
Targeting EU efforts in Tunisia: what approach to the fight against corruption and to decentralisation?

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BACKGROUND – Key priorities in Tunisia's reform agenda

Among the countries of the 2011 Arab revolutions, Tunisia clearly underwent the most robust process of transition to a pluralistic and democratic regime. While consolidating the recent changes is challenging¹, Tunisia's ability to successfully confront its problems hinges on the need to fulfil two important preconditions: eradicating corruption and achieving a sound decentralisation process, supported by regional development.

Given Tunisia's precarious economic situation, the country must overcome the proliferation of cronyism and nepotism, the prevalence of informal economic networks and the problems related to the administration and development of its inner regions. Addressing these central issues will facilitate the implementation of the 2014 constitution, help even out socio-economic disparities as well as address the security challenges both internally and at its borders.

Although the Tunisian economy is slowly recovering, the main sectors of the economy – tourism, agriculture and manufacturing – remain fragile. The country's growth rate was 1.0% in 2016.² Public debt has increased from 35.6% of Gross Domestic Product (GDP) in 2010 to 62.1% in January 2017. While the national unemployment average stands at 15.5%, it rises to 31.8% for youngsters, and even higher levels in the peripheral regions. The SMEs concentrated in the north-eastern and central-eastern regions constitute most of the private sector. In other regions, the economy is characterised by parallel and competing informal economic networks.³ Tunisia's main political parties participate in Youssef Chahed's national unity government, but they are failing to address social conflicts and manage the competing interests of the business world and public administration, as the International Crisis Group recently reported.⁴ The Prime Minister repeatedly mentioned economic recovery and the fight against corruption as the priorities of his government. However, the political will and the capacity to carry out the necessary structural reform seems to be missing.

A successful transition in Tunisia is a priority for the European Union (EU). It forms part of its stability and prosperity objective for the Southern Neighbourhood. This is recognised in the EU's 'Global Strategy for the European Union's Foreign and Security Policy'. It was recently reiterated in a Joint Communication on 'Strengthening EU support for Tunisia'⁵ and a Joint statement by High Representative Federica Mogherini and Commissioner Johannes Hahn on the 40th anniversary of cooperation between the EU and Tunisia. In their view, Tunisia plays a "unique role in our neighbourhood, that of a country with which we share the ideals of democracy and human progress, and which has chosen a close partnership with the EU as its inspiration". Since the revolution, the EU has supported Tunisia with some €3.5 billion in aid, loans and macro financial assistance. Both parties have also engaged in a continuous political dialogue. In 2015, negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) were launched. They demonstrate the willingness of both parties to engage in deeper cooperation. The EU's aid supports the country's democratic consolidation and helps improve its economy. It does not, however, target Tunisia's challenges strongly enough: regional disparities, cronyism and corruption. That's why Tunisian civil society, through its grassroots approach, continues to engage with both the EU and the Tunisian authorities on the principal obstacles that hamper the consolidation of Tunisia's democratisation and the effectiveness of the EU's support.

STATE OF PLAY – Chahed's government priorities

In August 2016, following the non-confidence vote against the previous government, Youssef Chahed formed a rather innovative and youthful cabinet that included eight women. In line with the spirit of the July 2016 Carthage Agreement, his national unity government has been engaging in dialogue across the political spectrum, and specifically between his political party, Ennahda, and that of President Beji Caid Essebsi, Nidaa Tunes. On the face of it, the government has prioritised economic recovery, decentralisation, the fight against corruption and public administration reform. Three looked-for and significant measures stand out so far: the adoption of an Investment Law, a Development Plan for 2016-2020 and the reform of the local electoral code. In November 2016, a much publicised international conference, Tunisia 2020, also presented major projects to attract foreign investment. However, implementation does not match this impetus for reform and little progress has been made.

Tunisia's economic stagnation and social tensions, mostly in underdeveloped regions, are not merely the result of a lack of money. Recent studies⁶ underline how the "democratisation" of corruption⁷ that has followed the ousting of Ben Ali – namely the dissemination of corruption practices from the top levels of power across broader networks – fuels crony relations between the business sector and the political sphere, thus slowing down or thwarting reform. Interviews with local civil society representatives⁸ confirm this trend. Speaking of the risk of Tunisia becoming a "mafia" state, Chawki Tabib has constantly denounced the plague. M. Tabib is the President of the *Instance Nationale de Lutte Contre la Corruption* (INLUCC), a body mandated to fight against corruption, but lacking the funds and an appropriate legislative framework to guarantee its independence.⁹

Practices such as misappropriation and waste of public funds, abuse of authority or trust, embezzlement, company director fraud and money laundering ultimately undermine development and economic growth. Moreover, Tunisia's economy is still mostly dominated by smuggling and the informal sector, which employs between 40% and 60% of the labour force, both in peripheral and central regions. That's why recent measures, notably the Investment Code and the five-year Development Plan, were long overdue. And yet, the executive orders following the adoption of these plans have failed to adequately address administrative barriers, patronage or nepotism, making it difficult to attract foreign investment and enforce fair competition.

Moreover, not only does the INLUCC lack a full independent mandate, laws addressing the fight against corruption in an effective manner are also missing, namely those related to conflict of interest, illicit enrichment and whistle-blowers protection. Civil society organisations in Tunisia also condemn the general climate of impunity, with cases of fraud and money laundering left unprosecuted. Other issues include understaffing, with too few judges dealing with a significant number of corruption cases, and an absence of training for the public administration. On 22 May 2017, a large police operation uncovered a series of major corruption scandals. It demonstrated the government's commitment to go in the right direction, but the sustainability of such efforts remains to be seen.

At the same time, inner regions have been systematically under-prioritised for decades, even before Ben Ali. Looking at indicators, Tunisia is *de facto* split in two: the areas of Tunis, Sfax and Sousse, in the coastal north-east area and representing 56% of the population and 92% of the industrial firms, account for 85% of Tunisia's GDP, while the regions of the south and the north-west and central-west have high poverty rates, with no sign of any countrywide convergence in income and living standards, also between rural and urban areas. The reasons behind this striking difference lie not solely in the structure of the economy, but also in the administration model. Since the revolution, no local elections have been held because there is no legal framework to organise them. Appointed by the Ministry of Local Affairs, special interim delegations administer municipalities, thus undermining the accountability and legitimacy of governance structures.

The seventh Chapter of the 2014 Constitution has redrawn administrative borders as a first step towards much needed decentralisation. The subsequent two steps – a legal administrative framework for municipalities, regions and districts as well as an electoral law – are following. A Law on Local and Regional Elections was adopted in January 2017, while a draft Code on local authorities¹⁰ has been submitted to the Assembly of Representatives in May 2017. Decentralisation is nonetheless at a crucial juncture for two reasons. First, the parliament may delay or block the approval of the Code as political parties discuss the most contentious dispositions and some seek to buy time to consolidate their constituencies at local level. Second, this Code as a pivotal precondition for holding the local elections, which are expected on 17 December 2017. In the eyes of many civil society representatives and international observers, holding elections without a legal framework would undermine the reform process needed at local level, because the administrative responsibilities and procedures would not be clear. Today, the best-case scenario would be for the Assembly of Representative to swiftly agree on the Code before the set date for elections. These elections are long overdue and the pressure for measures addressing growth and development locally is

mounting. Alongside the issue of corruption, economic grievances are fuelling social conflict and deepening the divide between the country's centre and its periphery.

PROSPECTS – Better targeting EU ambitions for Tunisia

The EU does not underestimate the importance of these issues both at diplomatic and development cooperation level. In September 2016, an EU Joint Communication¹¹, endorsed by the Foreign Affairs Council the following month, recognised the economic and social challenges Tunisia is facing. It proposed further action on a broad range of topics and set ambitious budget targets for the years to come – approximately €800 million a year until 2020. In May 2017, the latest EU-Tunisia Association Council envisaged a new framework for bilateral relations after the current Action Plan expires at the end of 2017. This framework will most likely consist of a more strategic and closer partnership focused on regional development and youth. It would take the form of a reinforced dialogue on regional and generational inequalities.¹²

A significant part of EU aid to Tunisia already targets projects related to regional development, and local administration support and judiciary reform. Assistance in these sectors, in addition to loans sustaining the Tunisian economy, is greatly needed. These efforts may, however, be vain if the Tunisian government fails to implement structural reforms. Corruption and socio-economic factors dividing the country would continue to undermine growth and development. More specifically, the European Court of Auditors recently noted¹³ that EU assistance to Tunisia was often delayed if not hampered by the bureaucratic intricacies of disbursement and monitoring¹⁴ as well as the slow pace of the reforms implemented by the Tunisian authorities.

In this context, the approval of the Development Plan for 2016-2020 is crucial. Setting clear priorities for the coming years will help international donors to coordinate their actions. The Plan will allow for Joint Programming between the EU and its member states, which was so far lagging, as the Court of Auditors had observed. This is where leadership by Chahed's government will be key, as coordination efforts require the Tunisians to direct donors' aid programmes to support concrete measures.¹⁵ Representatives of local civil society agree with the need for more leadership but they also stress that donors should follow more closely the money they spend and ensure that local and grassroots organisations are involved in the widest possible way. In other words, they may not trust authorities to always act in the interest of citizens, especially when it comes to solving socio-economic problems that have been there since before the revolution.

Prospects for growth and development, which need to be addressed through the fight against corruption and a successful decentralisation process, ultimately lie in the hands of the Tunisian government. It will have to demonstrate it has the necessary political will. Nevertheless, international donors and especially the EU are in the position to encourage a more strategic and bold approach by the Tunisian government. In the coming months, the EU will negotiate the new Single Support Framework for 2017-2020 and the related Annual Action Programmes. It's an opportunity to adjust foreseen projects and add new measures in other areas of cooperation.

For example, a stronger emphasis on strengthening social trust is required. Research has shown that the ability of foreign assistance to promote economic growth depends on the transparency of public institutions.¹⁶ Therefore, donors should put this issue at the forefront of their efforts. Recent data has proven that assistance, in absence of adequate requirements for openness and accountability, tends to make existing institutions resistant to change. For this reason, a wider national dialogue, dealing also with the issues of corruption and economic inclusiveness, should be initiated and involve civil society and local grassroots organisations.

Tunisian civil society representatives portray the EU as acting only on policy areas where it is sure that things will go well. In fact, the EU should make assistance more directly dependent on tangible progress on overlooked priority issues. For instance, anti-corruption measures in programmes and projects along different areas of action and not specifically aimed at public administration modernisation, should be strengthened on a regular basis. At the same time, the EU could make sure they bring some form of conditionality while creating the right incentives. It is true that the new ENP approach, following the 2015 review, puts a greater emphasis on the principles of ownership, differentiation and flexibility, than on promoting deep democracy and reviving conditionality. However, given the progressive nature of EU relations with Tunisia, there is space to try and condition the partner on issues that are key to the country's progress. It also needs to be underlined that the European Neighbourhood Instrument (ENI) regulation, which is legally binding, still envisages the use of conditionality, although not reflected in the ENP review.

Regional development assistance should foster better cooperation with the private sector and aim to reduce the overall size of the informal sector. To achieve this objective, it would make sense to support local banks and

financial authorities in funding the private sector, especially if they target enterprises of the social economy, for instance agricultural or craft enterprises employing young people and women in rural areas. The EU could also help in decriminalising those activities that are part of informal networks, further encouraging Tunisian and external banks and investors to finance the national economy. More generally, the EU should push for efforts that go in the direction of a comprehensive development strategy for the south and the interior regions.

Another component that could play an important role is public and private investment from the EU. In recent years, international donors have placed a greater focus on the combined use of public and private investment to support development efforts. In the EU, national development banks, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), and the Neighbourhood Investment Facility (NIF) have been supporting Tunisian SMEs. The EU now wants to go a step further with the envisaged European External Investment Plan, which foresees specific guarantees to help the private sector flourish. Sound investments can promote regional and national development in Tunisia. The EU could make a difference by supporting partnerships between the private sector and development banks in specific sectors where initial investment costs are high (e.g. renewable energies) or those that can spur rural development, such as agricultural biological products and handicraft.

Today, lack of transparency and stagnating regional development are deeply intertwined problems that need to be tackled swiftly by the Tunisian government with the support of its international partners. Recent laws and measures seem to confirm the ambition to reform, but implementation remains very patchy, which undermines the credibility of the government. The EU, with its ambition to make Tunisia an example for enhanced cooperation in the region, should play a greater role in encouraging the Tunisian government to enact much needed reforms through a more critical approach. Until now, the EU has managed to support the progresses made by the Tunisian society and the spirit for reform that has followed the revolution. With social unrest rising in parts of the country, Tunisia is facing challenges that may threaten its stability. This is the time for the EU to show that it can come up to the mark and sustain a key partner in changing the course, making it an example for progress and stability in the wider region.

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The views expressed in this Policy Brief are the sole responsibility of the author.

- 1 Francesca Fabbri, Coping with the fragile consolidation of Tunisia's transition, EPC Policy Brief, July 2016, http://www.epc.eu/documents/uploads/pub_6828_fragile_consolidation_of_tunisia_s_transition.pdf.
- 2 Data available at the World Bank webpage: <http://www.worldbank.org/en/country/tunisia>.
- 3 "Report on EU-Tunisia relations", European Commission, April 2017.
- 4 "Blocked Transition: Corruption and Regionalism in Tunisia", International Crisis Group, May 2017.
- 5 Joint communication to the European Parliament and the Council, September 2016.
- 6 For instance: World Bank, (2014), "The Unfinished Revolution", available at <http://documents.worldbank.org/curated/en/658461468312323813/pdf/861790DPR0P12800Box385314B00PUBLIC0.pdf>; I WATCH reports (<https://www.iwatch.tn/ar/>); the abovementioned ICG report; Robert Kubinec, "How foreign aid could hurt Tunisia's transition to democracy", The Washington Post, 19 December 2016, available at https://www.washingtonpost.com/news/monkey-cage/wp/2016/12/19/how-foreign-assistance-can-hurt-not-help-tunisia's-democratic-transition/?utm_term=.4c8d385b5f00; and Frida Dahmani, "Tunisie: corruption et népotisme à tous les étages", Jeune Afrique, 5 April 2016, available at <http://www.jeuneafrique.com/mag/315318/politique/tunisie-corruption-nepotisme-a-etages/>.
- 7 ICG report, May 2017.
- 8 Interviews by the author conducted in November 2016.
- 9 "En Tunisie, guerre contre l' 'Etat mafieux" ", Le Monde, 7 October 2016.
- 10 The draft code uses the term "collectivities" (collectivités locales) instead of "authorities". Some perceive that the word "authorities" was avoided on purpose by the drafters of the law which could signal their resistance to changing the governance model. The constitution however uses the word "authorities".
- 11 Joint communication to the European Parliament and the Council, September 2016.
- 12 Interviews with EU officials conducted in Tunis and in Brussels, 2016-2017.
- 13 Special report No 03/2017: EU Assistance to Tunisia, Court of Auditors, available at <http://www.eca.europa.eu/en/Pages/DocItem.aspx?did=41012>.
- 14 Already presented in the EPC Policy Brief of July 2011.
- 15 Interviews with EU officials conducted in Tunis and Brussels, 2016 and 2017.
- 16 Joseph Wright and Matthew Winters, "The Politics of Effective Foreign Aid", Annual Review of Political Science, Vol. 13:61-80 (Volume publication date 15 June 2010), first published online as a Review in Advance on 16 February 2010.

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