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Put the ball in Tunisia's court: New government and urgency of reform require modified EU approach

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SWP Comment

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Put the Ball in Tunisia's Court

New Government and Urgency of Reform Require Modified EU Approach

Isabelle Werenfels

Despite a hostile environment, Tunisia's democratisation process since 2011 has survived and progressed. Yet crucial structural reforms to ensure effective governance, economic growth and resilient democracy have yet to be implemented. Elections in 2019 indicated a popular desire for a strong push for reforms. A new government took office at the end of February, but it remains to be seen how functional it will be. It encompasses parties whose views on certain questions are fundamentally opposed. This creates a dilemma for Tunisia's external partners: they would like to accelerate the pace of reforms but have little to show for their attempts to prod Tunisia into action. One option for spurring Tunisian initiative would be more targeted incentives for reforms and clearer conditionalities for financial assistance. Germany's reform partnerships are already a move in that direction, and Germany could use its EU Council Presidency in the second half of 2020 to persuade external donors to take a common line.

The death of President Béji Caïd Essebsi in July 2019 and the subsequent presidential and parliamentary elections have reshaped Tunisia's political landscape. The new president, Kaïs Saïed, is a constitutional lawyer who received more than 70 percent of the votes. He is regarded as modest and sincere but politically inexperienced. Apart from Ennahda, which remains the largest party, the other main parties were almost wiped out. In their place anti-establishment forces from left to right did well, often employing populist rhetoric. Ultimately the election result – nine years after the end of the dictatorship – reflects the wish of many Tunisians to see a fresh attempt at reform, this time with a stronger social and eco-

nomic focus. After the election the public showed effervescent optimism. Opinion polling in October 2019 found 78 percent confident that the next five years will be better than the past five; only 6 percent feared the opposite.

The protracted process of forming a government put a damper on those high expectations. In early 2020 parliament rejected the cabinet put forward by Ennahda's nominee for prime minister. In a second round the president's personal choice of prime minister, Elyes Fakhfakh, succeeded in forming a government. Fakhfakh had already served as a minister from 2011 to 2014. As the candidate of the tiny social democratic Ettakatol he received just 0.34



percent of the votes in the 2019 presidential election.

Half the new ministers are independent technocrats, the other half politicians from very different parties: the moderate Islamist and economically liberal-leaning Ennahda, the secular liberal Tahya Tounes of former prime minister Youssef Chahed, the social democratic Attayar and the left-wing, pan-Arabist Echaâb.

The opposition is also extremely diverse ideologically. The largest opposition party is the secular liberal Qalb Tounes. Other relevant currents include the conservative Al-Karama and the anti-Islamist Parti Destourien Libre. The latter seeks to restore aspects of authoritarian rule, which it regards as having been positive.

Reforms Necessary, Circumstances Difficult

The Fakhfakh government stands under great pressure to show results. *Firstly*, public finances are extremely tight. Debt servicing alone consumes about one-fifth of the 2020 state budget, and tourism revenues can be expected to collapse entirely as the effects of the corona virus ripple out. In order to maintain liquidity the government needs to negotiate rapidly with the International Monetary Fund to release loans totalling more than \$1.2 billion that have been held back pending completion of promised reforms.

Secondly: In order to overcome the ongoing economic crisis without accumulating even more debt, the Tunisian economy needs to be dynamised, integration in the global economy stepped up and new jobs created. Alongside fundamental reforms of the fiscal, financial and credit systems this also requires efficiency improvements in the administration, faster approval processes and education reforms orientated on the needs of the labour market.

Thirdly, the government must respond to high public expectations: As confirmed by surveys in 2018 and 2019, what Tunisians want most is economic recovery, greater

purchasing power, better services (especially in the state health and education systems), a reduction in social inequality and not least more determined action against corruption.

Fourthly, civil society activists in particular press for reforms designed to consolidate the young democracy. They demand transparency and accountability in the security sector, greater powers for parliament and local elected representatives, the end of influence on the judiciary by powerful political and business interests, and full realisation of the terms of the constitution. To this day there is still no constitutional court because most appointments have been blocked in parliament by party-political squabbling.

Obstacles to reform

Various reasons can be identified for the failure of the outgoing coalition of Ennahda and Nidaa Tounes to implement important structural reforms:

Veto actors and entrenched practices. The central veto actors include the highly influential trade union confederation, the UGTT, which has repeatedly succeeded in delaying or watering down budget cuts demanded by the IMF and mobilised sections of the population against liberalisation initiatives in trade and other sectors.

Networks in business, administration and politics that work to preserve privileges acquired under the old regime are at least as influential. They fear competition, transparency and accountability and resist fiscal reforms, new regulatory regimes and moves to bolster the independence of the judiciary. The interests of these networks of patronage are also reflected in repeated attempts by Nidaa Tounes to torpedo the transitional justice process, in resistance from police unions against greater accountability, and in the rejection (also widespread in the employers' organisation UTICA) of trade liberalisations that could endanger existing monopolies.

To date political will to stand up to these powerful networks has been lacking. Here Ennahda's much lauded *policy of consensus* was likely a factor: Although Ennahda had

been persecuted during the dictatorship and is regarded as rather reform-orientated, it decided in 2013 to cooperate with the elites from the old system. Concern for national stability and avoiding a return to illegality likely played a role too. The outcome saw an important potential driver of reform mutate into a status quo actor.

Capacity deficits and silo mentality. The obstacles to reform also included the poorly resourced parliament, which has been overwhelmed by new legislation in the course of the transition. Above all there is a lack of cooperation within the government and between ministries, while the bureaucracy also remains inefficient and susceptible to corruption. Like the World Bank, European trade and development actors complain about enormous delays and cashflow problems, partly as a result of a silo mentality in the ministries, a lack of flexibility in the administration, and cumbersome approval processes. A survey of small and medium-sized enterprises in 2019 found more than 70 percent of respondents reporting that the public administration was a major obstacle to development; 28.8 percent said there were “incentives” to bribe the administration for a service. In the 2019 Global Competitiveness Ranking from the World Economic Forum Tunisia occupied 87th place out of 141.

Effect of the “democratisation bonus”. Since 2011 the European Union and member states like Germany have given Tunisia greater diplomatic and financial support than any other Arab country. The grounds to do so included Tunisia’s role as a dependable counter-terrorism and migration management partner and the repercussions of the Libyan civil war. But the most important reason for such massive support was and remains Tunisia’s position as the only country in the region to have successfully democratised.

After almost a decade, Tunisia’s government appears to think it can take this “democratisation bonus” for granted, especially as it continues to flow despite the absence of structural reforms. That attitude

was reflected in Tunisia’s indignation when the European Union put it on its money-laundering blacklist in 2018 following a recommendation by the international Financial Action Task Force (FATF). Tunis had ignored European warnings that action would have to be taken. The expectation that the EU would come to Tunisia’s rescue resurfaced in the communication over the negotiations over the free trade agreement, which is controversial in Tunisia. Because the government plainly lacked the political will, the EU took charge of the communication with Tunisian civil society. Examples like that suggest that European overactivity is not necessarily productive for Tunisian initiative.

New constellations – new opportunities?

Pronouncements by the new prime minister and the terms of the coalition agreement suggest that the new government is fully aware of the need for reforms and the obstacles to their implementation. Its priorities include improving coordination between ministries, a clampdown on corruption and following the recommendations of the so-called Truth and Dignity Commission for transitional justice. In addition, both President Kaïs Saïed and the coalition members Echaâb and Attayar place great weight on Tunisian sovereignty. This would imply that they will want greater influence over and “ownership” of reform processes. At the same time the implementation of economic reforms is likely to test the political elites’ ability to compromise: Tensions between advocates of statist and free-market agendas within the government are inevitable; the government’s majority in parliament is small, and power struggles loom between the parliamentary speaker – Ennahda leader Rached Ghannouchi – and the popular President Kaïs Saïed.

Lessons for the European Union

Tunisia's partners in the EU would be well advised to leave the initiative to Tunis. The will to reform cannot be imposed from outside. But messaging, incentives and action can be configured to strengthen pro-reform actors and increase the pressure on Tunisian partners to cooperate. Germany has an important role to play, as Tunisia's most important bilateral partner in terms of financial volume alongside France. The German EU Council Presidency from July 2020 would offer an opportunity for a reset to seek the following measures:

Demand and promote Tunisian initiative. In all forms of cooperation, the initiative needs to come from Tunis, as has long been the case with civil society actors. From that perspective the EU should certainly avoid insisting on reviving the contested free trade talks, and instead wait for Tunisian initiatives and proposals.

Ex-post funding mechanisms for cooperation with the government. Experience with the reform partnerships initiated by Germany in 2017, for example in finance and banking, suggests that the impetus for reforms increases and their pace accelerates if funds are not released until jointly agreed steps have actually been accomplished. Inter-departmental projects also encourage cooperation between ministries. The principle of "cash on delivery" should be expanded to all direct state aid from external actors, specifically taking into consideration goals that are both proposed by Tunis and ambitious.

Strengthen incentives for reform. The government has stronger incentives to carry through sensitive reforms if it can demonstrate progress to the population, such as the conversion of external debt into project funds, expanded quotas for work visas for European states experiencing skilled labour shortages, or specific concessions on agricultural trade.

Promote local expertise and skilling. Tunisia is crawling with international development

experts. European actors could make more and better-targeted use of Tunisian expertise, including from the Tunisian diaspora. Tunis has already begun to implement a dual education system — with apprenticeships parallel to purely academic education — with German assistance, and this needs to be expanded. Despite there being around 600,000 unemployed in 2019, German enterprises had difficulties finding skilled applicants for thousands of vacancies.

Improve European coordination. Since 2011 about €10 billion have flowed to Tunis in official European development aid alone, without heed to synergies and coordination. Agreements are possible, as demonstrated by the security cooperation since 2015: In response to terrorist attacks, European and US actors coordinate with Tunisia and share tasks. In order to strengthen transparency and coordination, Germany could publish a full list of German-funded cooperation projects on a digital platform, in the hope of encouraging other European and external actors.

The aforementioned measures offer Tunisia an opportunity to realise changes that are desired by important actors within and outside the new government — to progress from being the object of well-meaning external development ambitions to become the active subject and shaper of its own future.

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