizes poverty in Tunisia is its rural dimension. In fact, rural areas in inland regions are the most affected Tunisian zones by poverty. Poor people in these areas are generally landless families who live on the outskirts of population centers in rural areas, the laborers, illiterate small holder agriculture, women and young people in general by their lack of economic autonomy and lack of decision making. It is worth noticing that in 2010 rural population represents about 32.7%² of Tunisian population. Regional imbalances as those that exist between rural and urban areas are, in Tunisia, the result of the historical legacy of the relationship between urban and rural areas and between regions, but they are also the result of political and development choices, since independence.

2.2. *Causes of Tunisian poverty*

5. The Arab Spring has revealed that the first cause of poverty in Tunisia was corruption. In the literature, there are two models explaining how corruption could affect poverty: the economic model and the governance model. In the economic model, corruption affects growth factors, which in turn, increase income inequality and impact poverty levels. Actually, corruption impedes economic growth by discouraging foreign and domestic investment, creating inefficiencies by increasing the costs of doing business, deteriorating the quality of public infrastructure and distorting the composition of public expenditure. In the governance model, corruption reduces governance capacity, which in turn, increases poverty levels.

6. Tunisia can be seen as a good example for illustrating both economic and governance models of the relationship between corruption and poverty. Within the previous political system, Tunisia has been for a long time ruled by a narrow group of cronies, with corruption, clientelism, and nepotism. The corrupt practices of Ben Ali and Trabelsi Family have affected all spheres, yielding low investments, unemployment and inflation. Ben Ali and Trabelsi Family have acquired for about 50% of the businesses in Tunisia. The financial sector was the most affected one. It gave a lot of non-performing loans and the members of Ben Ali's clan refuse repayment.

7. In addition, a good example explaining how corruption in Tunisia has contributed in the impoverishment of Tunisian people is the National Fund of Solidarity (NFS). The objective of the latter was to help poor people in rural areas. The NFS revenue comes from the donations of private citizens and institutions. However, the revolution of 14 January 2011 has revealed that NFS was a fake project and did not achieve its goals due to corrupt practices affecting its management system.

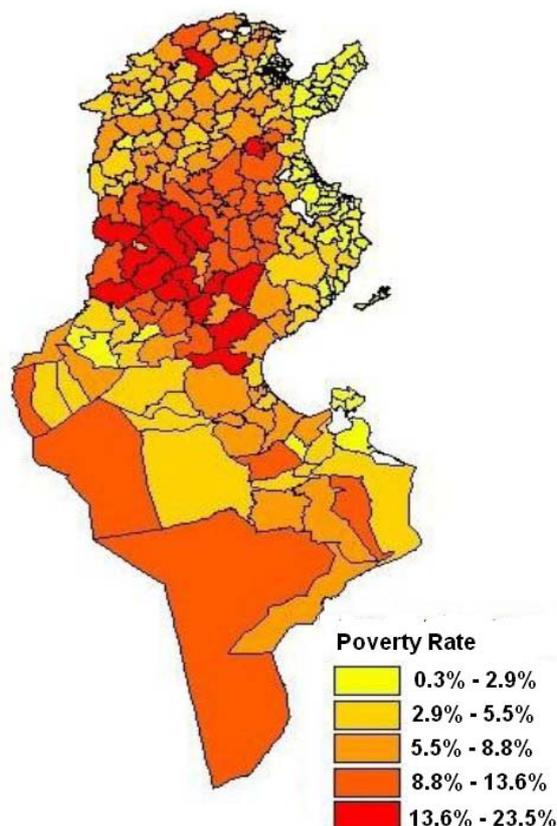
8. Another important factor which is deeply involved in enlarging the poverty disparity between Tunisian regions was the development strategies undertaken by the State. These strategies, transmitted by

¹ Poverty Alleviation: Preserving Progress while Preparing for the Future. Republic of Tunisia, Report No. 13993-TUN, World Bank, August 1995.

² See statistics at <http://www.ruralpovertyportal.org/country/statistics/tags/tunisia>.

the five-year economic development plans, have created imbalances between regions by orienting a big part of investment flows towards coastal zones. In fact, Tunisia has suffered for a long time from an unequal regional distribution of growth benefits between regions. Figure 2 shows the distribution of poverty between Tunisian regions.

Figure 1 : Distribution of poverty between Tunisian regions



Source: Adapted from National Institute of Statistics, September 2011).

3. Contributions of competition policy in reducing poverty

9. There is no doubt that competition policies have a central role in fighting poverty and enhancing consumer's welfare. In fact, the main purpose of competition policy is to promote competition which leads to an efficient allocation of resources in an economy. This results in lower prices of goods and services with equitable distribution, as well as adequate supplies to consumers. In Tunisia, the competition policy is based on the competition Act enacted in 1991³. It should be bore in mind that the Tunisian competition policy has not a direct impact on poverty. It has a direct impact on consumer's welfare, which in turn, contributes in reducing poverty level. Note that the notion of consumer includes both poor and non-poor people. Also, it should be mentioned that the effects of the Tunisian competition policy on poverty are long-term effects. In the following, we show how the Tunisian competition law could contribute to the alleviation of poverty.

³ Law N° 1991-64 on competition and prices was enacted in July 29, 1991. It was amended and completed by Law N° 93-83 of July 26, 1993; Law N° 95-42 of April 24, 1995; Law N° 99-41 of May 10, 1999; Law N° 2003-74 of November 11, 2003; Law N° 2005-60 of July 18, 2005.

3.1. *Role of the Tunisian competition law*

10. The first role of competition law, in its fighting against poverty, is to determine anti-competitive practices that could impede competition in market and impose sanctions. The better is the determination and definition of anti-competitive practices, the better will be the impact of competition regulations on poverty reduction. In fact, anti-competitive practices such cartels and abuse of dominant position are harmful for competition and consumers. Therefore, competition regulations that prohibit these practices are required. The Tunisian competition law has defined four main categories of anti-competitive practices, which are:

- Restrictive agreements: that intend to make obstacle to the fixing of the prices by the rule of offer and supply, limit the access to the market to other enterprises or the free exercise of the competition, limit or control production, investments or technical progress, and share the markets or the sources of provision.
- Abuse of dominant position: the Tunisian competition law gives some examples of an abuse of dominant position such as refusal to buy or to supply, tied sales, and discriminatory sales conditions. The abuse of dominant position requires the fulfillment of two conditions: the firm must hold a dominant position, measured by the market share and power market indicators, and the firm must exercise its dominant position.
- Abuse of economic dependency: which consists of the abusive exploitation by one undertaking of the economic dependence of another undertaking, due to the absence for the latter of an equivalent solution for the supply of goods or the provision of services. Three essential elements must be present in an abuse of economic dependency, which are: the existence of a vertical relation between the firm that conducts an abuse of economic dependency and the firm submitting abuse of economic dependency, such as supplier-dealer relation, the firm which is in an economic dependence position has not equivalent solutions for either the supply or distribution of its goods and services, and the abuse of economic dependency must disturb the functioning of the market and affect the competition.
- Predatory pricing: this has as goal to drive competitors out of the market.

11. In addition to the determination of anti-competitive practices as tools for fighting poverty, the Tunisian competition law has established merger control regulations in favor of poor consumer. In fact, merger operations may be allowed if they can prove its contribution to the increasing economic efficiency⁴. Furthermore, the evaluation of any merger operation should take into consideration the necessity to consolidate the competitiveness of national enterprises. Several other criteria are also taken into consideration when evaluating a merger operation such as the strategic choices and consumer's welfare.

12. Besides, the Tunisian competition law has defined the plaintiffs that have the right to submit complaints to Tunisian Competition Council⁵. Among these plaintiffs, we find consumer associations which have as role the protection of consumer rights. This favor for consumer associations could give an idea on how much the Tunisian competition law is interested in protecting consumer's welfare including poor consumer.

⁴ First paragraph of Article 9 of the Tunisian competition law.

⁵ Article 11 of the Tunisian competition law has determined an exhaustive list of plaintiffs, which are: (i) the Minister of Trade, (ii) firms, (iii) consumer associations, (iv) professional organizations and unions, (v) chambers of commerce and industry, (vi) authorities of regulation, and (vii) local collectivities. Natural persons are not entitled to submit complaints.

3.2 Role of the Tunisian Competition Council

13. As the authority in charge of enforcing Tunisian competition law, the Tunisian Competition Council (TCC) has acquired a prominent role in promoting consumer's welfare and reducing poverty. Actually, there are three mechanisms by which the TCC contributes in reducing poverty and enhancing poor consumer's welfare mainly: rigorous enforcement of competition law, dissemination of competition culture and the advisory function.

14. A rigorous and successful enforcement of competition law remains the unique solution for fighting anti-competitive practices and consequently reducing poverty. The TCC has conducted a rigorous application of competition law by imposing severe sanctions on anti-competitive practices. The amount of fines imposed by TCC in 2010 was estimated at 1.209.500 TND against 3.346.000 in 2009 and 85.000 TND in 2008. The increasing amount of imposed fines reflects the rigor of TCC in dealing with infringers.

15. In addition to its adjudicatory mission, the TCC ensures an advisory function which consists in advising the Government on a variety of competition-related matters, and giving its opinion on draft regulations that could affect competition in the market. Whatever the concerned economic sector, the opinions of TCC often take into consideration the purchasing power of consumers including poor people and try to ensure fair access to goods and services. In addition, within its advisory function, the TCC has elaborated several market studies on different economic sectors. These studies constitute a powerful tool to determine the competition level in a given relevant market and detect any potential anti-competitive practice that could deteriorate the purchasing power of consumers.

16. It is argued in the literature that a lack of competition culture harms poor people. The TCC has insisted in each annual report on its role in disseminating competition culture⁶. On this basis, the methodology of TCC consists in establishing general principles on competition related matters that could help practitioners to master theoretical and practical aspects of competition. In addition, the jurisprudence of the TCC is another key element in disseminating of competition knowledge by innovating new competition principles and rules.

4. Conclusion

17. Despite the substantial progress in alleviating poverty, the efforts deployed by Tunisia in its fight against poverty should be fostered by other instruments, in addition to competition policy. The new democratic transition phase that has witnessed Tunisia could constitute a good opportunity to reduce poverty. Some tools like transparency and freedom of expression may play a key role in fighting poverty in the future.

⁶ See Chapter 5, Section 2 of TCC's annual report of 2010.