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CAPITALIZING ON TUNISIA'S TRANSITION

The Role of Broad-Based Reform

Marwan Muasher, Marc Pierini, and Fadil Aliriza

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Carnegie Endowment for International Peace
Publications Department
1779 Massachusetts Avenue, NW
Washington, DC 20036
P: +1 202 483 7600
F: +1 202 483 1840
CarnegieEndowment.org

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About the Authors

Marwan Muasher is vice president for studies at Carnegie, where he oversees research in Washington and Beirut on the Middle East. Muasher served as foreign minister (2002–2004) and deputy prime minister (2004–2005) of Jordan, and his career has spanned the areas of diplomacy, development, civil society, and communications.

Muasher began his career as a journalist for the *Jordan Times*. He then served at the Ministry of Planning, at the prime minister's office as press adviser, and as director of the Jordan Information Bureau in Washington. In 1996, Muasher became minister of information and the government spokesperson. From 1997 to 2002, he served in Washington again as ambassador, negotiating the first free-trade agreement between the United States and an Arab nation. He then returned to Jordan to serve as foreign minister, where he played a central role in developing the Arab Peace Initiative and the Middle East road map. In 2004, he became deputy prime minister responsible for reform and government performance and led the effort to produce a ten-year plan for political, economic, and social reform. From 2006 to 2007, he was a member of the Jordanian Senate. From 2007 to 2010, he was senior vice president of external affairs at the World Bank.

He is the author of *The Arab Center: The Promise of Moderation* (Yale University Press, 2008) and *The Second Arab Awakening and the Battle for Pluralism* (Yale University Press, 2014).

Marc Pierini has been a visiting scholar at Carnegie Europe since September 2012; his research there focuses on developments in the Middle East and Turkey from a European perspective. Pierini was a career EU diplomat from December 1976 to April 2012. He was EU ambassador and head of delegation to Turkey (2006–2011), to Tunisia and Libya (2002–2006), to Syria (1998–2002), and to Morocco (1991–1995). He was the first coordinator for the Euro-Mediterranean Partnership, or the Barcelona Process (1995–1998), and the main negotiator for the release of the Bulgarian hostages from Libya (2004–2007). Pierini served as counselor in the cabinet of two European commissioners: Claude Cheysson (1979–1981) and Abel Matutes (1989–1991).

He has published three essays in French: “Le prix de la liberté” (Actes Sud, 2008), “Télégrammes diplomatiques” (Actes Sud, 2010), and “Où va la Turquie?” (Actes Sud, 2013). Pierini is a member of the International Council of the Museum of European and Mediterranean Civilizations in Marseille. He tweets @MarcPierini1.

Fadil Aliriza is Tunisia project manager at Carnegie. He has worked as a researcher, an analyst, and a journalist focusing on the politics of Tunisia and Libya since the 2011 uprisings. Immediately prior to joining the Tunisia project, Aliriza worked as a guest editor of the Carnegie Middle East Program’s *Sada* journal. Aliriza was previously a visiting senior fellow at the Legatum Institute’s Transitions Forum, researching and publishing a monograph on the politics of Tunisia’s national security entitled “Tunisia at Risk: Will Counterterrorism Undermine the Revolution?” He is the author of two book chapters: “Between Democracy and Police State: Tunisia’s Troubled Transition” in *The Middle East Unbalanced: Analysis From a Region in Turmoil* (Carnegie Endowment for International Peace, 2016) and “Lack of Media Coverage Compounds Violence in Libya” in *Attacks on the Press 2015 Edition* (Committee to Protect Journalists, 2015). Prior to 2011, Aliriza worked as a foreign news editor at the *Hürriyet Daily News*. He tweets @FadilAliriza.

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Summary

Following an unprecedented period of political consensus building, Tunisia and its international partners have launched a new coordination mechanism to boost long-term investment and facilitate private-sector growth. However, for this effort to succeed, a bottom-up approach must also be taken to address more urgent challenges such as youth unemployment, corruption, centralized governance, and public distrust. This will require instituting broad-based economic and political reforms that democratize market access, engage local actors, and meet the needs of all citizens, especially those marginalized in interior regions.

Key Themes

- Although Tunisia has made significant progress toward consolidating its democracy, consensus among political parties has not translated into public buy-in of the reform process.
- Substantial inequality remains among citizens, depending on geographic location, age, and political and social status.
- The November 2016 international investment conference, Tunisia 2020, is part of a strategy to secure the country's long-term economic development, but there are major, near-term obstacles to its effective implementation.
- Increased spending on public wages and debt has left little room for investment in Tunisia's budget.
- Pervasive corruption and nepotism and prohibitive customs and tax regimes are barriers to small and medium-sized enterprises and achieving shared prosperity.
- Difficult reforms, such as reducing public-sector employment, could exacerbate political and social tensions.
- The kind of investment made and level of civic society engagement will be important factors in building a resilient economic, political, and social order in Tunisia.

Recommendations

The government of Tunisia, with international support, should

- Make comprehensive tax and customs reform a priority to open up the market for local, small and medium-sized enterprises and generate job opportunities.

- Fight corruption at every level by mandating officials' public disclosure of assets and interests; creating transparent tracking and reporting mechanisms for the investment, development, and trade sectors; and cracking down on illicit capital flows.
- Work toward decentralizing governance to the local level by drafting an electoral law and holding free and fair local elections.
- Promote domestic investment in Tunisia's marginalized, interior regions.

Tunisia's international partners should

- Reaffirm their strong support to the government and the country's entire society on the difficult march toward reforms.
- Augment their financial and technical support for Tunisia's democratic and economic development, and focus on projects with wide-reaching benefits, such as infrastructure.
- Be sensitive about conditionality and avoid restructuring the economy too quickly or drastically, which would exacerbate social tensions and risk damaging Tunisia's fragile transition.
- Engage local actors, civil society, and the media in formulating coordinated development policies to give them a stake in governance and increase the likelihood of reforms succeeding.

Introduction

The fundamental changes to Tunisia’s political order that began in late 2010 continue. An increasingly common framework for making sense of these changes is to measure them in terms of progress and reform rather than in terms of revolution.¹ Tunisia’s governing class in particular and its international partners have a stake in steering the country’s progress along a path defined by legal, political, and economic reforms that underpin a basic liberal democratic model—one they believe to be the best guarantee of stability and resilience.

In this framework, Tunisia has made significant progress. The 2014 constitution represents a progressive charter that aspires to found a pluralistic, inclusive, transparent, accountable, just, and representative governing system with checks and balances. Moreover, the process of writing this constitution was a shining example of “deep compromise,” in the words of one scholar,² between different political actors with conflicting ideologies and a history of antagonism, violence, and even torture.³ Overcoming these differences, particularly between Islamists and non-Islamists, was a remarkable example of political consensus building. Since then, this practice of consensus among political elites has continued with more recent governing coalitions, including the governments of Habib Essid in 2015–2016 and of Youssef Chahed since August 2016.⁴

Yet many Tunisians continue to feel excluded politically, socially, and economically. For them, the revolution remains incomplete, and the narrative of reform and progress holds little currency.⁵ For these Tunisians, the revolution failed to correct vast inequalities between coastal regions and the interior, between young and old, and between those with good connections and those who lack the personal and professional networks needed to succeed in an economic system riven with nepotism and corruption. While political parties may be working together in a broad consensus to come up with economic solutions to Tunisia’s woes, there are alarming signs that Tunisians have lost faith in the process: 95 percent of young Tunisians say they lack confidence in political parties.⁶

Bridging this gap between government and citizens will be key to making reforms sustainable and to consolidating the democratic principles that have begun to shape the Tunisian political experience. In practice, this means developing a government that can address the needs and ambitions of citizens while working to reshape Tunisia’s state and society toward a more just order and

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shared prosperity. The current Tunisian government and its predecessor have worked with international partners to restructure the economy through legislative reforms to attract and facilitate more foreign investment. This approach will have benefits but also potential negative effects. The issue is whether it will be sufficient to build resilience in the Tunisian political, economic, and social order.

In an April 2016 paper entitled “Between Promise and Peril,” authors at the Carnegie Endowment for International Peace identified several areas in which solutions to Tunisia’s challenges could be developed through a new framework involving Tunisia and its international partners.⁷ This framework would be undergirded primarily by coordinated economic and political investment, as well as continued security-sector assistance.

Since then, Tunisia and its international partners—the Group of Seven (G7) together with the European Union (EU) and international financial institutions—have launched a new coordination mechanism focused on economic and governance reform while continuing to strengthen the capacity of the country’s security sector through another so-called G7+ mechanism. Together with a series of liberal reforms, these instruments have opened up the possibility of a new way forward for Tunisian development.

At the same time, these international mechanisms could benefit from greater public buy-in, civil society engagement, and inclusive dialogue. Moreover, other key reforms that are politically more challenging due to their potential to

upset vocal private interests—such as customs reform, comprehensive tax reform, or a robust fight against corruption—have not been priorities in the recent governments’ legislative agendas.

The tough work of building consensus around legislative reform and creating a common narrative about Tunisia’s economic challenges and solutions has begun and represents a success of a kind. Moreover,

the Tunisian government and its partners have successfully made clear the urgency of economic reform and fighting corruption, demonstrating that a proactive policy is necessary to create jobs and foster economic opportunities for ordinary citizens. The difficult task of finding creative solutions that are tailored to the Tunisian experience, sensitive to the country’s specific social challenges, bold enough to induce private interests to contribute to the public good, and developed through transparent and accessible debate with broad public input is still required. Therein lies the hope of consolidating and strengthening Tunisia’s second republic.

Coordination between international mechanisms could benefit from greater public buy-in, civil society engagement, and inclusive dialogue.

A Continued Partnership Framework and a New Investment Roadshow

In its attempt to coordinate international support, the Tunisian government is pursuing at least two major projects. The first is the continued development of a Tunisian-led partnership mechanism with the G7 (including the EU), which aims to coordinate international development aid but has expanded to include broader issues of governance and reform. The second is an autumn 2016 roadshow of government officials to the United States, European capitals, and Gulf countries to present Tunisia's reform agenda and attract new institutional and private investment in the run-up to Tunisia 2020, a major international investment conference in Tunis on November 29 and 30.

A G7+ mechanism was launched in June 2016 to facilitate discussion of reforms and implementation of reform-support projects between the government and its international partners, including international financial institutions. The mechanism has a broader scope than the one proposed in Carnegie's April 2016 paper, as it extends into structural governance and reform.

The mechanism is led by a dual presidency—the ambassador to Tunisia of the country that presides over the G7 and the Tunisian minister of foreign affairs. It has an executive committee composed of the ambassadors of the G7 members (including the EU); the Tunisian minister of development, investment, and international cooperation; and the Tunisian minister of foreign affairs. Below this executive committee are six technical working groups. Each of these groups has two co-chairs, a Tunisian representative from the Ministry of Development, Investment, and International Cooperation and a representative from one of the international partners. These working groups are

1. economic reforms and governance, co-chaired by the EU;
2. infrastructure and megaprojects, co-chaired by France;
3. regional development and decentralization, co-chaired by Italy;
4. agriculture and the green economy, co-chaired by Germany;
5. human development, which at the time of writing did not have a fixed co-chair; and
6. communication, co-chaired by the United Kingdom.⁸

The executive committee held its initial three meetings in June and July 2016. After the change of government in August, the working groups continued holding regular meetings while drafting reports to present to the executive committee.

The setup of the G7+ mechanism offers a number of advantages. The launching of the G7+ mechanism itself represents an important first step toward broadening input on Tunisia's policy challenges while providing a structure for what might otherwise be ad hoc and isolated negotiations between different

partners through multiple channels. What is more, the creation of working groups represents an opportunity for greater cooperation on development aid and fiscal support, at a time when numerous factors have combined to block the implementation of development projects.

The mechanism's current iteration also presents challenges. First among these is how to incorporate more fully the caveats presented in Carnegie's April 2016 paper. Two key features of the mechanism proposed in this paper were "Tunisian leadership and commitment" and "[establishing] greater accountability and transparency for the government of Tunisia, international partners, the parliament, Tunisian civil society, interest groups, and the public alike."⁹ The existence of a technical working group designed specifically for the purpose of communication may help address the issues of accountability and transparency. To gain broad public support, however, this mechanism needs to remain firmly under Tunisian government leadership.

To enhance public buy-in for the process, one potential avenue would be to open up these processes to the public and invite the participation of civil society actors as appropriate. Regular reports by Tunisian partners and public communications to the Assembly of the Representatives of the People and, as necessary, to the media about the goals and challenges presented by the G7+ mechanism would introduce a level of oversight and discussion that may counteract potential criticisms. The executive committee of the mechanism should make every effort to demonstrate how this process will positively impact Tunisia's crisis of youth unemployment and dismantle the numerous barriers to small and medium-sized enterprises (SMEs): access to credit, legal protection, and "legality," as economist Hernando de Soto put it;¹⁰ fair fiscal treatment and customs and police regimes; protection from monopolies; and so on.

While the G7+ mechanism continued, an investment roadshow began in fall 2016 with Tunisian President Beji Caid Essebsi taking part in the second annual U.S.-Africa Business Forum in New York on the sidelines of the annual United Nations (UN) General Assembly meetings. The spotlight offered Tunisia a well-publicized interview of Essebsi by U.S. Secretary of State John Kerry in front of an audience of major private-sector leaders on September 21. This event occurred four days after Tunisia passed a new investment code, a measure for which Kerry had earlier expressed his congratulations to Essebsi.¹¹

Tunisian Minister of Development, Investment, and International Cooperation Fadhel Abdelkefi also visited Washington in fall 2016 for meetings to highlight Tunisia's reform agenda. The key meeting in Abdelkefi's trip was with the International Monetary Fund (IMF),¹² which touched on the sensitive issue of Tunisia's commitment to freezing public-sector salaries despite an earlier agreement between the previous government and the Tunisian General Labor Union (UGTT) to raise salaries through 2018.¹³ At the time of this meeting, the UGTT had launched a vigorous media campaign against the freezing of salaries; in October 2016, leaders of Tunisia's largest opposition party organized protests and criticized austerity as a loss of national sovereignty.¹⁴

The IMF, in an August program note, reaffirmed its policy recommendation of “containing the wage bill to 12 percent of GDP [gross domestic product] by 2020,”¹⁵ a target that Tunisia may miss unless public-sector wages are frozen. This issue will likely demand continued negotiation between stakeholders.

An Economic Approach to Political and Social Challenges

Tunisian policymakers and their international partners have rightly identified economic issues as driving many other problems in Tunisia. The government’s strategy has been primarily to work on a series of liberal economic reforms that it believes will boost foreign investment while relaunching the economic approach based on five-year plans that was a staple of the Tunisian state’s policy tool kit. The last five-year plan, which covered the period from 2007 to 2011, was the eleventh of its kind in Tunisia’s history. Following the uprising, political instability largely prevented the formulation of a new plan, a factor that gives added symbolic importance to the latest drafting of the twelfth five-year plan.

Reaping the direct benefits of private foreign investment is generally believed to be a long-term goal, and this is clearly a priority for the Tunisian government. In the short term, complying with IMF recommendations for legislative changes will also provide fiscal support at a time when wages and debt-servicing payments are increasing.¹⁶ It will also send a strong signal to international financial institutions and bilateral partners that they should commit to Tunisia and assist in building the development projects that represent real investment and create jobs.¹⁷

The government’s other priority, which cannot be immediately addressed by fiscal and regulatory reform, is combating unemployment. At 31 percent for young people,¹⁸ unemployment remains one of the main drivers of unrest and is a source of other major social and economic challenges. In the words of Abdelkefi, unemployment represents “the biggest economic and social problem in Tunisia. . . . The war against unemployment, I consider it as important as the war against terrorism.”¹⁹

The first policy challenge with regard to employment is public-sector hiring (see box). Between 2010 and 2014, the number of public-sector employees increased from around 480,000 to about 580,000, not including employees in public companies.²⁰ Unemployed graduates in marginalized interior regions in particular have held hundreds of demonstrations and sit-ins demanding public-sector employment. Graduate unemployment is a burden on a state that has invested in its higher-education system—the share of the Tunisian population with tertiary education more than tripled from around 4 percent in 1990 to above 12 percent by 2010—without investing in corresponding employment sectors or using policy to effectively encourage private-sector employment that would match the education of its graduates.²¹

Box 1. Between Public Wages and Public Debts, Little Room for Investment

The approach of previous governments to the problem of unemployment and unrest linked to unemployment and other social issues has been to increase public-sector hiring and public-sector wages. In a long television interview, Abdelkefi offered an analysis of the macroeconomic consequences of this policy:

Over past five years, we've been having growth coming from wages—public-sector wages [went from] 6 billion dinars [\$2.7 billion] in 2010 to 13.2 billion dinars [\$5.9 billion] in 2016, which is 70 percent of our fiscal revenue. . . The margin for maneuver in the national budget at the moment is no longer possible. . . Now we have no choice but to encourage internal and external investment.²²

Debt-service repayments are also boring a hole through Tunisia's finances. In the same interview, Abdelkefi noted that public debt as a percentage of gross domestic product had gone from 40 percent in 2010 to about 62 percent in 2016 and that this number rose to 80 percent when "taking into account guarantees the Tunisian government has given to certain institutions."

The government's proposed solutions aimed at encouraging internal and external investment need to be nuanced. Private investment in agriculture, for example, has had negative effects on small-scale farmers.²³ Meanwhile, if the government constrains wages, this not only will have a social impact but also could hurt growth by curbing consumption and negatively impacting aggregate demand in general.

One alternative to increasing public-sector employment is promoting entrepreneurship. SMEs, after all, are often the biggest job creators. According to the new state secretary to Tunisia's minister of employment and professional training in charge of private initiative, the state is just beginning to see promoting entrepreneurship as part of its role. This means cutting red tape, restructuring financing, and democratizing market access. In the case of red tape, what is important is to help remove administrative barriers to entrepreneurship, for example by reducing paperwork for registration and compliance or including "self-employed" as a formal category on national identification documents.²⁴

Restructuring financing is more difficult. Private banks are not lending very much to SMEs, reserving their lending mostly for big corporate clients. However, public banks, in particular the Banque Tunisienne de Solidarité (BTS), have also been behaving like private banks since the revolution, measuring their performance in terms not of projects funded or businesses or jobs created but of their bottom line. The BTS had previously operated under the close supervision of the governing Democratic Constitutional Rally (RCD) party in what was an authoritarian, single-party political system. Under this system, state banks operated in a way that some have identified as showing favoritism to regime allies, by offering bad loans while benefiting from regular

recapitalization from the state.²⁵ Without the benefit of this insurance since the RCD was dissolved after the 2011 revolution, the BTS has been making far less risky loans, thus contributing to the dearth of financing opportunities that SMEs are experiencing. Another problem is that the finance-management system of the BTS is not tailored to small businesses that can sink if they miss a month or two of salaries. The Tunisian government appears to be aware of these challenges and is actively looking for solutions.

One other barrier to SMEs is the strong market control of well-established businesses, which leads to a lack of competition. Moreover, opaque operations in import and export licenses as well as unequal policing and compliance checks that target smaller businesses and ignore larger firms have further inhibited the growth of small and medium-sized competitors. These hurdles may be exacerbated if chamber-of-commerce operations are centralized and if regional chambers of commerce lack the capacity to effectively and independently advocate for and promote local private industry.²⁶

As a result of these formal barriers, many SMEs operate in the informal sector, which by some estimates represents over half of the market and, according to Carnegie's April 2016 paper, has "overtaken the formal economy in terms of . . . GDP."²⁷ Although Tunisia's informal sector, particularly in illicit commerce with products smuggled from Algeria and Libya, is a source of employment, it is not regulated and is largely out of the state's control. This means that the state loses tax revenues while workers in the informal sector lack social and job securities.²⁸ Reforming customs and tax regimes in a way that democratizes market access will be difficult but will go a long way to incorporating the informal sector into the formal sector and making the best use of its job-creating energies.

Another challenge to increasing employment has been the fact that state-sponsored technical training programs are not up to the standards of professionalization needed in the current job environment. Moreover, internships and apprenticeships are not yet major institutions in Tunisia. As the minister in charge of entrepreneurship explained, "If we want the capacity to do big infrastructure, we need more hands-on training."²⁹

If the government tackled unemployment through a jobs program outside the formal structure of traditional public-sector employment, this might avoid the traditional problems associated with a bloated public sector—employment as entitlement without corresponding performance evaluation in terms of productivity or service to citizens. This approach could include temporary contracts in dinar-denominated public works projects that would not require increasing the burden on foreign-currency reserves or international financing. Urban management, hostel care, and arts projects are all works that could enable the long-term unemployed to develop work skills while alleviating unemployment, according to one scholar developing a proposal along these lines.³⁰ The funding for this

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could potentially be raised through a sale of dinar-denominated Treasury bills issued by the government in coordination with private investors.

A New Investment Code

As for regulatory reforms, Tunisia's new investment code should come as a welcome change for foreign investors. Adopted by the country's parliament on September 17, 2016, the law is much shorter than the previous code and is intended to be simpler.³¹ The old code had helped bifurcate Tunisia's economy into an offshore sector and an onshore sector, a dichotomy that the World Bank found kept "both sides of the economy trapped in low productivity" and "accentuated regional disparities."³²

Moreover, the new code lays out the creation of a High Investment Board that will coordinate all licensing. Government officials say they see this board as a one-stop shop for investors and that it will be responsible for coordinating the licenses, permits, authorizations, and other administrative obstacles normally issued by multiple other administrative bodies. The government acknowledges that the investment code is not perfect, but Abdelkefi has described it as a "first step" and sees it as putting Tunisia on a par with other countries in the Mediterranean in competing for investors.³³

Development Policy

The five-year development plan spanning 2016–2020 will be one of the main features on display at the Tunisia 2020 investment conference. This is the first time since the 2010–2011 uprising that the Tunisian state has managed to draft and coordinate a five-year plan, a staple mechanism of Tunisia's statist economy. The document has not been fully concluded as of this writing. However, the former minister of development, who played a major role in crafting the plan, said that the document had received widespread input after numerous meetings across Tunisia.³⁴ Meanwhile, EU ministers identified the plan as "a pillar to enable Tunisia's partners to target their support and financial assistance."³⁵

Hard numbers are subject to change, but one version of the plan lays out projects worth about \$60 billion over the next five years, with some of the financing to be paid after the five-year time horizon.³⁶ Of this budget, roughly two-thirds is expected to come from external financing, the rest from the Tunisian state's own sources of revenue. One notable achievement of this plan, according to the former development minister, is that it was negotiated between most of the main political parties, which come from vastly different ideological backgrounds. Moreover, the plan was designed with roughly 70 percent of the budget going to development in the sixteen least-developed interior governorates of Tunisia and about 30 percent to the remaining eight more-developed coastal governorates.³⁷ Given that Tunisia's population is more concentrated

in developed regions, these numbers represent development weighted toward poorer regions.

The five-year plan represents only an aspirational development policy and must be implemented through the yearly budgetary procedure. But it offers a vision that Tunisia hopes will have the support of its partners, both state and institutional investors as well as private-sector actors. Much focus has been drawn to foreign direct investment; yet privately, top officials, numerous policymakers, and outside observers recognize that local Tunisian capital must also start investing to help attract foreign private capital. This is particularly true of interior regions of the country.

In this spirit, Prime Minister Youssef Chahed convened a semipublic meeting with Tunisia's biggest domestic businesses and conglomerates shortly after taking power in August 2016. In the meeting, Chahed called business circles the untold "success stories" of Tunisia, asking them to invest in less-developed regions.³⁸ Some Tunisians have criticized this meeting for not including SMEs, emphasizing the notion that only big businesses have access to top officials. However, members of the prime minister's team saw the meeting as a first step to building a positive relationship with the people who can reshape the economy under the right conditions.³⁹ Moreover, the communication strategy of spotlighting domestic success stories could build pressure on the private sector to play a more positive role in public policy during a time of economic crisis.

Bottom-Up Challenges to Democratic Consolidation and Economic Resilience

The success of a continuing partnership aimed at facilitating Tunisia's political and economic development does not depend on cooperation mechanisms or legislative reform alone. There are a host of bottom-up challenges that, if not addressed by all stakeholders in cooperation, risk playing a spoiler role in Tunisia's consolidation of a formal political system that can respond to its citizens. These challenges are numerous, but the most urgent at present are enhancing public buy-in, addressing corruption, and decentralizing governance.

Carnegie's April 2016 paper identified five key commitments that could help guarantee Tunisia's success. Two of these were, first, revitalizing public outreach and launching an inclusive dialogue with all stakeholders and, second, "advancing reforms that can gain public buy-in and remove obstacles to economic growth, particularly in marginalized communities."⁴⁰ The methods with which the Tunisian government has since implemented economic reforms, however, have diminished public buy-in and reduced public outreach. The politics of consensus have, to some degree, successfully mitigated divisions among elite political figures through closed-door meetings. But this approach

has had the effect of marginalizing the formal opposition and further redirecting contentious politics into informal forms, such as strikes, sit-ins, and popular protest movements.⁴¹

Enhancing Public Buy-In

The liberal economic reforms enacted by the Tunisian government have come alongside a proactive media strategy. However, these reforms could have benefited from more robust and transparent public debate and more diverse input. Managing continuing social tensions will require further work to build public buy-in for the government and its policies.

The practice of building consensus among elites played its first crucial role in shaping Tunisia's postrevolutionary governing system in the form of the Tunisian National Dialogue Quartet. This group of four nongovernmental organizations came together in summer 2013 to resolve a political crisis that politicians appeared unable to handle. That crisis was fueled by a combination of extreme public unrest and ideological polarization over the role of religion in the state and was sparked by two political assassinations and a series of high-profile attacks by militants against Tunisia's security forces.

This quartet's role in successfully navigating Tunisia toward a nonviolent political solution earned the four organizations a Nobel Peace Prize in 2015, but many interpret the prize as validating the efforts of the entire Tunisian people to work together on what professor Charles Tripp called a "common political project," namely the second Tunisian republic.⁴²

The politics of elite consensus continued after the 2014 parliamentary and presidential elections with a governing coalition between the two major parties, Nidaa Tounes and Ennahdha. The formation of a new government in August 2016 extended this tradition. In June 2016, the presidency of Essebsi, a former Nidaa Tounes leader and co-founder, launched a process for a new government of national unity. In a series of consultations over summer 2016, nine political parties, the UGTT, an agricultural union, and the Tunisian Union of Industry, Trade, and Handicrafts (UTICA) reached the Carthage Agreement, which outlined a broad set of shared policy priorities. The end result of this process was a new government that includes more parties and two ministers who have close ties to the UGTT leadership.⁴³ One member of the government from Ennahdha was pleased to note that several politicians who had previously vowed never to work with her party are now in a coalition government with it.⁴⁴

But this politics of consensus often clouds the reasons why consensus building began. Not only was there fierce ideological polarization that demanded consensus building in 2013, but extreme unrest with multiple root causes has also contributed to continuous antigovernment sentiment since the 2010–2011 uprising.⁴⁵ The reasons for this unrest reflect the reasons for the revolution: a lack of economic opportunities, a lack of dignity for citizens in their relations with the

state, and a lack of public services, housing, and development. In addition to these grievances—after the revolution—came inflation and low growth.

These fundamental problems that fueled the unrest that prompted consensus building have not gone away as a result of inclusive consensus building. In fact, public attitudes toward the government in general have deteriorated. For example, 91 percent of young Tunisians lack confidence in the parliament,⁴⁶ while other state institutions also suffer from a lack of trust.

Between January 2015 and May 2016, more than 5,000 demonstrations took place across the country.⁴⁷ Nationwide protests erupted in January 2016 after a young man killed himself demonstrating against nepotism in public hiring that resulted in the removal of his name from a job list; this led to widespread unrest and clashes between police and demonstrators.⁴⁸ The situation calmed down only after nationwide curfews, a carefully moderated police response, and the announcement of populist, though nonbinding, economic reforms by then prime minister Essid. These underlying social dynamics and the remaining chasm between citizens and the state reveal the limits to the kind of consensus building that has dominated Tunisian politics.

The reason for the change in government in August 2016, according to Essebsi, was that the previous administration had been unable to address the challenges facing Tunisia, particularly its economic issues.⁴⁹ However, a number of Tunisian political commentators, including critics and allies of the government alike,⁵⁰ see the reshuffle as an extension of executive power, particularly presidential power, at a time when there is a distrust of leadership. In the continuing absence of a constitutional court, the creation of which remains on the legislative agenda, disputes over executive authority and between the executive and legislative branches will remain up in the air in a way that allows the traditional practice of a strong presidency to shape politics.⁵¹

The ability of consensus politics driven by a strong presidency to eventually address social issues will remain a fundamental issue. When it comes to specific legislative reforms, the recent reform agenda has also revealed a significant gap in public buy-in, inclusion, and transparency. From 2011 to 2014, Tunisia had an open legislative process and political development more broadly, but this openness is not yet fully institutionalized. An open environment is a key feature of Tunisia's democratic development: it was the process's openness to civil society, the media, and citizen advocacy that allowed for the kind of compromise that characterized the debate, drafting, and ratification of the 2014 constitution.

Several recent pieces of legislation have been hammered out in the so-called consensus committee in the parliament. Originally designed to iron out disputes to pass the 2014 constitution, the committee has now been used to debate sensitive laws that will affect the future structure of the Tunisian economy and redefine the role of the state. That is despite the fact that the committee's existence is

91 percent of young Tunisians lack confidence in the parliament, while other state institutions also suffer from a lack of trust.

not stipulated in the parliament's internal procedural rules. Consensus committee meetings take place largely without the attendance of journalists or civil society watchdogs. Moreover, minutes from the committee's proceedings are either not recorded or not published.⁵² At the same time, plenary parliamentary sessions—which allow for public meetings between members of parliament and the government and opportunities for questions on policy—have not been occurring on a monthly basis as outlined in the parliament's internal rules.

Other factors have added to the opacity of the legislative drafting process. While there are many potential benefits to a well-crafted investment code, some stakeholders—including government officials—believe that public debate was limited and parliamentary discussion rushed. Tunisian policymakers privately express that they have had to move forward with reforms at a pace that is too fast. Fiscal assistance conditions have, in the words of one parliamentarian, “tied the hands” of legislators.⁵³ Some also consider that the rewards of investment and assistance have been used to shape legislative changes, in effect circumventing broad public debate.⁵⁴ In October 2016, the secretary general

Policymakers privately express that they have had to move forward with reforms at a pace that is too fast.

of the UGTT criticized the way in which Tunisia's international partners were approaching economic reforms, arguing that their approach did not take into account the fragility of Tunisia's democracy.⁵⁵

For other stakeholders, external private actors may also influence the legislative process in ways that are not transparent. After two different members of parliament lodged accusations that their colleagues were taking bribes in return for legislative favors, the state launched a judicial inquiry into the allegations.⁵⁶ Meanwhile, strict rules on the disclosure and transparency of lobbying are not yet central to Tunisia's governing framework.⁵⁷ All of this suggests that Tunisia needs more robust rules governing conflicts of interest, political money, and lobbying.

Another of the five key commitments identified by Carnegie's April 2016 paper was a fast-track mechanism for certain development projects. The paper described the mechanism as a ministerial committee that would identify shovel-ready projects, expedite traditional authorization procedures, and bypass normal public procurement processes. The essential aim of this fast track is to unfreeze infrastructure projects, particularly in disenfranchised regions of Tunisia. In line with this recommendation, Tunisia has taken steps to discuss a version of a fast-track mechanism, something that the minister of development has called an “economic emergency law.”⁵⁸

This is potentially a positive step for unfreezing development projects. An early draft of the law, however, proposes that large-scale development projects be exempt from parliamentary oversight. A team responsible to the prime minister will largely be in charge of deciding the designation, without input from the legislature. Frozen projects could benefit from a mechanism that

cuts through red tape, but lawmakers should consider the risks of increasing executive authority and circumventing public discussion and scrutiny. No mechanism is suggested in place of the procurement process for ensuring anticorruption measures, and there are no clear guidelines governing potential conflicts of interest.

Addressing Corruption

One of the main challenges to solving Tunisia's economic problems is corruption. Even if a new investment climate is encouraged through the enactment of liberal economic reforms, informal negotiation with all sorts of bureaucratic actors will persist. Local government actors, utility companies, customs officials, and police officers are able to make independent demands on business actors, leaving investment vulnerable to potential corruption. Comprehensive tax and customs reforms are key in this respect. What is more, successive governments have not addressed the potential for high-level corruption, and the lack of truly public disclosure of assets by high-ranking officials risks leaving the political system vulnerable to favoritism and cronyism.

The initial rhetoric of the new government seemed to indicate that fighting corruption would be its second priority after fighting terrorism.⁵⁹ Chahed asked his ministers to disclose their assets within ten days of taking office. Ministers, as well as many other civil servants, are already required by a 1987 law to submit their declared assets in a sealed envelope to the Court of Auditors.⁶⁰ This envelope, however, remains sealed unless a court case requires its disclosure. The 1987 law also requires that when they leave office, elected officials disclose their assets once more, though compliance with this procedure is reportedly low.⁶¹ This system is different from genuine public disclosure of assets, which could have a positive effect on overall government transparency. Moreover, Article 11 of the Tunisian constitution declares that the president and legislators must also disclose assets, but there has been no legislation in the two years since the passage of the 2014 constitution to codify this constitutional principle.

Combating petty corruption also requires a concerted effort to root out corruption and potential corruption at the highest levels of government in order to effectively dismantle a culture of impunity. Greater transparency in this area would demand a more thorough disclosure of potential conflicts of interest and not merely assets. In light of Tunisia's development, infrastructure projects, and fast-track mechanism, a lack of effective legislation regulating Article 11 of the constitution may create the conditions for a political system vulnerable to patronage.

While Tunisia has an anticorruption authority, it and its budget are under the control of the prime ministry. This hinders the authority's independence and ability to investigate corruption. The organization seems to have been given some new life in January 2016 with increased funding and fresh leadership.⁶² The authority says it has received 1,937 complaints since the beginning

of 2016, of which it submitted 832 dossiers to investigators and 106 to the Ministry of Justice.⁶³ It is unclear, however, how many of these cases the body has managed to resolve and whether the justice system more broadly has the capacity or will to resolve them.

As for illicit financial flows, the volume of this capital has exceeded debts in Tunisia over the last several decades, according to one report.⁶⁴ This suggests that the current economic development model could be radically reshaped if the war against corruption were waged vigorously. The report found that Tunisia lost on average \$905 million annually due to illicit capital flows between 1970 and 2010. At the macroeconomic level, these flows take the form of incorrect invoicing and tax avoidance.⁶⁵

Tunisia can take steps to address this problem by reforming the customs and tax regimes so they are fairer, more transparent, and more professional. This will be a largely political fight and requires the will to combat legally operating monopolies and informal trade networks equally. If this task is not a priority, illicit capital flows may undermine Tunisia's capacity for development.

There are numerous other ways to cut down on corruption with which both the Tunisian government and its international partners can help. One way is to introduce legislation that requires public disclosure of assets for top elected officials, in line with Article 11 of the constitution. Another is to work toward implementing greater tax transparency, which could help boost tax compliance. A third option is to commit more political capital to investigating and prosecuting public servants as well as private-sector actors who are found guilty of corruption. Strict, vigorously enforced laws on lobbying and political financing could also reduce the potential for corruption.

Tunisia's international partners can help reduce corruption in several ways, which is also in their interest. One is to track development money and publicize budgets at every phase of the project cycle, from materials to wages. More than that, the international community can consider pushing for stronger international cooperation to cut down on illicit capital flows and tax havens.

Decentralizing Governance

Tunisia's new constitution commits the country to decentralization as a pillar of state policy.⁶⁶ The state's ability to work for citizens and people's trust in their government both depend in part on the work of municipalities. Many of the most visible deficiencies in the contract between citizens and the state are on display at the municipal level, from trash collection and road maintenance to property and trade authorizations. The police officer who in December 2010 confiscated the merchandise of street vendor Mohamed Bouazizi—who subsequently set himself on fire in an act that became a catalyst for the Tunisian revolution—was a municipal officer, and the site of Bouazizi's suicidal act of resistance was in front of a municipal office. The events of January 2016, when nationwide protests broke out after a young unemployed man in the central

Tunisian city of Kasserine electrocuted himself while protesting against the local government, suggest that tensions around local governance continue.

In light of this continuing gap between local government and citizens and this ongoing crisis of local governance (see box), local democracy is key to building buy-in and giving citizens a stake in their own affairs.⁶⁷ One key step toward the consolidation of democracy in Tunisia is the holding of local elections. However, there have been two delays to a proposed date for local elections and a delay in passing a law governing local elections, due to what one international observation organization called a “glaring lack of attention to the organization of regional elections.”⁶⁸ Others have suggested in private discussions that the government is effectively deciding on the election date as a matter of political convenience.

Elections cannot take place without both a law governing local elections and a law governing decentralization and laying out the new responsibilities of municipal and regional councils. Between these two laws, the former has taken precedence on the legislative agenda.⁶⁹ Although a draft law was presented, debated by the responsible parliamentary committee, and submitted to the full parliament on June 1, 2016, it has since lingered there.⁷⁰ Numerous close observers have noted in private that the reason for the delay is that, with the possible exception of Ennahdha, political parties are not sufficiently organized to mobilize grassroots electoral campaigns, and there is a perception that many national parties are not positioned to perform well.⁷¹

Box 2. In Jemna, De Facto Local Governance Meets State Authority

Currently, Tunisia’s policing role stands in contrast to a comprehensive state development policy in coordination with locals. A perfect example of this is the case of Jemna, a small town in the southern governorate of Kebili. After the 2011 revolution, locals confiscated public date-producing land that the central government had sold to private companies years earlier allegedly without approval by locals or the local council.⁷² These citizens collectively developed the land, sold their products, and reinvested the profits in civic developments.⁷³

Despite this apparent achievement, the Tunisian government declared the auction of dates in Jemna illegal and promised to prosecute all those involved in the sale. The government declared the sale unlawful on the grounds that the land was public and could not be de facto managed by locals without the townspeople properly sorting out the legal status of the land with the state.⁷⁴

Some elected politicians from Tunis visited Jemna in October 2016 to lend support to the locals defying the state. Meanwhile, state officials had earlier held consultations in Jemna in which they suggested the association be turned into a private company with a special status. However, this proposal drew concerns from locals that such companies developed land without reinvesting in the community.⁷⁵

The challenge of local elections is only one part of the decentralization puzzle. The other part is renegotiating the roles of other formal institutions in local politics.

The challenge of local elections is only one part of the decentralization puzzle. The other part is renegotiating the roles of other formal institutions in local politics—be they ministries, chambers of commerce, governors, labor unions, private industry, or informal economic networks that include actors that have become powerful interest groups in their own right. Formally, Tunisia's twenty-four governors will remain appointed by the central state, but following elections they will have to negotiate both with their own staff and with elected regional councils. The role of the governors, the question of whether they will have veto rights over budgets and projects proposed by regional councils, and the ministry under which they will be employed are key issues.

Given the quick turnover of governments since 2011, as well as the limited capacity and staff power of legislators, the task of writing laws relating to decentralization has fallen largely to civil servants in what is now the Ministry of Local Affairs, previously a department in the Interior Ministry. The complexity of the issue and its arcane technical and legal specificities have made public engagement difficult. However, some nongovernmental organizations—Al Bawsala is the most prominent among them—have dedicated resources to researching the issue in depth, visiting and interviewing local officials, and recruiting volunteers in municipalities who can act as citizen watchdogs over the functioning of municipal affairs. This expertise and knowledge sharing will be vital to shaping decentralization in a way that further engages public buy-in and outreach.

Conclusion

There is no doubt that Tunisia's challenges demand well-crafted political and economic solutions. Policies that tend to isolate economic solutions from political tensions may seem attractive, but these realms are inextricably linked. Addressing political discontent is key to the long-term success of economic reform.

Top-down mechanisms designed to better facilitate Tunisia's integration into a global market economy—essentially, reform packages negotiated between the Tunisian government and its international partners—require work in parallel on the bottom-up challenges of broader citizen engagement and empowerment. It is precisely in this spirit that the European Parliament passed a resolution in September 2016 calling for its negotiators on a new free trade agreement with Tunisia to take into account “environment, consumer protection and workers' rights” and ensure that “this agreement will be mutually beneficial while taking proper account of the significant economic disparities between the two parties” and while actively involving civil society actors in a more open and transparent process.⁷⁶

Tunisia 2020, the investment conference in Tunis on November 29–30, 2016, presents an opportune moment for Tunisia’s international partners to recommit their support by considering the financing needs of the development projects that will sustain Tunisia’s political and economic future.

Tunisia 2020 can also provide a chance for would-be Tunisian entrepreneurs to assess the country’s development needs. The barriers to their entry into the market—nepotism, corruption, and unreformed customs and tax regimes—remain significant, but the government’s efforts to liberalize the economy can drive public support for democratizing market access. Meanwhile, established Tunisian businesses will have the opportunity to invest in public development projects. These projects may be less lucrative than the current investments by Tunisian conglomerates, but public-private-partnership schemes combined with symbolic returns from investment in local communities could present an opportunity for the private sector to engage in the public good.

At the same time, these investments can succeed in building something concrete only if Tunisia’s stakeholders (government, parliament, business, trade unions, and civil society organizations) commit to transparency, track funding and procurement processes, avoid conflicts of interest, and sustain public outreach and participation in decisionmaking. Investment in Tunisia is more necessary today than ever before, but given Tunisia’s fragile political order, the kind of investment is as important to success as the investment itself.

For Tunisia’s international partners, this is a crucial moment to reaffirm their strong support to the government and the country’s entire society on the difficult march toward reforms. The road is difficult, but Tunisia has a unique asset inherited from its revolution, that is, its society’s capacity to craft consensus and compromise. This is more critical and urgent than ever before.

Investment in Tunisia is more necessary today than ever before, but given Tunisia’s fragile political order, the kind of investment is as important to success as the investment itself.

Notes

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