

BTI 2016 | Tunisia Country Report

Pre-Release to the BTI 2016 (to be published in February 2016)

Status Index	1-10	6.15	# 50 of 129	
Political Transformation	1-10	6.30	# 54 of 129	↗
Economic Transformation	1-10	6.00	# 49 of 129	→
Management Index	1-10	5.29	# 55 of 129	

scale score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	11.0	HDI	0.721	GDP p.c., PPP \$	-
Pop. growth ¹	% p.a.	1.0	HDI rank of 187	90	Gini Index	35.8
Life expectancy	years	73.6	UN Education Index	0.621	Poverty ³	% 8.4
Urban population	%	66.6	Gender inequality ²	0.265	Aid per capita \$	65.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

At the start of 2015, only two years after a deep political crisis had brought Tunisia to the brink of chaos, the country emerged from political transition with a democratic constitution and a freely elected leadership. This is a remarkable achievement given the level of turmoil preceding this development, which included a series of security failures and two political assassinations in 2013 that fueled mutual distrust between a government dominated by the moderate Islamist party Ennahda and a mostly secular opposition. Tunisia's National Dialogue, established in October 2013, has played a key role in bringing together various political forces to create a road map for installing a technocratic government. As an institution driven by civil society, the National Dialogue oversaw the adoption of a constitution in January 2014 and free and fair elections in the fall of that year. Democratic procedures, it seems, were successfully established as the only game in town.

Following the instability and economic stagnation of the transition period, a considerable share of voters put their trust in the candidates of the newly created Nidaa Tounes (Call of Tunisia) party, a staunchly secular party that includes some members of the authoritarian regime. While Nidaa Tounes founder Béji Caïd Essebsi won the presidential elections, the party fell short of winning an absolute parliamentary majority. The third vital power of a democratic state, the judiciary, is not yet fully independent. The continued lack of respect for freedom of expression is one of Tunisia's most salient political shortcomings. Given the dominance of one political party in the elected institutions, civil society will continue to play a key role in pushing for democratic change.

While Tunisia's political system has transformed dramatically since the 2010-2011 revolution, its economic model has barely changed. Disparities between the affluent urban centers in coastal areas and the deprived areas of other regions have not been effectively tackled. Both economic opportunities and the quality of public services differ drastically.

Markets are dominated by state-owned companies and extensive regulations shield some firms from competition – both domestic and international. The monopoly-like profits thus generated

often only serve a narrow elite and the cumbersome bureaucracy opens the door for corruption and cronyism. This model is unlikely to create the badly needed jobs for Tunisia's young and well-educated workforce – overall unemployment stands at 15%, while almost a third of young graduates are jobless.

The decline in security is in part related to the failure of Tunisia's transition to deliver tangible economic gains. The deprivation that triggered the 2010 uprising is now feeding radicalization across Tunisia's disadvantaged neighborhoods. The state's failure to show its presence in the border regions to Algeria and Libya through socioeconomic development as well as security measures means that they are open to the trafficking of arms, which equip militant radicals in Tunisia. For the first time since late 2011, more Tunisians say in polls that they would prefer a stable and prosperous authoritarian system to an unstable democracy.

The newly elected politicians thus face significant challenges. To secure the gains made so far, the next government will have to create more employment opportunities and improve the security situation to prove that democracy can deliver for Tunisian citizens. Doing this sustainably will not be easy, as it requires taking on entrenched economic interests, fighting corruption, improving the judiciary and producing an accountable and effective security sector.

History and Characteristics of Transformation

The 2014 adoption of Tunisia's constitution by a democratically elected parliament and three subsequent national elections are key achievements of the 2010–2011 revolution. This transition ended more than five decades of modernizing bureaucratic authoritarian presidential regimes under the initial leadership of President Habib Bourguiba (1959–1987), followed by Ben Ali (1987–2011). Throughout this era, Tunisia was effectively a one-party state. Both presidents dominated political and economic life during their respective tenures, building up extensive security forces, a devoted bureaucracy and, under Ben Ali, the Constitutional Democratic Rally (RCD), which was officially dismantled on 7 February 2011. While a façade of democratic institutions and practices existed and were expanded over time, these were skewed in the regime's favor while key opposition movements such as the Islamist Ennahda ("Renaissance") remained severely repressed, and the few legal opposition movements and civic associations were closely controlled by the government. Important interest groups such as the Tunisian General Labor Union (UGTT, Union Générale Tunisienne du Travail) and the employers' Tunisian Union for Industry, Commerce and Handicraft (UTICA, Union Tunisienne de l'Industrie, du Commerce et de l'Artisanat) were incorporated or co-opted into the regime in an authoritarian corporatist arrangement. The human rights situation was characterized by unfair trials, restrictions on human rights groups, harassment of opposition politicians as well as extralegal arrests and assaults that targeted critical journalists and independent-minded judges.

In the 1970s, and again in the 1990s, the regime drew much of its domestic legitimacy from its modernizing policies (e.g., with regard to women's rights and education) as well as Tunisia's undeniable progress in human development. After achieving independence in 1956, Tunisia, like

many other developing countries, first pursued a development strategy of state-led industrialization and import substitution, which produced a highly protected market. The economic opening of the country started in 1972, when the government implemented a new regulatory regime aimed at attracting foreign investors. In so doing, Tunisia sought to draw on its comparative advantages for international subcontracting, which included the country's proximity to Europe, its low-cost but skilled labor force, a serviceable infrastructure, and a comparative political and social stability. Beginning with subcontracting in the textile sector and subsequently expanding to the mechanical and electrical sectors, Tunisia slowly increased the share of value added domestically, as well as adding activities with high knowledge content. Alongside this growing export potential, a tourism-driven influx of foreign currency and programs with international organizations supported the country's economic development.

Economic reforms found new impetus with a structural adjustment program in 1986, which included the progressive liberalization of foreign trade and the privatization of state-owned enterprises. A state-sponsored upgrade program increased the competitiveness of export-oriented firms throughout the 1990s. As of 1 January 2008, the process of dismantling reciprocal trade barriers for industrial goods with the European Union was completed, at least on paper. However, foreign trade still suffers from a number of logistical flaws (e.g., bureaucracy and customs procedures).

Despite respectable rates of economic growth, the years leading up to the revolution were marked by a combination of high unemployment rates (especially among the comparatively well-educated young), persistent regional disparities, the erosion of the welfare state and blatant corruption reaching up to top state levels. Tunisia's authoritarian legacy is still evident, not least because the economic system has barely changed since the revolution. At the same time, there are reports of human rights abuses by security forces, which continue to lack accountability. Old networks of cronyism also seem to persist and the judiciary does not function according to democratic standards. The implementation of the 2014 constitution's democratic norms thus faces formidable challenges.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The Tunisian state's ability to control its territory has deteriorated since the onset of the political transition in 2010. While the monopoly of force by the state remains intact, the challenges posed by radical jihadi groups in particular have become more obvious and more serious. In 2013 alone, there were assassinations of two opposition politicians (Chokri Belaïd and Mohamed Brahmi) by such groups, which have also staged several deadly attacks on security forces over the course of the evaluation period. Since 2013, the Tunisian authorities have prevented about 9,000 Tunisians from travelling to Syria, where Tunisians already have a large presence among Islamist fighters in that country's civil war (unverified estimates speak of 3,000 Tunisian fighters in Syria and Iraq).

Monopoly on the
use of force

7

The Tunisian government is unable to control its borders effectively, where an alliance between traffickers and armed jihadi militants has strengthened since 2013. At the same time, the conflict in neighboring Libya has escalated into civil war and about two million Libyans have moved to Tunisia to escape it. There is a potential for the Libyan conflict to spill over into Tunisia. Along the Algerian border, the Djebel al-Chaambi region is of particular concern with respect to the government's territorial control.

Wide dissatisfaction with the lack of economic progress since the revolution has found its expression in occasional social unrest that has targeted symbols of the state, such as police stations.

Reacting to these challenges, the government has increased security spending and stepped up anti-terrorism efforts, leading to numerous arrests across the country. There has also been a clampdown on associations suspected of cooperating with terrorists, particularly in border areas.

The Tunisian nation-state is accepted as legitimate by the overwhelming majority of the population and citizenship is not discriminatory. Arab, Berber and Mediterranean cultural and ethnic influences are widely recognized as part of the Tunisian nation and the presence of the small Jewish and Christian minorities is not controversial. Some Salafist groups as well as more moderate Islamist leaders are, however, of the conviction that religion should play a greater role in defining national identity. The 2014 constitution, which was passed with the support of a broad majority of political forces, defines Tunisia as a civil state with a republican system based on citizenship. In defining Islam as the state religion, as well as other ambiguities about the relationship between the state and religion, the constitution leaves many questions on this issue for later debate and decision. In the medium term, another potential challenge to the cohesion of national identity could derive from the prolonged presence of Libyan refugees, who already represent almost a fifth of the population on Tunisian territory.

State identity
9

The 2014 constitution defines Tunisia as a civil state with a republican system based on citizenship, the will of the people, and the supremacy of law. However, it also stipulates that Islam is its religion and limits eligibility to the Office of the Presidency to Muslims. There are further ambiguities about the relationship between the “civil state” and religion in the constitution, such as Article 6, which obliges the state to be the “guardian of religion” while guaranteeing freedom of conscience and belief, the free exercise of religious practices and the neutrality of mosques and places of worship from all partisan instrumentalization. The article furthermore tasks the state to “protect the sacred” and disseminate values of moderation and tolerance. The concrete implementation of these goals is mostly yet to be seen, but human rights organizations have warned that the article could be interpreted and applied in oppressive ways. The difficulties of elected parliamentarians in agreeing on these terms have uncovered a gap between Islamist and secular-oriented understandings of the state, which had not previously been properly appreciated.

No interference of
religious dogmas
7

Over the course of the 2010-2011 revolution, the government lost control over about 400 mosques, where imams were replaced, in many cases, with Salafist preachers. The revolution also ended state control over the content of religious services, which led to some preachers espousing a discourse of violence and intolerance. As of December 2014, the government claimed to have regained control of these mosques and in some cases believers themselves chased away their new imams for being too extremist. In the run-up to the 2014 elections, hundreds of imams apparently called on believers to vote for particular candidates. When running as candidates in the elections themselves, some imams failed to notify the Ministry of Religious Affairs of their intentions and were consequently dismissed.

The basic infrastructure of the Tunisian state extends throughout the territory of the country. All regions are served by a differentiated administration that includes tax authorities, courts, law enforcement and social services. Their quality varies between the more affluent urban coastal areas and the country's interior. Near the borders, the attraction of smuggling derives not least from deficiencies in the state's infrastructure. Moreover, the bureaucracy's efficiency continues to be hampered by corruption and nepotism, which, however, remain low by regional comparison. Taxation of the private sector still presents a serious challenge.

Basic
administration
7

According to the latest available World Bank data from 2012, 90% of Tunisians have access to improved sanitation facilities and 97% have access to improved water sources, reflecting Tunisia's generally high human development.

2 | Political Participation

Tunisia held three national elections in 2014: parliamentary, presidential, and presidential run-off elections. All were organized by the Independent High Authority for Elections (known by the French acronym ISIE, Instance Supérieure Indépendante pour les Élections) – an independent constitutional body according to Articles 125 and 126 of the 2014 constitution. International and national observers assessed the process as free and fair with minor irregularities that did not substantively affect the outcome of the vote. Amid security concerns, the police and the army showed increased presence and the borders with Libya were partially closed on election day. There were, however, no serious incidents. The ISIE's administration in all three rounds was impartial and transparent. Its efficiency improved over the course of the elections. A broad diversity of parties and candidates were able to run. Registration procedures for voters and candidates were transparent and fair, as were the strict campaign regulations. These required the media to allocate equal amounts of coverage to all presidential candidates. Minimum coverage thresholds for the parliamentary elections were based on the number of constituencies the respective electoral lists were competing in.

Free and fair
elections
9

Prosecutors are pursuing allegations of corruption in the registration of candidates for the presidency, who needed either a minimum number of signatures or the support of members of the National Constituent Assembly. Voter turnout was 69% in the parliamentary elections, but decreased with each successive election. Turnout was particularly low among younger Tunisians. After the first round of elections, then-president Moncef Marzouki, who received the second largest number of votes, submitted eight complaints, which were dealt with in a speedy manner by the courts, though ultimately rejecting them. In other cases, however, courts did not always interpret the electoral law uniformly.

Overall, the elections strengthened the secular party Nidaa Tounes, founded in 2012 by the octogenarian former interim Prime Minister Béji Caïd Essebsi, who also won

the presidential run-off elections. Essebsi had previously served as the speaker of parliament under Ben Ali and interior minister under Bourguiba. With the exception of Ennahda, the parties of the so-called troika did poorly. The new parliament is dominated by Nidaa Tounes, which nevertheless failed to achieve a majority, having gained 86 out of 217 seats. The other main groups are Ennahda, which secured 69 seats, the Free Patriotic Union (UPL) with 16, the Popular Front coalition with 15, and the liberal Afek Tounes with 8 seats. Moncef Marzouki's Congrès pour la République (CPR) received four seats and the remaining 19 deputies belong to nine different parties or ran as independents. The parliament's speaker and vice-speakers were selected according to the distribution of the vote, whereas the composition of the new cabinet was unclear at the end of the evaluation period.

Democratically elected political representatives have the effective power to govern. In the political crisis of 2013, calls for the army to step in went unheeded. The small and professional Tunisian armed forces thus continued a regionally exceptional tradition of political neutrality. The conflict was ultimately negotiated by a "quartet" of four civil society organizations (i.e., the Tunisian Human Rights League, the Bar Association, UTICA and the UGTT). The latter traditionally enjoys strong political influence and continues to do so. The President of Ennahda, Rachid Ghannouchi, holds significant influence over his party's elected politicians despite lacking electoral legitimacy himself. Incoming Tunisian governments will, to some extent, be limited in their economic policymaking due to the agreements made by previous administrations with international financial institutions such as the IMF and the World Bank, but also by the conditional support of actors such as the European Union.

Effective power to govern

8

Article 35 of the 2014 constitution guarantees the right to establish political parties, unions and associations which, in their internal organization, must respect the constitution, the law and financial transparency, and refrain from violence. Article 36 specifically guarantees the right to join and form trade unions and the right to strike, all of which are restricted for the security forces (the army, the police and customs). The subsequent Article 37 guarantees the right to assembly and peaceful demonstration. In 2013, poor security limited the right to demonstrate, but personal safety on demonstrations has improved over the course of the evaluation period. In the wake of the 2010-2011 revolution, the country had already liberalized its previously repressive association law. Law no. 88 of 2011 requires associations to "respect the principles of the rule of law, democracy, plurality, transparency, equality and human rights." In practice, the right of association is not fully respected. When clamping down on more than 150 associations suspected of cooperation with terrorists in 2014, government action was based on a 1975 law rather than following the more recent Law no. 88 of 2011, according to which only judges can order the dissolution or suspension of an association. Human rights groups criticized this move as disproportionate and arbitrary.

Association / assembly rights

7

Although gains in the freedom of expression have been the most tangible improvement brought about by the revolution, it is not sufficiently protected in practice. Reporters Without Borders rank Tunisia 130th out of 180 countries in its 2014 World Press Freedom Index. Article 31 of the 2014 constitution guarantees the freedom of opinion, thought, expression, information and publication, and clarifies that these freedoms are not subject to prior censorship. They are, however, limited by the provisions of Article 49, which allows restrictions on constitutional freedoms for the protection of, inter alia, public order, public morals and national defense. The ambiguous formulation of Article 6, which tasks the state with the “protection of the sacred” has been interpreted by some as a ban on blasphemy, further limiting freedom of expression. Audiovisual media are regulated by the independent constitutional body HAICA (Haute Autorité Indépendante de la Communication Audiovisuelle), the Audiovisual Communication Commission. HAICA’s constitutional purpose is to ensure freedom of expression and information, and the establishment of a pluralistic media sector that functions with integrity. Although the Ben Ali-era censorship of the Internet has ceased, its regulatory framework still restricts the freedom of expression in that sphere.

Freedom of
expression

6

The Ennahda government has not ended the Ben Ali regime’s tradition of government control of the state media by influencing top appointments in the media organizations. Arrests of journalists on the basis of the criminal code and the prosecution of some by military courts – including in one instance the president of the National Union of Tunisian Journalists (SNJT, Syndicat National des Journalistes Tunisiens) – is a cause for concern, as they seem aimed at silencing criticism. Then-president Marzouki also filed a complaint against a journalist, but soon withdrew after criticism. The Tunis Center for Press Freedom reported 451 attacks on Journalists in 2014, most of them by security personnel. In the wake of a clampdown on terrorism that followed a deadly attack on soldiers in July 2014, the authorities closed two radio stations it accused of hate speech. The political dominance of Nidaa Tounes with its close links to the security apparatus may lead to self-censorship among journalists.

3 | Rule of Law

For the larger part of the evaluation period, Tunisia was governed by a set of transitional institutions that resembled a political system centered on the parliament. The mutual relationships between the executive, legislature and judiciary were set out in the so-called small constitution, adopted by the National Constituent Assembly (NCA), the parliamentary body elected in October 2011 to draft the constitution. As the only directly elected institution, the NCA had considerable powers. Besides constitution drafting, it was responsible for current legislation, including the budget, and its members elected both the president and a strong prime minister. Key appointments required the involvement of all three institutions. The constitutional

Separation of
powers

7

drafting process was initially foreseen to require no more than one year following the 2011 elections. As the process drew out, there was a widely shared perception that the NCA had overstretched its mandate. The situation escalated in the political crisis of 2013, in which the ruling Ennahda party insisted on its electoral legitimacy, while opposition protesters demanded a speedier conclusion of the constitution under a technocratic administration. The opposition also accused the government of infiltrating the state bureaucracy to entrench its political power. The conflict was ultimately resolved under the auspices of negotiations organized by a “quartet” of civil society organizations. Under the terms of an agreed “Road Map,” the elected government gave way to a technocratic administration under the previous minister of industry, Mehdi Jomaa, in December 2013. His administration oversaw the final negotiations of the constitution, its approval by the NCA with a broad majority in January 2014, and elections under the new basic law later that year.

The new constitution establishes a semi-presidential political system. The president of the republic and the president of the government (prime minister) share the exercise of executive power. The mandate of the directly elected president covers foreign policy, defense and national security, which he exercises in consultation with the head of government, whose portfolio is domestic policy. The complex system of power sharing within the Tunisian executive may become problematic in the case of political rivalry or personal animosity between the respective office holders. Legislative power is vested with the Assembly of People’s Representatives or can be exercised by the people directly in referendums. Under certain circumstances, both the president and the prime minister have decree powers. The new constitution also created a constitutional court with broad review powers, appointed jointly by the president, parliament, and the Supreme Judicial Council. Technical bodies such as the Electoral Commission, Audiovisual Communication Commission and Human Rights Commission provide another check on Tunisia’s political institutions, as their constitutional status gives them added strength. With both the presidency and parliament dominated by politicians from one political party, the technical bodies’ oversight function is likely to be crucial over the coming term.

Previously an institution often subservient to the executive under authoritarianism, the Tunisian judiciary is in the process of becoming more independent. Article 102 of the 2014 constitution states judiciary independence, and in subsequent articles grants judges criminal immunity and bans their removal, disciplinary action or transfer other than by a decision of the Supreme Judicial Council in accordance with legal provisions. Judges are nominated by presidential decree based on a concurrent proposal by the council. The constitution also foresees the establishment of a constitutional court with broad review powers over draft laws and treaties, as well as existing legislation brought to it through the courts. Its members are appointed jointly by the president, parliament and the Supreme Judicial Council. In its transitional provisions, the constitution foresees the creation of the Supreme Judicial Council by

Independent
judiciary

6

April 2015 and the Constitutional Court by October 2015. The current parliament's legislation on these institutions will be crucial in implementing the constitution's ideal of an independent judiciary.

Tunisia's judiciary is institutionally differentiated and professional, but its independence is constrained. Executive influence has not ended with the revolution and state institutions, particularly the security sector, are not subjected to full scrutiny. During the evaluation period, the Ministry of Justice exerted influence over court cases. Under the Ennahda government, there was a tendency to use the judiciary to further an agenda of protecting "public morals." The case of TV station director Sami Fehri, who was detained on corruption charges after his station screened a satirical show critical of the government, reflects significant shortcomings in the judiciary and its relations with other state organs. Even after Fehri's indictment and detention order were quashed by Tunisia's highest court, officials refused to release him. In his and other cases, the judiciary seems to be used by the executive as a means of silencing critical voices. Sentences for members of the security forces on the other hand – if prosecuted – seem overly lenient.

Corruption continues to affect Tunisia and, in the perception of the majority of Tunisians, has even increased since the 2010-2011 revolution. Bribery is common in daily life and many firms report the need of informal payments to "speed things up." The 2014 constitution establishes a Good Governance and Anti-Corruption Commission and gives it the status of an independent constitutional body with a mandate centered on contributing to policies of good governance, and preventing and fighting corruption. Once set up, it will have investigative powers regarding the private and public sectors. An official code of conduct for civil servants has been established but lacks provisions allowing staff to publicize corruption.

Even though corruption in the public sector is criminalized – similar provisions are still lacking for the private sector – courts are still hesitant to enforce the law against powerful state institutions. Corruption is widely suspected among civil servants, from the funneling of development funds by administrators to the collaboration with arms and drugs smugglers by border and customs officials. The parliamentary and presidential elections were surrounded by numerous allegations of corruption. In the registration process for the latter, parliamentarians have been accused of selling their signatures in support to potential candidates for thousands of dinars. Similarly, there have been accusations of illegal campaign contributions. Very low limits for overall campaign donations were, however, part of the problem, as they did not permit candidates to campaign effectively.

Prosecution of
office abuse
4

Civil rights are guaranteed by the articles in Title Two of the 2014 constitution, according to which they can only be limited by the laws and not in their essence. Equality before the law, the right to life, human dignity and physical integrity, the right to privacy, citizenship, asylum, the presumption of innocence and due process as well as humane treatment are in the catalogue of rights and freedoms of the constitution, with the addition of political and social rights. Article 49 bans amendments that undermine the constitution's human rights and freedoms provisions.

Civil rights
5

As with other areas of the constitution, the stipulations of Title Two are neither reflected throughout the entire body of law nor fully implemented. For instance, according to the code of criminal procedure, detainees may consult a lawyer after first appearing before a judge. However, in the absence of a lawyer, suspects may be coerced into signing statements by the police well before seeing a judge, as pre-trial detention can last up to six days. This undermines the right to due process. In practice, many detainees report mistreatment by the security forces, including torture. Tunisian media reported 295 instances of actual torture in 2013 and 2014.

Discrimination against several groups persists both in legal terms and as a reflection of widely shared conservative social norms. Women are disadvantaged in some areas of the law and its actual implementation by the courts, and in many other areas of social life. The penal code effectively criminalizes homosexual acts and there were prosecutions during the evaluation period on its basis. Ethnic minorities, such as black Tunisians, have staged protests against the discrimination they face on the basis of their skin color. Religious minorities can practice their beliefs, though there have been sporadic anti-Semitic acts. In the second half of the evaluation period, the government has taken a more restrictive stance vis-à-vis ultraconservative Salafist groups.

4 | Stability of Democratic Institutions

Relatively stable at the start, Tunisia's transitional democratic institutions were soon marked by a deep mistrust between the governing troika coalition of the Ennahda, CPR and Ettakatol parties and the more secular opposition. Frictions came to a head after the assassination of Mohamed Brahmi, a leftist member of the constitution-drafting NCA, in July 2013. This was the second political assassination within six months, following Chokri Belaïd's murder in the previous February. The constitution-making process came to a standstill, as the assembly's work was suspended for several weeks after several members joined the opposition protests calling for the government to resign. Political forces were ultimately able to agree on a civil society-brokered road map for the conclusion of the transition and found a compromise on the constitution.

Performance of
democratic
institutions
5

Since the parliamentary and presidential elections of late 2014, both the new president and elected representatives have taken office. At the end of the evaluation period, the House of People's Representatives was still debating its internal rules of procedure, but has already passed a budget law in line with the constitution. A cabinet proposed by the designated president of the government, Habib Essid, was rejected by political parties in late January 2015. The Constitutional Court has yet to be set up. Its transitional predecessor institution has taken on few controversial cases. The current parliament will have to deal extensively with the constitutionally mandated decentralization of government. Local elections are expected in late 2015.

The passing of a constitution by a broad majority in the NCA, establishing a democratic civil state in January 2014, is a strong symbol of the wide acceptance of democratic norms across party lines. Some 200 of the 216 members of the assembly (after the murder of Mohamed Brahmī) voted in favor, 12 against, and four abstained. Four large civil society organizations were crucially involved in the ultimately successful negotiations before the vote, and many others had lobbied the NCA for an unambiguously democratic character of the constitution, underlining a commitment to democracy in civil society. Some political parties' commitment to democracy may only be tactical – internal organization, public discourse and implemented policy do not always conform to democratic norms. Effectively, however, only a small minority of political actors openly advocate a different form of state. The legal and non-violent Salafist party Hizb al-Tahrir called for Muslims to abstain from the 2014 elections and aims for the establishment of a caliphate. More radical groups use violent tactics such as terrorist attacks for similar ends. Tunisia's army has remained apolitical and respected the democratic institutions built up in the transition. Some instances, such as an illegal siege by police trade union members of a Sousse district court trying one of their colleagues, show that this may not be the case across the security forces.

Commitment to
democratic
institutions

6

5 | Political and Social Integration

Three years after the first free and fair parliamentary elections had brought a fragmented party system into parliament, the results of the 2014 elections show signs of consolidation despite high voter volatility. With few exceptions, parties are not well-rooted in society. Numerous members of the NCA changed party allegiance during their term in office, underscoring low levels of institutionalization. The polarization of the political party landscape is significant, but does not represent fractionalization. The gulf between the governing troika, dominated by the moderate Islamist party Ennahda, and the largely secular opposition was particularly large in the political crisis of 2013. Following the civil society-brokered agreement on the constitution and the 2014 elections, political discourse has become much less confrontational.

Party system

5

Despite some losses compared to 2011, Ennahda succeeded in maintaining a strong result in the 2014 parliamentary elections, gaining 69 out of 217 seats. Ennahda also continues to be the best-organized party, with a strong presence across the country and well-defined internal rules it follows. Its governing coalition partners during the NCA term were less successful in the latest elections. They failed to build up a similarly strong grassroots network and deliver on their electoral promises, and are associated with the political instability of the transitional period.

The best electoral result in 2014 was for Nidaa Tounes (Call of Tunisia), a secular-modernist party established in 2012 by Béji Caïd Essebsi and others as a counterweight to Ennahda. A handful of representatives that joined Nidaa Tounes after the 2011 elections gave it minimal parliamentary representation in the NCA. In 2014, the party won 86 seats, just falling short of a majority in the new parliament. A politically diverse grouping with some vestiges of the former regime, Nidaa Tounes' campaign successfully established it as a counterpoint to Ennahda and the transitional instability. In the absence of a party conference, its leaders are currently self-appointed, and many electoral candidates were chosen on their ability to fundraise on the party's behalf. A commitment to internal democratic reform is so far absent.

Despite finding themselves at opposite ends of the political spectrum as far as social values are concerned, Ennahda and Nidaa Tounes have a similar liberal outlook on economic issues. This created the basis on which they cooperate in the cabinet of Habib Essid. The degree to which the smaller political parties are organizationally institutionalized and socially rooted varies widely. For example, the Free Patriotic Union (UPL) party centers on its leader, Slim Riahi, and a group of businessmen, whereas the liberal Afek Tounes party, which is clearly defined and well-coordinated, has a rather limited voter profile.

The results of the run-off presidential elections in December 2014 gave an indication of how the economic and social divide of the country is reflected in its politics. Nidaa Tounes' Béji Caïd Essebsi did especially well in the relatively wealthy urban coastal areas and the north and northwest areas, where voters were particularly disturbed by the deterioration of the security situation. His competitor, then-President Moncef Marzouki, captured the vote of the rural areas, namely in the southern regions, and Ennahda supporters, some of whom fear that Nidaa Tounes' dominance could mean a return of the pre-revolution security state. Following his defeat in the presidential elections, Marzouki is now in the process of establishing a party catering to young Tunisians, the group that least participated in the elections.

Tunisians are members of a wide array of interest groups. From trade unions to professional associations and local social movements, there is a large diversity in the kinds of organizations present. Their influence on the political process varies, as well as their ability to work strategically and consistently, mobilize grassroots support, access foreign funding, and take cooperative and joint action. The brokering of a road

map to finalize the transitional phase after the political crisis of 2013 showcased both civil society's ability to act as a guarantor for the democratic process as well as the concentration of its political power in a few well-established organizations.

In the summer of 2013, the constitution drafting came to a standstill after the assassinations of leftist politicians Chokri Belaïd and Mohamed Brahmi, and the opposition's subsequent demand that the government resign in favor of a technocratic administration. Faced with large protests, the government insisted on its electoral legitimacy. Four organizations, known as the "quartet," managed to broker a compromise through the National Dialogue. The most influential of these organizations is the Tunisian General Labor Union (UGTT) trade union association, whose power rests on its historic legitimacy as one of the founding forces of Tunisian nationalism, as well as its large fee-paying membership, which is estimated at around 750,000. It is present across the country and enjoys broad popular legitimacy. It was joined by the main employers' organization, the Tunisian Union for Industry, Commerce and Handicraft (UTICA). The oldest group to participate was the Tunisian Bar Association, founded in 1887, and infused with constitutional and republican principles that many lawyers brought back to Tunisia from their studies in France. Finally, the Tunisian League for Human Rights (LTDH) – an association once headed by later President Moncef Marzouki that faced repression by the previous regime – also participated.

Smaller and newer organizations have made effective contributions in areas such as electoral observations and scrutinizing and publishing the work of parliamentarians. However, they continue to receive less attention than the "quartet" members.

Some organizations undermine the workings of the democratic state or are fundamentally opposed to it. Thus, the 2014 security crackdown took place alongside the banning of several religious associations suspected of cooperation with terrorists. At the same time, in at least two instances, members of the National Union of the Interior Security Forces have run against the rule of law. They illegally besieged a Sousse district court in one case, and occupied an administrative building in another after a request to use it as police station had been denied.

In 2014, Tunisians took part in a series of democratic elections on the national level and voter turnout was high in regional comparison. The results were accepted by the vast majority of citizens. However, mistrust toward democratic institutions is high, as many Tunisians believe that parliament and political parties work mostly in their own interests. Polls published by the International Republican Institute show that, after initial enthusiasm, only a thin majority of citizens (if ever) principally favor a democratic political system for their country. Only a minority believe that Tunisia is a full democracy or near it (20% in June 2014, 34% in February 2014, and 25% in October 2013). The number of people stating that Tunisia is not a democracy at all virtually doubled between February and June 2014 from 20% to 39%, and many

Approval of
democracy

5

believe the country is a flawed democracy. Many are also unsatisfied with their political system. When given the choice by pollsters between a stable and prosperous but authoritarian Tunisia or a democratic government that led to an unstable and insecure Tunisia, a majority preferred democracy by a margin of at least 10 percentage points since September 2011. In June 2014, however, more respondents preferred authoritarianism to democracy for the first time (50% and 43% respectively). In the 2014 elections, turnout varied significantly between age groups and regions. It was lowest among the youth and in the country's interior, reflecting a degree of disillusionment about the course of the revolution among a group that was key to its eruption.

A myriad of organizations and associations has sprung up since the revolution. Trade unions and professional syndicates in particular have made their presence strongly felt. While civil society is developed, social capital is still comparatively weak. Tunisians widely mistrust their elected politicians and cite the military as the most trustworthy public institution, along with religious organizations. Over the course of the political transition, trust in strangers has decreased while it has somewhat recovered towards the police.

Social capital
5

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

While Tunisia's economy continues to be comparatively stable and growing, poverty and inequality remain profound and ingrained, to some extent structurally. Regional disparities between affluent coastal areas and the poorer interior of the country have been recognized but not yet tackled effectively.

Socioeconomic
barriers
5

The 2014 Human Development Report ranks Tunisia 90th out of 187 listed countries, placing it in the bottom third of countries with "high development" but ahead of most non-oil Arab states. Improved outcomes in health and income explain Tunisia's achievement in this composite index. Tunisia's per capita GDP reached \$11,125 in 2013 (in PPP). In 2010 (the latest available data by the World Bank), the country's Gini coefficient was 35.8, down from 40.8 ten years earlier. Some 4.5% of the population live on less than \$2 a day and 15.5% count as poor according to the country's own national poverty line. However, this is much higher in some regions (e.g., 32.3% in the center-west and 25.7% in the northwest).

Poverty remains intimately linked to the lack of employment. In the first quarter of 2014, Tunisia's overall unemployment rate was 15.2%, standing at 31.4% among graduates. Within these categories, there are significant discrepancies between

genders and regions: Male unemployment is at 12.7%, while female unemployment is almost double at 21.5%. The gender ratios are similar for unemployed graduates. Geographically, as of mid-2013, unemployment was highest in the northwest (at 20.3%) and the southern interior of the country (at 23.5%), while the northeastern coastal areas remain less affected (at 12.5%). The high proportion of unemployed youth is problematic, as this tends to be the most productive group in the population. Economic growth, and consequently job creation, are not keeping up with population growth. Where jobs have been created, they tend to be in low value-added industries such as construction, trade and non-financial services. These sectors already employ over two thirds of the workforce and have high rates of informality. In the interior regions, seasonal work continues to be an important source of employment that is not well captured by official data.

The overall share of the population with tertiary education has grown (from less than 2% in 1980 to over 12% in 2010), with women bypassing men in that sector: the female-to-male enrollment rates are 97.8%, 104.9% and 159.1% at primary, secondary and tertiary levels respectively. At about 80%, adult literacy in Tunisia is higher than in most non-oil Arab countries (87.8% for men, 71.7% for women). Investments in education for both genders are reflected in a 97% literacy rate among 15-24 year olds.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	32272.2	44426.0	46994.8	-
GDP growth	%	3.8	3.2	2.5	-
Inflation (CPI)	%	2.0	4.4	5.8	4.9
Unemployment	%	14.2	13.0	13.3	-
Foreign direct investment	% of GDP	2.2	3.0	2.3	-
Export growth	%	4.4	-	-	-
Import growth	%	0.0	-	-	-
Current account balance	\$ M	-299.3	-2104.4	-3878.7	-4301.7
Public debt	% of GDP	52.5	40.7	44.3	50.0
External debt	\$ M	17925.7	22471.9	25827.0	-
Total debt service	\$ M	2036.1	2356.9	2653.1	-

Economic indicators		2005	2010	2013	2014
Cash surplus or deficit	% of GDP	-2.8	-1.4	-	-
Tax revenue	% of GDP	18.9	20.0	-	-
Government consumption	% of GDP	16.9	16.2	19.0	-
Public expnd. on education	% of GDP	6.5	6.2	-	-
Public expnd. on health	% of GDP	2.9	3.8	4.2	-
R&D expenditure	% of GDP	0.92	-	-	-
Military expenditure	% of GDP	1.5	1.3	1.6	-

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Throughout its political transition, successive Tunisian governments have principally remained committed to preserving a market economy. However, while Tunisia has continually been lauded internationally for its reform efforts in the past, market-based competition remains constrained by a number of factors. The economic regulatory framework is inefficient and inhibits competition, as does pervasive corruption across public and private institutions. Despite decades of economic liberalization, over half of the Tunisian economy continues to be either closed or subject to barriers to entry. In the course of the evaluation period, political uncertainty and a deterioration of the security situation have adversely affected market-based competition.

The majority of prices are the result of market competition. However, the state intervenes through regulations and subsidies for several socially important commodities, such as staple foods and energy. Subsidies for both food and energy have successively been lowered and price ceilings lifted in the course of the evaluation period. Nevertheless, expenditure in these areas remains a large item in the state budget.

In various industries, potential market participants face significant entry barriers. Tunisian legislation or regulation explicitly limits the number of competitors in numerous markets, such as water, transport, tobacco, tourism, communication, health, education and retail. The state also controls or dominates some key sectors, such as utilities and finance, through state-owned companies. Amid a large number of banks, three large state-owned institutions account for almost 40% of the sector. Uneven access to finance for potential market entrants and others is often criticized

Market-based
competition
5

by businesspeople. The World Economic Forum's Global Competitiveness Report 2014-2015 cites inefficient government bureaucracy as the most problematic factor for doing business in Tunisia.

In effect, Tunisia features a dichotomous economy. The domestic or onshore industries are regulated and relatively uncompetitive, benefiting from various protective regulations. At the same time, the so-called offshore sector, which is export-oriented and largely located in the coastal areas, is competitive but largely isolated from the domestic market.

The Tunisian dinar is not convertible. Accounts in foreign currency as well as capital transactions in other currencies can be restricted by the Tunisian central bank, which has to approve the former. Although non-residents and investors in particular enjoy preferential treatment, businesses complain frequently about foreign currency regulations being problematic.

The economy of post-authoritarian Tunisia also has a challenging legacy of state capture and crony capitalism by the long-time autocrat Ben Ali and his associates. Analysis by the World Bank has shown that, by late 2010, just 220 firms connected to the regime pocketed an extraordinary 21% of all private sector profits, suggesting regulatory capture and regulation resulting from corruption.

According to the World Bank 2014 Investment Climate Assessment, 24% of firms reported having to provide some form of informal payment to "speed things up" – among the highest rates in the world. While the precise extent to which corruption and nepotism affect market competition in Tunisia is hard to establish, such figures suggest that cronyism and rent-seeking persist. The extent of the informal sector and the lack of formal employment for many Tunisians further support this assumption. According to the latest available data, in 2010, the informal sector was estimated to employ up to 40% of all private sector workers. Given the relatively rigid labor regulations, many employers avoid hiring staff on open-ended contracts, preferring instead fixed-term contracts or informal employment.

Tunisia scores 4 out of 7 points on the 2014-2015 Global Competitiveness Report's assessment of anti-monopoly policy, and is ranked 71st out of 143 countries surveyed. With this assessment, Tunisia is well above the median of 2.87 across all countries.

Anti-monopoly
policy
5

However, this rating is mostly relevant for foreign investors in Tunisia's offshore sector. The domestic sector, on the other hand, is marked by the Competition Law of 1991 and an uneven application of regulation. This legislation has major exceptions that go well beyond products of first necessity, which are also excluded. For example, the Competition Law does not apply to products that face long-lasting supply difficulties due to legal/regulatory barriers (such as dates and other fruits/vegetables used during religious holidays), or are provided by a monopolized sector.

Competition is thus limited in several sectors to an extent that is broader than in other countries. Although the Competition Council has handed out increasingly higher fines, it is seen by observers primarily as an adviser to the Trade Ministry, without its own supervisory competences. Lacking sufficient resources and independence, it is unable to prevent distortions of competition effectively enough.

Tunisia is a founding member of the WTO and accords at least most favored nation (MFN) treatment to all its trading partners. Following the establishment of Association Agreement with the European Union – Tunisia’s prime trade partner – in 1995, the country was also the first in the region to implement free trade in industrial goods with the EU in 2008. Negotiations on a Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU are expected to be launched soon, after the EU Council first offered negotiations in 2011. This agreement would be concerned with many non-tariff barriers to trade, such as industry standards.

At the regional level, Tunisia signed the Agadir Agreement in 2004, which progressively lifts commercial barriers with Morocco, Egypt and Jordan. In 2005, Tunisia co-founded the Greater Arab Free Trade Area. Bilaterally, trade barriers with Algeria, Libya, Morocco and Turkey have been lowered in recent years.

The Heritage Foundation notes significant barriers to trade and ranks Tunisia 153rd out of 178 countries with regard to trade freedom. Non-tariff barriers impede imports of some pharmaceutical and agricultural goods, and the average tariff rate is 14.1%. With regard to liberalized trade, the same dichotomy applies that was noted above for competition. While the offshore sector can operate relatively smoothly, the domestic market is protected by various measures. Import quotas for high-value-added sectors, such as for cars, persist today.

While dominated by publicly controlled banks, Tunisia’s banking sector also includes a number of private institutions and a significant foreign presence. The three largest state-owned banks, the Tunisian Banking Company (STB), the National Agricultural Bank (BNA), and the Housing Bank (BH), account for 37% of banking sector assets. Another 28% of total assets are accounted for by the three largest private banks, the International Arab Bank of Tunisia (BIAT), Amen Bank and the Bank of Tunisia (BT). As the rest of the market is split among 15 further institutions, the Tunisian banking sector is fragmented in regional comparison. No single institution has a market share above 14% in terms of total assets or loans and 16% in terms of deposits.

With a history of political influence on the banking sector, Tunisia suffers from a high rate of non-performing loans (NPLs). Under Ben Ali, access to credit was often given to cronies rather than productive enterprises, in many cases even without guarantee of repayment. These practices – particularly by public banks – present formidable fiscal liabilities. According to the latest available data, the ratio of NPLs to total loans was 15.1% at the end of 2013, compared with 13.0% at the end of 2010.

Liberalization of
foreign trade

7

Banking system

5

However, as of October 2014, the three public banks' rate of NPLs averaged 21.2%. The tourism industry alone, which has suffered under the political and security situation since 2010, accounts for 25% of total NPLs and public banks are the major credit provider to the sector.

There is still considerable room for improvement in the soundness of banks. The banking sector is in need of recapitalization to meet the regulatory minimum. In 2013, the government increased its contribution to the state-owned banks' capital from TND 100 billion (ca. \$51.5 billion or €45.5 billion) to TND 500 billion, and TND 500 billion are foreseen in the 2014 budget. Tunisia's central bank has raised the ratio of risk-adjusted assets to total assets from 8% in 2012, to 9% in 2013 and 10% in 2014 in order to support the banks' solvency and financial solidity. An audit of the state-owned banks has been delayed, but its completion is expected in the first quarter of 2015.

While the majority of firms have access to loans, this issue is regularly mentioned as a major constraint on businesses. Small and medium-sized enterprises in particular report difficulty in accessing finance. This perception may partly be explained by the extreme prudence of Tunisian banks and the very long time it takes to get a loan.

The CBT has improved its supervisory capabilities. It has introduced regulations that aim to improve the sector's governance as well as the resilience of the financial system as a whole. In March 2013, it also recruited extra staff in the banking supervision department. Nevertheless, international organizations, such as the IMF, as well the rating agency Standard & Poor's assess Tunisia's banking regulation and supervision as below international standards. In its 2014 assessment of the banking sector, Standard & Poor's upheld its prior risk rating of the industry of 8 (where 10 is the highest level of risk possible). Shortcomings in the governance of private and public institutions persist.

8 | Currency and Price Stability

Tunisia has a history of effective inflation control and, despite some increases over the observation period, the overall level of inflation has remained relatively stable. After peaking at 6.3% in February 2013, consumer price inflation somewhat slowed after the Jomaa government took office and fell to 5.5% in 2014. It is therefore just slightly above the rates in previous evaluation periods (2013: 6.1%; 2012: 5.5%; 2011: 3.6%; 2010: 4.4%; 2009: 3.5%; 2008: 4.9%). However, prices outrun wages. While average wages have increased by 17% since 2010, the household price index rose by 21.5% over the same period, with food and drink prices rising by 27.2%. Over the evaluation period, the main factors pushing up prices were increased food prices (aggravated by government cuts to food subsidies), the Tunisian dinar's depreciation against the euro, and the escalating conflict in Libya. As an estimated two million

Anti-inflation /
forex policy

8

Libyans with comparatively strong purchasing power have sought residence in Tunisia, rents in some cities have reportedly increased by 250% and tomato and potato prices have doubled. Furthermore, electricity and gas prices were raised twice in 2014 by an accumulated 10%. Nevertheless, in regional comparison, the CPI inflation rate is low (it is notably below the emerging market average) and stable over time. As such, it creates a degree of certainty for economic actors.

De jure, the Tunisian dinar's exchange rate arrangement is floating. The central bank of Tunisia does, however, intervene in the market to regulate demand and supply. As this strains foreign exchange resources, the bank seems more recently to have reduced direct intervention in favor of using the interest rate to affect the dinar's exchange rate. Over the course of the evaluation period, the Tunisian dinar depreciated against the U.S. dollar and somewhat less against the euro, the latter being the currency of the overwhelming majority of its trading partners.

The central bank has gained further independence. While its governor was previously appointed by the president of the republic alone, the 2014 constitution stipulates the appointment upon the proposal by the head of government, subject to approval by an absolute majority of members of parliament. The governor is dismissed according to the same procedure or upon the request of a third of the members of parliament and by approval of its majority. Statutory reforms have replaced government oversight and influence on all of the bank's operations with oversight by an independent auditor. The changes also prohibit the central bank from purchasing government securities from the primary market and enhance its board's freedom in choosing instruments to control inflation.

The government's budget deficit widened from 4.7% of GDP in 2012 to 5.9% in 2013 and, at the time of writing, is projected to remain at this level in 2014. However, with the Jomaa cabinet taking office in January 2014, the government introduced a relatively austere fiscal stance that is undergirded by a Stand-By Arrangement (SBA) with the IMF, concluded in April 2013. The 2015 budget, agreed by the newly elected parliament in December 2014, forecasts a deficit of 5% of GDP for that year. The budget also foresees a 16% reduction in the subsidy bill. Spending on energy subsidies had already been reduced from its peak of 3.7% of GDP from 2011 to 2013, to 2.9% in 2014. Despite opposition by the UGTT trade union, no further increases in public sector wages are foreseen either. This should keep government consumption, which stood at 18% of GDP in 2012 and 19% in 2013, relatively stable.

Public debt reached 44.5% of GDP in 2012, and is estimated to have reached 50% in 2014. It had previously decreased from 67.4% in 2002 to 40.5% of GDP in 2010. External debt increased further to \$25.8 billion in 2013, from \$25.2 billion in 2012, and \$22.6 billion in 2011. Tunisia's public debt is, however, widely expected to remain at sustainable levels.

Tunisia's current account balance has slightly worsened, but shows signs of stabilization. In 2013, imports outweighed exports by 8.4% of GDP, and this value is estimated at 7.7% for 2014, though the deficit continued to widen in the first half of the year. It had previously stood at 8.2% in 2012, 7.4% in 2011 and 4.8% in 2010. The deterioration of Tunisia's trade position was triggered by increased imports of energy and food after national oil production dropped and the weak agricultural production in 2013. As demand in the euro zone remained weak, Tunisian export growth was slow. Inflows from tourism, remittances and foreign direct investment (FDI) remained weak as well, altogether failing to make up for the increased imports. Foreign reserves have stabilized at an import cover of around 3.5 months, thanks to international financial support after the deterioration in the aftermath of the revolution. If the fall in international oil prices at the end of the observation period does not reverse dramatically, this could help narrow the current account deficit as well as the government's subsidy bill.

9 | Private Property

The well-defined legal right to property was confirmed in the 2014 constitution (Article 41), which also stipulates the protection of intellectual property rights. In practical terms, however, there are limitations to the exercise of that right. The acquisition of land by non-citizens generally requires permission by the authorities and foreigners are not permitted to own agricultural land (they can only lease it). However, there are exceptions for foreign investors purchasing land and/or facilities in industrial/free zones where no prior authorization is needed. The 2015 World Bank Doing Business report counts four procedures required for the registration of land property.

Tunisia dropped further in property rights analyses following the more somber assessments in the face of more readily available information in the wake of the revolution. For instance, the 2014-2015 Global Competitiveness Report assigns Tunisia 4 out of 7 points compared to 4.3 in 2013-2014. Intellectual property is particularly poorly protected with regard to counterfeit goods, which are increasingly available. Most enforcement problems of property rights reflect general shortcomings in the rule of law. Businesses show little confidence in the judicial system to ensure their contractual and property rights amid the nepotistic practices of cronyism that were evident under the Ben Ali regime and have not been tackled effectively since the revolution. The previously described onshore-offshore dichotomy is again notable in this area, as export-oriented companies seem less affected by such practices than those serving the domestic market.

Property rights

6

Despite some criticism, Tunisia is generally lauded when it comes to the ease of doing business there. The World Bank's 2015 Doing Business report, for instance, states that it takes 11 days and ten procedures to start a business. Tunisia's bureaucratic business procedures seem quick, straightforward, and cheap in regional comparison.

However, while the private sector is generally appreciated as an important part of Tunisia's economy, its formal significance does not always translate into the presence and enforcement of uniform rules for all market participants. The 2014 World Bank report on Tunisia's "unfinished revolution" notes that over 50% of the country's economy is still either closed or subject to entry restrictions. Strategic sectors like banking, utilities and raw materials are dominated by state-owned firms. Laws and regulations explicitly cap the number of competitors in numerous industries, producing oligopolistic competition and consequently artificially high profits for those companies permitted to operate. Such regulations also incentivize practices of crony capitalism. In fact, giving out unfair economic advantages was an important political tool for the Ben Ali regime and allowed a small number of people close to the government access to great wealth at the expense of the population.

Among other issues, access to finance was funneled through state-owned banks to cronies rather than productive projects, leaving the sector with high rates of non-performing loans and a lack of credit for other businesses. Such practices seem to continue four years after the revolution. In the above-mentioned report, entrepreneurs state their fear that success would lead to unwanted and expropriatory attention by government officials, particularly in the domestic market. Consequently, small and relatively unproductive companies dominate the private sector.

In the past, the privatization of state businesses, which began in earnest in the 1980s, was used for political ends. During the evaluation period, there were no major privatizations, though public debate has begun on the sale of the firms confiscated from regime cronies after the revolution.

10 | Welfare Regime

Exceptionally for the region, Tunisia formally boasts a comprehensive social security system. Moreover, Tunisia's 2014 constitution enshrines several social rights into law, including the right to health. It also obliges the state to ensure the safety and quality of the health care system as well as access to it for all citizens (Article 38). However, although Tunisia has a comparatively strong record in terms of its health system, there are considerable shortcomings in the entire welfare system.

Tunisia's public health service provides about half of the country's health-related services, handling two thirds of consultations and 90% of hospital admissions. Public health expenditure in 2012 represented 4.2% of GDP, whereas private spending

Private enterprise
6

Social safety nets
6

amounted to 2.9% of GDP. With the exception of oil-rich Libya, Tunisia boasts the highest rate of hospital beds in the Maghreb at 2.1 per 1,000 inhabitants (Morocco: 0.9, Algeria in 2004: 1.7). Life expectancy at birth is 75.1, compared to about 71 in Morocco and Algeria.

However, user surveys report a drastic decline in the quality of the health system, driven by a lack of infrastructure and equipment upgrades, as well as worsening labor conditions for staff. In addition, while 92% of the population are covered by a financial protection scheme, 42.5% of health expenditure is borne directly by households as out-of-pocket expenditures, which is significant. Quality also differs dramatically between the urban centers and the country's interior, while most human and financial resources are being diverted to the private sector. Consequently, the most vulnerable social groups do not always have access to the required care. The government has announced cuts to the basic medical care budget.

Blanket subsidies for food and energy still constitute a significant part of Tunisia's provisions against social hardship, though the government is preparing the introduction of more targeted measures and has reduced subsidies. Other forms of social security such as pensions and maternity leave are provided according to profession, social category and region. There are, for instance, different plans for civil servants and private sector workers, including the informal sector.

Tunisia's welfare system thus covers illness, motherhood, accidents at work and work-related illnesses, disability, old age, and family costs, though provision is often not targeted well enough. The main gap in the system remains the lack of a comprehensive provision for unemployment, which continues to be a major risk in the Tunisian economy. Consequently, private networks of solidarity and the informal sector play an important role.

Despite continuing discrimination against women, Tunisia has a track record of leading the region on gender empowerment. The country ranks 48th out of 149 countries in the 2013 Gender Inequality Index, which reflects gender-based inequalities in three dimensions: reproductive health, empowerment and economic activity. Countries like Algeria (81) and Morocco (92) fared considerably worse, while Libya (40) outperformed Tunisia (as of before Libya's state collapse).

The 2014 constitution gives special attention to the rights of women, as well as children and people with disabilities. In Article 46, the state commits to protect women's accrued rights and to strengthen and develop these rights, as well as guaranteeing equal gender opportunity with respect to access to all levels of responsibility in all domains. Nevertheless, some legislation continues to discriminate against women. The code of personal status defines the man as the head of the family. Certain administrative practices and arrangements deny women the ability to request passports for their children without the husband's permission, which

is also required for women to travel abroad with their children. Article 34 of the constitution, which guarantees the rights to election, voting and candidacy, also contains a commitment on the part of the state to guarantee women's representation in elected bodies. While the constitution obliges the state to ensure freedom of belief and worship, only Muslims can stand for the Tunisian presidency (Article 74). The Tunisian electoral law that was first applied in the 2014 parliamentary elections requires that all electoral candidate lists alternate between female and male candidates. However, the majority of parties had male candidates at the head of their lists. Out of 1,327 lists, only 145 were headed by women. While 47% of the candidates were female, 31.34% of the elected members of parliament are women.

Educational participation is generally well-balanced between the genders with an enrollment rate of 99% in 2013 for boys and girls. In 2001, female tertiary gross enrollment surpassed male enrollment and women represented 62.3% of higher education students in 2013. However, male literacy is still much higher than female literacy (87.8% compared to 71.7%), although both rates are significantly higher among the youth. Nevertheless, pronounced disparities in educational attainment persist between social groups and regions. Women continue to be underrepresented in the workplace and are more likely to face unemployment. Though slowly increasing, female labor force participation was only 25% in 2013.

11 | Economic Performance

The Tunisian economy has stabilized compared to the immediate aftermath of the revolution, but its growth rate has yet to reach prerevolutionary levels. GDP per capita (PPP) has increased to \$11,125 in 2013 from \$10,800 in 2012. Nevertheless, at 2.5%, GDP growth in 2013 was below expectations (the official forecast was 4.5%) and is unlikely to have exceeded 2.3% in 2014, due to political uncertainty and low business confidence. With the exception of agriculture, which benefited from good rainfall, all sectors demonstrated weak performance. Sluggish demand growth in the EU is partially to blame. At these rates of growth, the economy has not created enough jobs to significantly reduce unemployment and offer opportunities for the large number of entrants into the labor market. This would require rates around 5-6%. Thus, unemployment only decreased slightly, from 16.5% in the first quarter of 2013 to 15.2% in early 2014. However, still almost a third of graduates cannot find a job, with a rate of 40.8% for female graduates. Consumer price inflation increased to 6.1% in 2013, with food and drink prices increasing by 8%, and remained high in 2014 with 5.5%.

Output strength

6

Public debt rose during the evaluation period from 44.5% of GDP in 2012 to an estimated 50% of GDP in 2014 and 54% in 2015. Both the expansionary policies of transitional governments and the explosion of the informal sector (with its subsequently lower tax intakes) since the revolution contributed to this.

After initially worsening, Tunisia's current account deficit has stabilized and the fall in oil prices of late 2014 could lead to further narrowing. Standing at 8.2% of GDP in 2012, it is estimated to have dropped to 7.7% in 2014 after a small rise in 2013. The flow of foreign direct investment (FDI) decreased from 2012 (3.4% of GDP) to 2013 (2.3% of GDP) and dropped by 5.8% in 2014, making it a total of 22.3% lower than in 2010.

12 | Sustainability

In the public perception, environmental questions seem most closely linked with the issue of waste management. On the policy level, a more comprehensive view of the environment is starting to emerge, not least with the 2014 constitution recognizing the right to a healthy and balanced environment and committing the state to provide the means to eradicate environmental pollution.

Environmental
policy
6

Despite the continuing existence of energy subsidies for fossil fuels, the Tunisian government also promotes the build-up of renewable energies for which the country has significant potential. Furthermore, according to the Arab Future Energy Index 2013, Tunisia has the most comprehensive policy framework for energy efficiency of 13 Arab countries.

A number of policies aimed at small-scale household renewable energy have been very successful, including solar photovoltaics (PROSOL Elec) and solar hot water (PROSOL), as well as an energy efficiency program. These are used as a reference for many other countries in the region looking to implement similar programs.

Tunisia's public expenditure on education equaled 6.2% of its GDP in 2012. The country's literacy rate of 79.7% is above average for developing countries, and the differential between men (87.8%) and women (71.7%) is much narrower among youth as a result of almost 100% and gender-equal primary school enrollment. Women represented 62.3% of all students undertaking higher education in 2013. Education is mandatory until the age of 15 and free of charge. With 91.1% of students reaching secondary and 35.2% tertiary education, Tunisia has a relatively high share of people receiving formal education.

Education policy /
R&D
6

Despite the high quantitative output of the Tunisian education system, its quality has shortcomings. This stems at least in part from its rapid growth over the last decades as well as an authoritarian legacy. The sector lacks teachers and many school buildings are in a very poor condition. Classes are usually based on mere repetition

rather than skill development. In the OECD's education assessment PISA 2012, which measures the performance of 15-year-old students, Tunisia's results were well below the OECD average in mathematics, reading and science. However, the performance of Tunisian students has improved considerably since the last assessment in 2003. Unemployment of university graduates – negligible in the 1990s – has increased such that, by early 2014, almost a third of graduates were jobless. This suggests a mismatch between the skills demanded in the labor market and those acquired in the education system.

When last measured in 2009, Tunisia invested 1.1% of its GDP in R&D. This is still too modest to scale the “value-added ladder,” where the share of knowledge-intensive production increases. According to the World Intellectual Property Organization, patent applications have declined in absolute numbers as well as in comparison to other economies, from 626 in 2012 (of which 150 were by residents) to 549 in 2013 (112 by residents). This suggests an overall decline in innovation. Notably, in the same time period, applications from Tunisia made at patent offices abroad have more than doubled from 40 to 108. That applicants shift their patent applications abroad may reflect difficulties in the Tunisian bureaucracy.

Transformation Management

I. Level of Difficulty

Existing structural constraints on governance in Tunisia remained moderate in the evaluation period. The country continues to benefit from the human development successes of previous decades, a comparatively good infrastructure and its proximity to Europe. Tunisia has been spared natural disasters and was not affected by the Ebola outbreak on the African continent or other pandemics.

Structural
constraints

6

The increasing escalation of conflict in neighboring Libya does however weigh heavily on Tunisia's resources. The de facto civil war has motivated an estimated two million Libyans to seek refuge in Tunisia. While these are comparatively wealthy refugees, the additional demand on the Tunisian economy has led to price increases in food and housing. As Tunisian workers have also left Libya, an important source of remittances has disappeared, while the Tunisian state needs to fund additional security measures at the border with Libya.

Tunisian governments also have to deal with previous governments' legacy of uneven economic development across the country. Not only are poverty and unemployment much more severely felt in the country's interior and northwest, public infrastructure in these regions is also in dire need of upgrading to meet the standards present in the affluent urban coastal areas. Deficits in skills relevant to the labor market among the ostensibly well-educated workforce – a result of the neglect of education by the previous regime – also do not bode well for the country's economic development.

Severely suppressed during the Ben Ali regime and before, Tunisian civil society has developed rapidly since the revolution as a guarantor for the democratic transition and a check on institutional politics. While hundreds of organizations have sprung up since the liberalization of NGO legislation in 2011, the majority of activity is still concentrated in the urban centers, and older civil society organizations dominate to some degree. It was a “quartet” of four long-standing organizations established well before the revolution that was crucial to hammering out a compromise in the political crisis of 2013. At the same time, newly founded organizations have made important contributions to observing the three national elections in the evaluation period, as well as effectively influencing legislation in several areas.

Civil society
traditions

7

The volatility of the transitional period was, however, also accompanied by a noticeable return of nostalgia for the order and stability of the regimes of Ben Ali, and especially Habib Bourguiba, whose personal popularity experienced a comeback. The development of a truly free and independent civil society is furthermore hampered by the persistence of patriarchal and authoritarian social structures and norms.

Tunisian politics has clearly seen an increase in violent incidents over the course of the evaluation period. Tensions between largely secular and Islamist political actors ran very high in 2013 but have since decreased. Nevertheless, divisions between the two persist and social unrest continues.

During the government of the so-called troika of the moderate Islamist party Ennahda and two secular parties in 2013, the successive assassinations of two leftist opposition politicians (one of them a member of the NCA), a priori, by extremist Salafists aggravated the deep mistrust secular groups felt toward Ennahda. The party had previously been suspected of condoning the growing influence of such groups. After the murders, large-scale protests demanded the resignation of the coalition government. Several members of the NCA left the parliament to join the protest and the assembly interrupted its activity of constitution drafting, leaving the political transition in limbo. Ultimately, a “quartet” of civil society organizations successfully negotiated a road map with the parties involved. It led to the troika’s resignation and a caretaker technocratic government overseeing the final negotiations on the constitution and the holding of elections in late 2014.

Extremist religious groups continue their attacks in the country. An attempted suicide bombing at a Sousse beach resort in October 2013 failed and only killed the attacker. Most attacks, however, target the security forces and occur in Tunisia’s interior regions. In addition to several fatal assaults on soldiers in the country’s southwest, an attack on interior minister Ben Jeddou’s private house in May 2014, in which four policemen were killed, alarmed both the public and the government. Throughout the evaluation period, security forces were also involved in a large-scale operation against militants based in the mountainous Djebel al-Chaambi area. Across the country, the authorities have found arms depots and made arrests of suspected jihadists, including in the capital Tunis.

Socially motivated protests have occasionally turned violent, particularly in the south of the country. In these cases, the violence has often turned against symbols of the state, such as police stations. Riots in several towns also followed the announcement of Béji Caïd Essebsi’s success in the second run of the presidential elections, motivated by allegations by Marzouki of corruption and falsification of votes.

Conflict intensity

6

II. Management Performance

14 | Steering Capability

Question
Score

Prioritization
6

For the majority of the period under review, successive governments were mostly absorbed by the immediate challenges of Tunisia’s political transition. The completion of the constitutional process – overdue after the one-year deadline from the October 2011 elections passed – was a major priority for all administrations. 2013 in particular was marked by the assassinations of two opposition politicians and the subsequent repercussions. Reacting to the 6 February 2013 killing of the leftist politician and Ennahda critic Chokri Belaïd and the large protests by secular and left-wing groups that it sparked, Prime Minister Hamadi Jebali of Ennahda proposed the formation of a technocratic government to ease tensions. When his party refused support, Jebali resigned on 19 February 2013, and a new cabinet under previous Ennahda Interior Minister Ali Larayedh took office three days later. His cabinet was announced to include political independents heading the “sovereign” ministries of Defense, Foreign Affairs, Interior and Justice. The latter two ministers were, however, perceived by many to be close to Ennahda. On taking office, Larayedh laid out what he called his “four priorities”: establishing favorable conditions for fresh elections, restoring security, boosting the economy and employment through regional development, continuing the reform process, fighting corruption and ensuring accountability. Adopting a law on transitional justice was mentioned as an immediate concern along with setting a deadline for the completion of the constitution. Clearly, these were more than four and altogether difficult priorities. Shaken by the July 2013 assassination of Mohamed Brahmi – a leftist parliamentarian often critical of the Islamist government – the Larayedh government would only last seven months. Until the installation of the technocratic government of Mehdi Jomaa, which took office in January 2014, the Larayedh administration’s attention was mostly consumed by tensions with the opposition and protesters.

The Jomaa government’s *raison d’être* and thus main priority was to establish conditions for free and fair general elections under the new 2014 constitution. The new prime minister aimed at reestablishing lost economic confidence with international partners and investors by making careful attempts to tackle the budget deficit. With respect to security, the Jomaa cabinet prioritized the fight against terrorism and the investigation of the 2013 assassinations. Political observers, particularly international ones, saw in the politically independent, technocratic Jomaa cabinet the ideal candidate to pursue painful structural reforms. The government’s

short time frame and transitional mandate meant that only few such projects were actually taken on board.

The three governments in office during the review period varied significantly in their ability to implement their policies. Forced out of office at the very beginning of the evaluation period and succeeded by a government that was only partially politically independent, Prime Minister Hamadi Jebali was not able to pursue his conciliatory proposal of installing a technocratic government to oversee elections due to a lack of backing by his own party, Ennahda.

Implementation

4

The Larayedh government's priorities were too ambitious for its ultimately brief term in office. It failed to achieve its main targets as security forces were faced with unprecedented violence by terrorists, the economy did not improve and international economic support was suspended over the political uncertainty. While a transitional justice law was passed during the Larayedh government's term, the eventual completion of the constitution and the organization of fresh elections were largely the result of the cross-party and civil society-led National Dialogue.

The Jomaa government was able to inspire more confidence with international partners and clamp down on terrorism, even though it too avoided longer-term issues such as reforming the security sector and tackling the structural inefficiencies of the Tunisian economy. The government did achieve its main policy goal of holding parliamentary and presidential elections in a secure environment and also managed to tackle several other issues, such as bringing mosques back under state control. Amid a deterioration of security at the regional level, the Jomaa government was also unable to establish security to prerevolutionary levels.

A first instance of policy learning can be seen in Prime Minister Hamadi Jebali's ad-hoc proposal to form a technocratic government in reaction to the mass protests inspired by mistrust toward the Ennahda government following the assassination of leftist leader Chokri Belaïd. Even though this proposal was not implemented, the succeeding Prime Minister Larayedh's decision to appoint political independents to the powerful Ministries of the Interior, Defense, Foreign Affairs and Justice can equally be interpreted as a result of observing past mistakes. Ultimately, the tense situation of mistrust between government and opposition, and events in Egypt, where the military overthrew Islamist President Mohamed Morsi, led the Ennahda government to conclude that their insistence on electoral legitimacy had become untenable.

Policy learning

6

With regard to the economy, the Larayedh government backtracked from its predecessor's expansionary policies as public debt and the current account deficit worsened. Austerity measures were continued by the Jomaa administration. While both governments were willing to adopt proposals by the numerous international

experts advising Tunisia in its transition in some policy areas, structural economic reforms that risked alienating important interest groups were largely avoided by both.

15 | Resource Efficiency

To tackle the economic fallout of the revolution in 2010-2011, the Ennahda-led government that took office after the October 2011 elections employed up to 100,000 people in the civil service as well as state companies, often without the right qualifications. Around 9,000 were members of Ennahda who benefited from the general amnesty enacted directly after the revolution in January 2011. As part of the road map drawn up by the National Dialogue to finalize the transition, the technocratic government of Prime Minister Jomaa reorganized parts of the administration to depoliticize it, dismissing for instance 18 of the 24 regional governors assigned by his predecessor Larayedh, as well as 17 cabinet advisers whose appointments were seen to be partisan. Nevertheless, the public sector continues to suffer from inefficiencies. Importantly, this includes state-owned companies, which represent a significant share of the economy. In 2014, Tunisia joined the international Open Government Partnership, committing itself to implement various public sector reforms toward transparency and accountability.

Despite spending cuts and tax increases by both the Larayedh and Jomaa governments, the state budget suffers from a large deficit and the level of debt is rising. This is also the result of an explosion of the informal sector from 30% to about 50% of the economy, resulting in a shortfall of tax revenue estimated at 50%.

Public spending is scrutinized by the court of auditors, which is a strong institution and publishes annual reports on the use of the budget by public institutions. While the Tunisian state has traditionally been highly centralized, the 2014 constitution commits the state to “strengthen decentralization.” It also obliges the central government to provide funds for local authorities, which are subject to post-audit.

The governments were striking a delicate economic balance between various objectives. Flagging economic growth and high unemployment may imply counter-cyclical demand-side policies and low interest rates. However, inflationary pressures and a constrained state budget, as well as a loss in confidence by financial markets and international institutions, meant that space for such maneuvers was very limited. Rather than tackling underlying structural problems, the Larayedh and Jomaa governments have focused on short-term spending cuts and tax increases, as well as gaining international financial support, to address these objectives.

Domestic terrorism and the escalating conflict in neighboring Libya have created a need for renewed attention to security policy. At the same time, past and present human rights violations by the security forces suggest an urgent need to reform this

Efficient use of
assets

5

Policy
coordination

7

sector. So far, governments have mainly resorted to increasing staff numbers and purchasing more equipment to face these challenges.

In the future, the 2014 constitution's complex provisions of power sharing in the executive will require a high degree of coordination. The president's main competence is to determine general policies for defense, foreign relations and national security, whereas the prime minister has that power for domestic matters. The president's approval is required for ministerial appointments in his area of competence and he must chair meetings of the council of ministers that concern these issues. However, he can also attend meetings on domestic issues and then presides over them. In the medium term, this complicated arrangement could create difficulties if the offices of president and prime minister are occupied by representatives of opposing political parties.

Tunisia's 2014 constitution places importance on the fight against corruption and foresees a Good Governance and Anti-Corruption Agency as an independent constitutional body. Lacking a concrete deadline for its establishment, the Agency's detailed mandate and composition will be subject to the decisions of the current parliament. Its temporary predecessor, the Anti-Corruption Commission, lacks the resources to successfully investigate cases of corruption on behalf of citizens.

Anti-corruption
policy
3

A serious lack of specialized competence with respect to anti-corruption and money laundering was identified in the judiciary soon after the revolution. In addition, local observers have noted that many judges that have since benefited from specialized training have subsequently been promoted or transferred to positions in which this knowledge is no longer applicable.

With respect to the legal framework, there is currently no protection for whistle-blowers, corruption in the private sector is not criminalized, and, despite a constitutional stipulation for the declaration of assets by public office holders, the law does not yet conform to this. A decree law officially guarantees access to information, but its enforcement is limited by the fact that the task of providing access has not been clearly assigned. The code of conduct for civil servants, passed in October 2014, is an encouraging step but it does not give staff the right to publicize misconduct.

Notably, the Ministry for Good Governance and Anti-Corruption ceased to exist under the Jomaa government and was replaced by a secretary of state position that dropped the words "Anti-Corruption." The cabinet proposed by designated Prime Minister Essid in January 2015 omitted even this position. This development suggests that political attention to the issue has successively declined since the revolution.

16 | Consensus-Building

The far-reaching consensus between political parties and civil society organizations on the 2014 constitution reflects a widely shared agreement on democracy, as it establishes a republican state based on popular sovereignty. In practice, successive governments have impeded liberal rights when this seemed politically expedient. Limitations on the freedom of expression are particularly notable here. The success of the Nidaa Tounes party has also catapulted some vestiges of the Ben Ali regime back into the political arena. It remains to be seen to what extent political principles and practice will align.

The main political parties represented in the Tunisian parliament agree that Tunisia's economy should be largely market-based. Indeed, economics is the field where agreement between the two largest parties, Nidaa Tounes and Ennahda, seems to overlap most. Differences between the main political actors are therefore mostly a question of the degree to which the state should intervene in the economy. The country's powerful trade union association, the UGTT, should be noted in this regard as a strong proponent of government intervention in the name of social justice. Businesses that benefit from the virtual monopolies established by restrictive market regulation also oppose further liberalization of the economy.

Since the 2010-2011 revolution, two main camps of anti-democratic actors can be identified. Members of the old regime and business people connected to it expect to be held responsible for their previous actions and fear a loss of influence and profit under further democratization. Some religiously conservative as well as extremist groups seek to give Islam a more prominent or even dominant role in structuring Tunisian society, to an extent that is incompatible with a liberal democratic order. The government has begun to use the means of the state against the latter group more assertively than under the previous review period, such as by banning certain associations. Leaving the precise relationship between religion and the state open in the constitution can be seen as an attempt to co-opt conservatives into democratic progress. Some former regime members and associates have been held to account by the judiciary since the revolution. There have been strong demands – particularly by Ennahda – to exclude former regime officials from the transitional process and elections through lustration laws. The Transitional Justice Law, passed in December 2013, includes provisions for the vetting of civil servants and state institutions but fell short of introducing blanket exclusion provisions. For many observers, the lack of lustration laws and the consequently inclusive political process contributed decisively to the success of Tunisia's transition.

Consensus on goals
7

Anti-democratic
actors
6

Tunisia's political culture is largely consensus-oriented. However, 2013 was marked by a pronounced deepening of political cleavages between the Ennahda-dominated government and a mostly secular opposition. Amid a deteriorating economic and security situation in the country, the political assassinations of Chokri Belaïd, a leftist leader, and Mohamed Brahmi, a leftist parliamentarian, both virulent critics of Ennahda, sparked widespread protests demanding the resignation of the government. The transitional process came to a standstill when the constitution-drafting NCA interrupted its work after the withdrawal of over 60 of its members who joined the protests. In the framework of the National Dialogue initiated by the UGTT and three other civil society organizations, the political parties (except for the CPR) were able to agree on the further process of transition, which ultimately led to the adoption of the 2014 constitution by a very broad majority. Events abroad, particularly in Egypt, where polarization had escalated into violence, have been an important factor motivating the Tunisian political leadership to seek consensus.

Cleavage /
conflict
management
6

Civil society's participation in the political process is uneven across policy fields, but has increasingly taken on an important role. The crucial role of civil society in Tunisia's politics was most obvious in the National Dialogue, which brokered the road map ending the 2013 political crisis. Civil society organizations were also evident in the constitutional negotiations, in which legal experts played a particularly a prominent role. By monitoring the transition process and making the results accessible to a broad public, NGOs have constituted a check on elected officials.

Civil society
participation
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In many cases, trade unions and other associations have been able to reverse policies proposed by the government, such as the obligation for medicine graduates to serve three years in Tunisia's interior before practicing in the prosperous coastal urban areas. In other instances, civil society organizations have been able to push for policies that were subsequently adopted by the elected institutions, such as the parliament's obligation to publish its decisions online. For some laws, elected politicians invited civil society into the process of formulating policy. For example, the first draft of the Transitional Justice Law was written entirely by a set of civil society organizations before being amended by the NCA's plenary.

Establishing a process and institution for transitional justice was a priority for the governments in office during the review period. In fact, several office holders, including Prime Minister Larayedh himself, suffered from injustices of the former regimes. After a broad national consultation process, the NCA passed a comprehensive transitional justice law in December 2013. This established the Truth and Dignity Commission (IVD, Instance Vérité et Dignité), which took up its work in December 2014. It is tasked with examining incidents of gross human rights violations by the state or those who acted in the state's name and under its protection from 1 July 1955. It has a term of four years, renewable for up to one year. In May 2014, the NCA announced its selection of commissioners, which included

Reconciliation
6

representatives of human rights and victims associations, as well as individuals with judicial, transitional justice, and financial backgrounds.

Though sufficient funding is a serious problem, the IVD has already received 4,390 cases as of late January 2015. Some 1,200 of them were brought forward by former political prisoners and torture victims. Of these, only 200 have asked for a conviction of their torturers, whereas the rest have asked for compensation. Over 1,000 victims of violence in the course of the revolution have applied for compensation.

Military courts conducted key trials of officials involved in the use of excessive force against protesters during the popular uprising between 17 December 2010 and 14 January 2011. The decision of the military appeals court in April 2014 to reduce the sentences of high commanders and directors of the Ministry of Interior to three years in prison sparked a public outcry. The NCA reacted through legislation, which qualifies the killing or injuring of protesters during the uprising as a “gross violation of human rights” under the Transitional Justice Law’s jurisdiction.

The new leadership’s stance on transitional justice is not yet entirely clear. Just a week after Nidaa Tounes won the parliamentary elections, its then-leader Béji Caïd Essebsi – who subsequently won the presidential elections – proposed that the commission’s work be ended, though he later recanted after virulent public criticism.

Shortly before Essebsi’s inauguration, presidential security officers controversially stopped members of the IVD from taking over the archives of the presidential palace.

17 | International Cooperation

Post-independence Tunisia’s development strategy was traditionally codified by the government in five-year plans. Debated ahead of the 2010 revolution, subsequent transitional governments with their short tenures have not had the political mandate to formulate such long-term aims. Governments have instead made relatively vague pledges to pay more attention to the long-ignored interior of the country, boost job creation, and improve public services. In the absence of a well-defined development strategy, agreements with international donors have, in some areas, served as road maps and yardsticks for the progress of reforms. Examples are the conditions attached to the \$1.74 billion Stand-By Arrangement with the IMF of June 2013, or the Action Plan of Tunisia’s privileged partnership with the EU. The country’s relative success since the Arab uprisings compared to many regional peers has attracted significant financial and diplomatic support from bilateral and multilateral partners, including the United States and the EU. Much of this has been in the form of loan guarantees, giving the government some degree of flexibility in its budgetary decisions. More concrete reform programs supported by donors are failing to reach their full potential

Effective use of support

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due to institutional and bureaucratic hurdles and some “imposed” reforms that donors demanded before releasing funds.

As the most stable and promising of all Arab Spring countries, Tunisia has attracted considerable international support toward its transition. The country is also known for its high absorption capacity of such funds in regional comparison. However, as the political crisis of 2013 unfolded, international confidence in the country’s ability to conclude the transition suffered. With the stalling of the political process and increasing uncertainty over the course of the transition, credit rating agencies successively moved their assessments of Tunisian debt deeper into the junk category. International partners were also concerned, and both the IMF and the EU put funds on hold amid the instability of late 2013. With the success of the National Dialogue in installing a technocratic government and the adoption of a constitution in early 2014, the situation changed, and the EU, the IMF, the U.S. and other bilateral partners committed significant amounts of financial support that year. The successful holding of elections has given Tunisia another boost in credibility. Financial markets’ confidence was visibly restored as a \$1 billion bond issue sold at a yield of only 5.875% in January 2015.

Credibility

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The preamble of Tunisia’s 2014 constitution identifies it as a country “committed to strengthening Maghreb unity as a step toward achieving Arab unity,” a theme picked up again in Article 5. Tunisia is a member of numerous regional organizations and regimes, such as the Arab Maghreb Union (AMU) and the Greater Arab Free Trade Area (GAFTA). The country also cooperates closely with the European Union, and signed a Mobility Partnership Agreement with the EU on 3 March 2014. Amid the rise of instability across North Africa, cooperation within regional organizations has increasingly shifted its focus from trade to security. Tunisia’s defense cooperation with its powerful neighbor Algeria has intensified given the presence of militant extremists in the two countries’ border area, particularly around the Chaambi Mountains. The two countries also coordinate their policies on Libya, where the internal conflict escalated into civil war during the evaluation period. On a humanitarian level, Tunisia, with a population of almost 11 million people, offers refuge for an estimated two million Libyans who fled the conflict in their country. Alongside the majority of diplomats and international organizations who have also moved to Tunisia, this means that about a third of the Libyan population now resides in Tunisia.

Regional
cooperation

8

Strategic Outlook

Tunisia has successfully emerged from its politically turbulent transition with a constitution and political system that is regionally exceptional in its democratic quality. Significant challenges remain, however, including the consolidation of democratic achievements, translating the constitution's spirit into reality and fulfilling the socioeconomic aspirations of the revolution. For too many Tunisians, the transition has not brought tangible improvements. The combination of a lack of economic opportunities and a deteriorating security situation feeds a sense of hopelessness in which radicalization can flourish – and further endanger stability. The incoming government would be well advised to view these challenges as interrelated.

Tunisia's economic model has hardly changed since the revolution. Extensive bureaucracy and regulation in many cases serve a narrow elite by limiting competition and fostering corruption and cronyism. Dominated by low productivity and low value-added, this model is also unlikely to solve the country's employment crisis. However, simply privatizing and liberalizing more of the state-dominated sectors of the economy will not suffice. To encourage domestic investment and lure foreign businesses into the country, the rule of law must improve. Concretely, this means guaranteeing the independence of the judiciary and rooting out corruption. Well-resourced independent constitutional bodies, a free media and a strong civil society can serve as additional checks on the powerful.

If the sharp fall in oil prices at the end of the evaluation period and the recovering demand in the euro zone persist, they will improve Tunisia's trade deficit. By reducing the cost of energy subsidies and increasing the tax intake, they could also give the government some budgetary leeway to implement difficult structural reforms. The government has already made initial steps to move from blanket energy and food subsidies to more targeted support for the poor. This effort should continue. To finance its immediate needs, the government could also launch a domestic bond that would disregard the source of the funds. This could absorb large amounts of the black money currently circulating and reign in the recently expanded informal sector.

To sustain economic progress and international and business confidence, Tunisia must restore security. Beyond employing more human and technical resources, this will require reforming the sector to make it more efficient and accountable. Both establishing better intelligence and guaranteeing democratic standards are needed to improve security. Equally influential, but outside the control of Tunisia's government, is the conflict raging in Libya. Ensuring safe borders and implementing an effective policy toward the two million Libyans currently residing in Tunisia will be crucial in avoiding spillover of the conflict.

Politically, party leaders must seek to strike a delicate balance between maintaining a consensus on democratic change and offering diverse and distinguishable electoral choices. Politically sensitive decisions, such as the composition of the Constitutional Court and the Anti-Corruption and Good Governance Agency should be made in the same inclusive manner that secured the transition in late 2013.