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## Informal Trade and Government Responsiveness in Tunisia

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### **Abstract**

*Voluntary informal trade activities constitute an important part of the Tunisian official economy. The survey output shows that despite the intensive efforts of the government to solve this problem, by enforcing laws and regulations, but without success. Traders in the informal sector neither comply with the laws nor openly oppose regulations, indicating that the issue is not one of government responsiveness or democratic deficiency. Instead, the root of the problem lies in deeply ingrained mentalities, traditions, and lifestyles, particularly in Ben Guerdane. Addressing this challenge requires substantial efforts and intervention from social experts.*

**Keywords:** *Informal Trade, Government Responsiveness, Official Economy.*

### **Introduction**

The responsiveness of a government to the will of the people is a defining characteristic of democracy. Accordingly, governmental policy must be oriented towards addressing public needs (Dahl, 1971). When the actions of the state are genuinely shaped by public opinion, democracy is substantiated, as it ensures congruence between governmental ideology and policy outcomes. This premise is supported by various studies, including those of Toshkov et al. (2020) and Bernardi (2020), who argue that the interplay between citizen preferences and governmental responses is a fundamental tenet of democratic practice. However, while numerous researchers contend that public opinion plays a significant role in shaping policy, particularly in both developing and transitional economies, some scholars remain skeptical, asserting that the notion of governmental responsiveness is often impractical in real-world settings. The factors influencing democratic responsiveness can be broadly categorized into institutional and economic domains. These include, for instance, the accountability of state institutions or the illicit economic activities that span regions, localities, and even neighborhoods (Traber et al., 2022).

This study builds on these theoretical insights to explore the impact of the informal economy on political decision-making. Informal economic practices, which are typically unrecorded in official government databases, present a significant challenge to the development of effective policies. Such unregulated exchanges limit the capacity of governments to enact comprehensive social policies or reduce tax burdens, even when public demand for such reforms is clear.

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## **Theoretical Framework**

### **Government Responsiveness**

The concept of democracy first appeared in ancient Greek, where the word is broken down into “Demos” meaning people and “Kratos” meaning power. The term in general means that the command and implementation of political systems is done by the population.

Democracy is based on fundamental principles such as the participation of citizens in political decision-making directly or indirectly, equality before the law and respect for fundamental rights.

The definition of democracy is universal but the way in which it is implemented differs from one country to another depending on cultures, traditions etc. Most studies that have studied the quality of democracy find that if governments are insensitive to their policies then the quality of democracy is low. Conversely, if the government reacts immediately to the preferences and demands of its citizens, in other words, systematically responsive governments, then the quality of democracy is high. Dahl from this point of view explicitly shows that "one of the key characteristics of democracy is the continued responsiveness of government to the preferences of its citizens, considered as political equals" (1971, p. 1). It must be said that it is difficult today to define democracy outside this context, it cannot be verified or exists except through the responsiveness of the political system to public opinion, this is therefore a key justification Powell (2004)

### **Informal Economy and Role of Government**

Across global economies, the existence of an unofficial or undeclared sector is an inevitable reality, with the size of this informal sector in GDP varying significantly from one country to another. This variation is influenced by factors such as developmental stage, cultural context, and the effectiveness of public authorities. The informal economy encompasses all economic activities conducted outside the purview of the state, specifically those which remain unreported or unregistered (Schneider et al., 2017). This phenomenon extends beyond mere tax evasion, as it curtails government tax revenues and imposes economic constraints that might slow down development.

A predominant factor driving the informal economy, according to extensive literature, is the burden of tax pressures. Mitra (2017) suggests that excessive taxation diminishes the profit margins of formally declared economic activities, compelling economic agents to operate clandestinely in order to safeguard their profitability. Beyond tax burdens, inefficiencies in public spending further exacerbate informality. Berrittella (2015) argues that investments in quality public services, particularly in education, can mitigate the growth of the informal sector. When a government increases public expenditure, particularly in areas that improve citizen welfare, the population becomes more inclined to declare their economic activities in exchange for the benefits of formalization.

In general, the reasons are of economic institutional types such as the problem of economic and political non-freedom, citing for example, the formulation and application of the rules of law, political stability and so on Hedhli.M (2021).

A survey carried out by the World Bank between 2017-2022 on 15,000 companies operating in the informal sector in 24 cities in seven countries shows that the burden of regulation and the lack of benefits dissuade informal companies from entering the formal sector. Thus, 42% of

them cite at least three obstacles. For 51% of informal businesses, these are taxes, for 47% the delays and cost of registration, and for 56% the lack of advantage in being declared.

According to prevailing theories, informality is largely attributed to the absence of development policies designed to facilitate the transition of informal enterprises into the formal economy. However, it is equally important to consider the reciprocal dynamics at play—the proactive role of individuals operating within the informal sector, who may be hesitant to formalize due to their own cautious strategies and the perception of limited incentives.

The technical and legalistic approach is insufficient, each government must be able to produce local knowledge on informal trade through negotiation and listening to the requests of traders who exercise their activities in the informal sector so that the solutions are tailor-made, so we must not behave with this phenomenon as if it were a problem to be solved, but more objectively, we must above all understand the rules of the game and the structures. These informal practices are the results of an assembly of social and legal norms (Tetica et al 2010).

The approach at this level goes beyond the economic and legalistic approach and rather enters the social and political domain, certain trends in anthropology show that communication and discussion play a key role in understanding this phenomenon (Godechot, 2001).

The various "formalization" policies implemented since the 1980s have resulted in formalizing activities without knowing whether it is appropriate or not, or creating complex, non-harmonized statuses, the only objective is to create regularized activities, through these practices, we see a new problem emerging around the way in which the rules of the economic game are designed and applied: it is no longer so much a question of knowing the reasons that push people to exercise their activity in the informal sector, their way of thinking and especially the habits and traditions received for a long time.

It is also essential to question, in the manner of the "new institutional economics" (North, 1990), the economic and political mechanisms that construct the "normality" or otherwise of such an activity (Duffy, 2007). "Essentializing the formal", wrote Florence Weber and Laurence Fontaine recently, "makes us lose sight of the fact that its characteristic is precisely to reveal the relations between politics and economics" (Weber, 2007).

### **Informal Economy and Role of Government in Tunisia**

Like many developing and low-income nations, Tunisia has a substantial informal sector. In 2020, the informal sector accounted for 35.2% of Tunisia's GDP per capita (UNDP, 2022), compared to 36.4% in 2017. This proportion remains significantly high relative to the World Bank's threshold of 20%, and is notably higher than those of more developed countries—France, for example, reports an informal economy share of 11.1%, while Germany's stands at 10.4%. Between 2000 and 2017, the informal economy in Tunisia experienced only a modest decline, from 38% in 2000 to 36% in 2017. However, in 2008, informality decreased significantly, reaching a low of 27%. Informality has long been a pervasive issue in Tunisia, expanding notably following the Tunisian Revolution. Empirical studies on this phenomenon often attribute the growth of the informal sector to a lack of economic freedom, with Tunisia ranking among the least economically free nations. Additionally, factors such as ineffective governance, high levels of corruption, and political instability are instability i among the explanatory variables of informality (Hedhli, 2022). These studies also indicate that unemployment does not directly cause informality, and that there is no clear, direct, or indirect link between unemployment rates and the underground economy.

Addressing the issue of informality from both a social and political perspective has become an urgent priority. While it is true that resolving the challenges faced by those working in the informal sector largely falls to the government, it is equally important for individuals involved in informal activities to demonstrate a willingness to transition to the formal economy. This transition can be facilitated through active participation in political life, either by adhering to the rule of law as prescribed by the state or by engaging in advocacy to ensure that the policies enacted are both effective and responsive to their needs

This study seeks in the obscurity of this phenomenon to know probably the causes of continuity of these kinds of practices, and the degree of integrity of people who exercise their activities in the informal sector in political life and their willingness to get involved in the formal sector in Tunisia.

### **Empirical Framework**

In Tunisia, most studies in economics show that the spread of this phenomenon and its remarkable increase in recent years are mainly due to the ineffectiveness of government and the poor application of the rules of law. The reflection on this phenomenon must take another form, the effect of economic and legal performance can cause informality, but the treatment of this subject from a social and political point of view has become a priority today in order to better understand this phenomenon and provide tailor-made solutions. This study is based on rather social and political results and concepts and focuses on the nature of the relationship between state institutions and people who exercise their activities in the informal sector.

The objective of this article is to assess whether the government is implementing economic policies that encourage informal sector workers to formalize their activities, while also considering their input to ensure these policies are tailored to their needs. At this juncture, the focus shifts to the government's responsiveness to citizen demands. If informal workers themselves are not actively seeking to formalize their activities, preferring instead to remain in the informal sector, the government may face challenges in engaging with these individuals. Moreover, if informal sector workers are not pursuing direct or indirect opportunities to communicate their needs, the process of formalization becomes even more complex. To form our empirical work, three hypotheses are the subject of our study:

H1: The government sets up mandatory legal rules, and does not react to the requests of these citizens who exercise their activities in the informal sector.

H2: Traders in the informal sector want to stay away from political life and do not express their dissatisfaction.

H3: The level of education plays an important role in minimizing informality.

To test these hypotheses, a survey was conducted, involving a sample of 48 individuals engaged in informal sector activities. The survey was carried out in Ben Guerdane (Arabic: بنفردان [ben guerdan]), a city located in southeastern Tunisia, within the Djeffara plain. Ben Guerdane, part of the Medenine governorate, has a population of approximately 79,912 (as of 2014) and spans 473,200 hectares. The city is on the border of Libya with a notably high rate of informal trade

The survey questions reflect the active participation of people who live in Ben Guerdane and exercise their activities in the informal sector in political life and decision-making, such as their registration and participation in elections, their reactions to the political changes that Tunisia has experienced especially the Jasmin Revolution. Political engagement can take many forms,

ranging from elections to demonstrations. This political engagement is seen as a way to protect and promote the rights and freedoms of citizens. It is also seen as a way to promote social justice and ensure that the interests of Ben Guerdan inhabitants are taken into account in political decisions implemented in Tunisia so as to resolve the situation and help informal traders in this area to enter the formal sector. So political engagement generally represents the voluntary and conscious action of an individual or group to influence the political process and outcomes. It can take many forms, including voting, participating in demonstrations, signing petitions, supporting candidates and causes, and participating in meetings and debates.

The objective of these survey questions then is to know the extent to which informal traders in Ben Guerdan are involved in political and social life, and their interest in finding feasible solutions on a practical level to solve these problems. The survey further seeks to understand whether education plays a critical role in encouraging workers to transition to the formal sector and reduce the prevalence of informal practices. Ultimately, this study aims to evaluate how informal traders in Ben Guerdan perceive the political process and whether feasible, practical solutions exist to help integrate them into the formal economy.

**Empirical Results**

**Sample Of 13 Traders Who Operate in the Informal Sector and Have a Low Educational Level:**

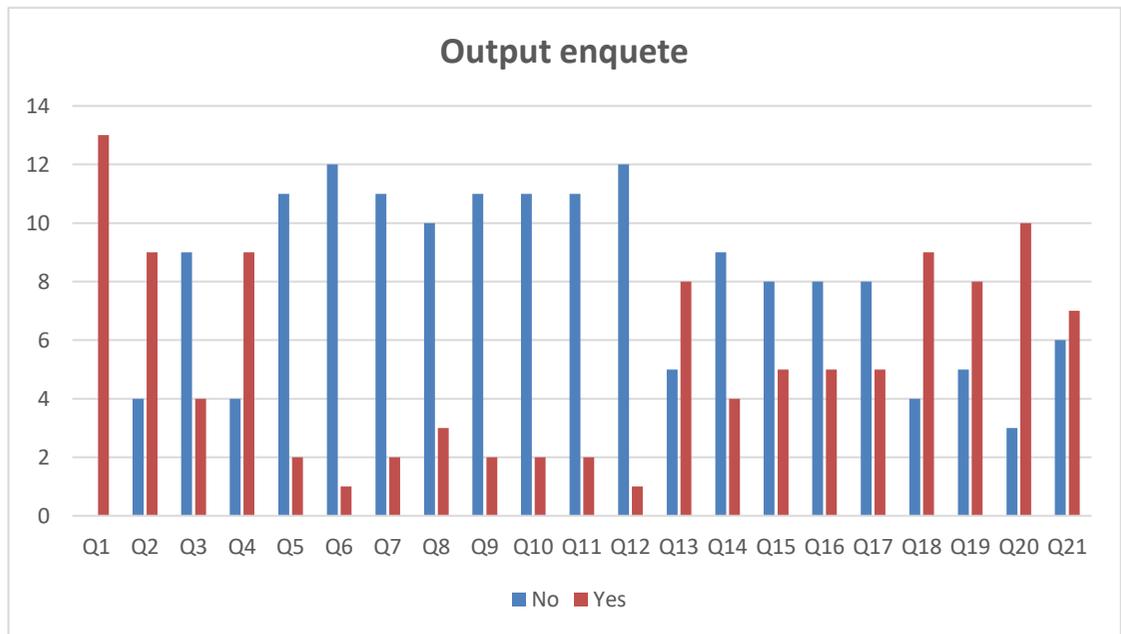


Figure 1: Responses From Traders Operating in the Informal Sector With Low Educational Levels

The graph above shows the responses of the first sub-sample, which includes people who carry out their activities in the informal sector without a Baccalaureate or a university education level.

"In this sample group, most traders have been operating in the informal sector for a long time, relying solely on it for financing. They do not actively seek solutions to formalize their businesses."

Most of the people interviewed have no idea about the decisions, laws and reforms proposed by the State in order to improve the economic situation, ensure social equity and

implement solutions to achieve a favorable business climate for investment that in turn can benefit traders in the informal sector. In our questionnaire we put the example "Decree-Law No. 2023-10 of March 8, 2023, regulating the elections of local councils and the composition of regional councils and district councils". We tried to find out the effect of its reforms on informality, but we discovered that only 2 out of 13 people who have an idea about this decree-law and only 3 out of 13 people registered and voted. These people cannot know their assets and duties regarding these laws and how they can help them. It must be said that this decree does not directly concern the informal sector, but rather national reforms beneficial to all Tunisian governments.

To be more direct, we asked questions about the laws concerning cross-border informal trade, such as the legal text of the 2025 finance law which shows the customs sanctions related to contraband assemblies. The results show that most respondents do not have an idea about this legal text, on the one hand. On the other hand, these people express their indifference to this law. These measures taken by the State do not push these people to enter the formal sector.

Another vision was taken into account in our study. Through the questions we tried to know the reactions of these people towards the laws and government decisions, and if there are demonstrations to express their dissatisfaction, requests addressed to the government already having tailor-made solutions tending to reform the sector. The output of questionnaires shows that there are neither demonstrations nor reactions of traffickers who express their willingness to change reality. Almost all the interviewed people in the sample say that they have not expressed their requests in any way, neither directly nor indirectly. The primary cause of informality according to the sub-sample interviewed is due to the Tunisian tax system. These traffickers find that the efforts shared by the State to minimize this phenomenon are not profitable for them such as the Ben Guerdane free trade zone project. This large link between Africa and Europe that covering an area of 71 hectares. The Ben Guerdane free trade zone project will also offer economic actors several advantages for example access to property for foreigners, freedom to transfer profits, tax exemptions, a one-stop shop for business creation, which will guarantee very competitive investment costs.

Our survey shows that only 4 out of 13 people express their willingness to invest in this zone while the others prefer to remain in the dark. In general, these respondents do not have a clear idea about the effect of these informal practices on the economic situation, thinking that this type of trade does not have a negative effect on the official economy. For them the benefits of informal activities are conferred upon the population of Ben Guerdane as well as Tunisia on the whole. This group of traders who do not have a university level, among whom (69.23%) have been operating in the informal sector for a long time, are satisfied with the economic situation in Tunisia and have no intention to leave Tunisia.

**Sample of 35 traders who operate in the informal sector and have a higher level of education**

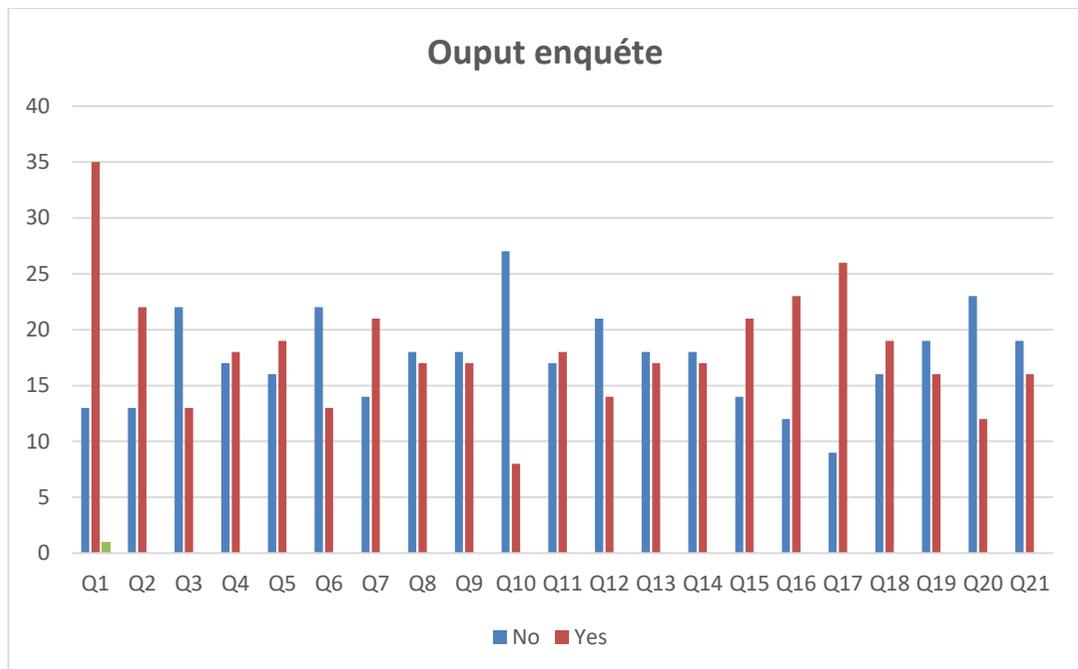


Figure 2: Responses From Traders Operating in the Informal Sector with A Higher Level of Education

The graph above and the table in the appendix present the responses from the second sub-sample, consisting of individuals engaged in the informal sector who have attained a Baccalaureate or university-level education.

In this sample group, the majority of traders have been operating in the informal sector for a long time, with 22 out of 35 individuals, accounting for approximately 62.82%. However, nearly half of these traders also have parallel sources of declared financing that are subject to taxation, representing 54.28% of the sub-sample.

The majority of people surveyed are involved in political life and have an idea about the decisions, laws and reforms proposed by the State, unlike the first sub-sample. Concerning for example "Decree-Law No. 2023-10 of March 8, 2023" our survey shows that 21 out of 35 people surveyed have an idea about this decree and are familiar with all its clauses. Almost half participated in the elections which represents 48.5% of the sub-sample. Moreover, the participants say that they had contacts with some the elected officials, but they did not find an interaction.

Regarding the legal text of the 2025 finance law which shows the customs sanctions, 21 out of 35 traffickers have an idea about this law. Although we have put the text of the law in our questions but 12 people out of 35 show their indifference towards it, and therefore reluctance to enter the formal sector. The others, 23 people show their willingness to formalize these businesses in order to avoid sanctions. It is a high number compared to the traders in the informal sector with lower educational level who expressed their total indifference.

The reactions of these people towards the laws and government decisions are almost absent. Most show that there are no demonstrations to express their dissatisfaction or make requests heard by the government which highlight tailor-made solutions in order to show their willingness to

reform the sector. Half of the interviewed show that the Tunisian tax system pushes traders towards informal trade while the other half finds that the situation of obscurity is the most favorable for them. These traders in this sub-sample agree with the traffickers of the other sub-sample regarding the free trade zone project. In figures, 18 out of 35 people find that this project does not encourage people who exercise their activities in the informal sector to enter the formal sector. To better understand how these people think about the official economy, we asked about the effect of informality. Most of the interviewed say the informal sector can only be beneficial to the official economy when it helps people buy good of high quality at low prices compared to the market.

As for the degree of satisfaction of the latter traders with the situation of the Tunisian economy, they, unlike the other sub-sample, declare with more or less significant number their dissatisfaction with the situation of the Tunisian economy. They find that their interest exists elsewhere, and they are probably going to leave Tunisia to search for a better living condition for themselves and their children as well.

## Conclusion

Trade in BenGerdane remains predominantly informal in the sense that traders are not declared and still operating outside official channels, avoiding tax payment. The causes of informality, as highlighted by to the majority of people interviewed regardless of their educational levels, is the tax system. The results of our survey reveal that while the state has implemented clear laws and regulations, but traders in the informal sector do not want to respect the law. Furthermore, they neither express their disagreements with these regulations nor propose any suitable solutions that would address their specific needs. Instead, they choose to remain in the shadows.

This suggests that the issue is not related to the level of democracy or the government's responsiveness to public protests. In fact, this partially validates our first hypothesis: "*H1: the government sets up mandatory legal rules and does not react to the demands of citizens involved in the informal sector.*" It is true that the government sets up decrees and regulations without taking into account the opinions of traffickers, but this is not due to the lack of democracy but rather the choice of people not to express their demands at all. This finding fully supports our second hypothesis: "*H2: traders in the informal sector wish to stay detached from political life.*"

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## Appendixes

**Appendix 1:** Responses from traders operating in the informal sector with low educational levels

Questions	Yes	No
Q1		13
Q2	4	9
Q3	9	4
Q4	4	9
Q5	11	2
Q6	12	1
Q7	11	2
Q8	10	3
Q9	11	2
Q10	11	2
Q11	11	2
Q12	12	1
Q13	5	8
Q14	9	4
Q15	8	5
Q16	8	5
Q17	8	5
Q18	4	9
Q19	5	8
Q20	3	10
Q21	6	7

**Appendix 2:** Responses from traders operating in the informal sector with low educational levels

Questions	Yes	No
Q1		35
Q2	13	22
Q3	22	13
Q4	17	18
Q5	16	19
Q6	22	13
Q7	14	21
Q8	18	17
Q9	18	17
Q10	27	8
Q11	17	18
Q12	21	14
Q13	18	17
Q14	18	17
Q15	14	21
Q16	12	23
Q17	9	26
Q18	16	19
Q19	19	16
Q20	23	12
Q21	19	16

**Survey**

<b>YES</b>	<b>No</b>
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- Q1: Do you have a baccalaureate level or higher?
- Q2: Have you been active in the parallel trade sector for a long time?
- Q3: Are you new to the parallel trade sector?
- Q4: Is parallel trade a major source of income for you?
- Q5: Do you have other declared sources of income subject to performance?
- Q6: Are you involved in the public service?
- Q7: Have you read Decree No. 10 of 2023 dated March 8, 2023 relating to the organization of local council elections and the composition of regional councils and provincial councils?
- Q8: Have you registered and participated in the local elections?
- Q9: Have you had contact with the members in charge at any point to submit demands that help you organize the sector?
- Q10: Have you found interaction from the councils in charge?
- Q11: Does this division encourage you to direct your work towards the formal sector?
- Q12: Have you previously submitted proposals and demands to successive governments before or after the 2010-2011 revolution to improve and regulate your activity?

Q13: Is tax evasion the only motive that makes you active? In the economy Parallel

Q14: Does the decision to establish a free zone encourage you to enter the regulated sector

Q15: Have you read the Finance Law for the year 2025: related to increasing prison sentences related to smuggling cases

"The new procedures within the framework of the Finance Law for the year 2025 include tightening customs penalties related to smuggling islands by increasing the minimum and maximum prison sentences for first-degree misdemeanors, so that the minimum becomes 6 months instead of 16 days (and the maximum becomes two years) instead of one month and increasing the minimum and maximum prison sentences for second-degree misdemeanors, so that the minimum becomes two years instead of 3 months (and the maximum becomes three years instead of one year" .

Q16: Do these measures push you to look for ways to transfer all your trade exchanges towards the formal economy?

Q17: Do you think that the parallel economy has a positive impact on the formal economy?

Q18: Do you think that the parallel economy has a negative impact on the formal economy?

Q19: Do you think that the parallel economy has no impact on the formal economy?

Q20: Are you satisfied with the economic situation of Tunisia?

Q21: Are you thinking of immigrating to other countries for yourself or for your children?