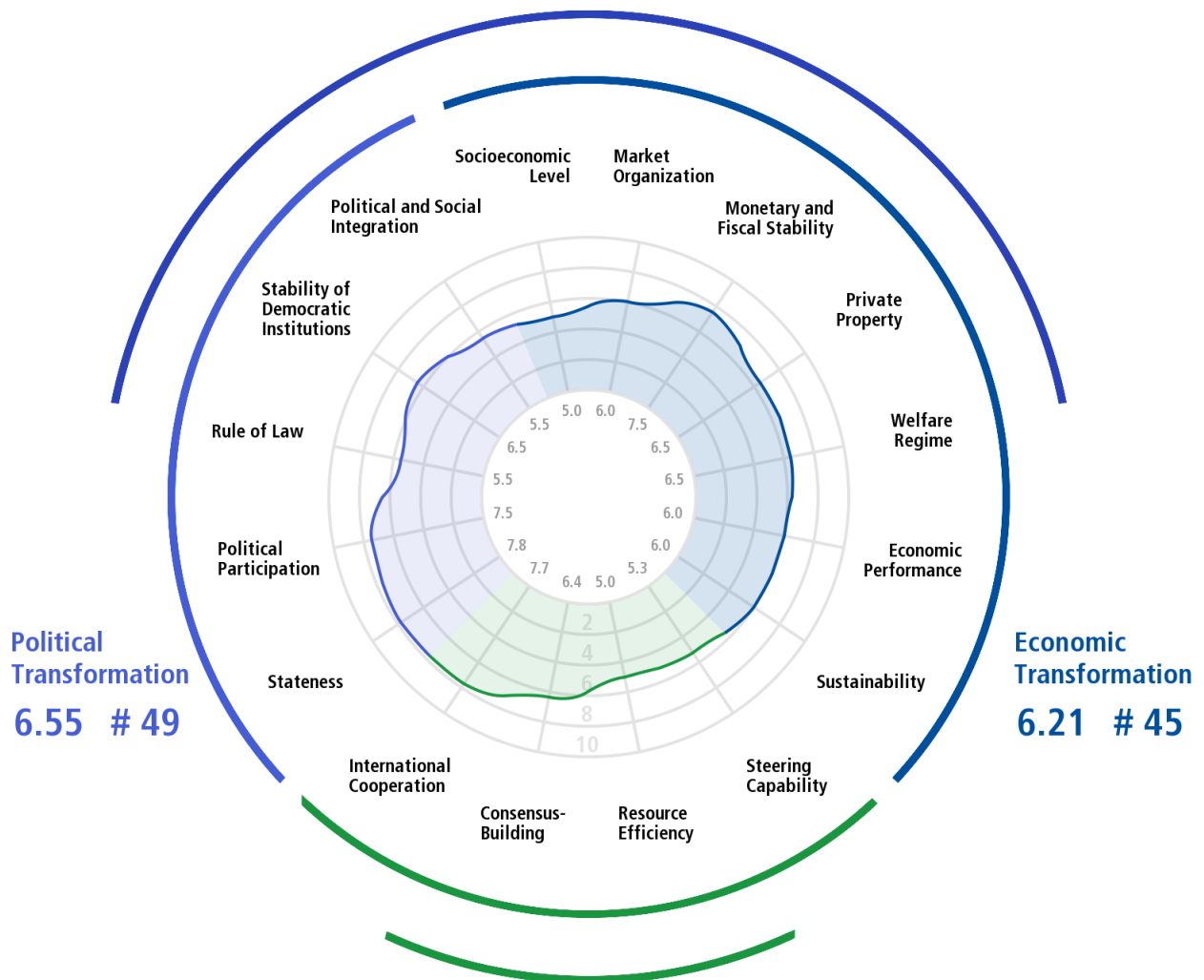


Tunisia

Status Index

6.38 # 44

on 1-10 scale out of 137



Political Transformation
6.55 # 49

Economic Transformation
6.21 # 45

Governance Index

5.43 # 49

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	11.6	HDI	0.739	GDP p.c., PPP \$	12484
Pop. growth ¹	% p.a.	1.1	HDI rank of 189	91	Gini Index	32.8
Life expectancy	years	76.3	UN Education Index	0.659	Poverty ³	% 3.2
Urban population	%	68.9	Gender inequality ²	0.300	Aid per capita \$	67.9

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

While Tunisians celebrated the eighth anniversary of the fall of the authoritarian Ben Ali regime in early 2019, taking stock of the last few years is a sobering exercise. There has been some genuine progress. Security has improved since the devastating 2015 terrorist attacks and tourism has picked up as a result. Municipal elections were successfully held in 2018 and finally kicked off the important process of decentralization. Freedoms of speech, assembly and association remain relatively well-protected by a state that had previously suppressed any semblance of opposition. By regional comparison, Tunisia can still be held as a success story compared to the repression and conflict that followed the 2011 uprisings in other Arab countries.

But measured against the country's potential, it becomes clear that the political democratization underway since 2011 has not been followed by successful economic reform. Irrespective of the exact form this takes (e.g., market-focused neoliberal reform or a reform model based on state intervention) structural change is necessary. Widespread disillusionment with the lack of economic progress has set in, which risks undermining the advances made in the political arena. Reflecting this disenchantment, voter turnout at the municipal elections was low, particularly among younger Tunisians. Half of young Tunisians are considering emigrating, a November 2018 poll revealed, with most citing economic reasons. Social protests continued throughout the review period as inflation hiked to levels not seen for over two decades and unemployment hovered at 15.5%. In some regions and among some groups (particularly young people, women and graduates), the unemployment rate is more than double that.

Yet, at the highest levels, Tunisia's politics are gridlocked. Recurring cabinet reshuffles that come with the promise of broad reform have changed little. Attempts to implement policies receive immediate push-back from key constituencies that fiercely defend their interests. This includes a well-connected group of businesspeople eager to protect their revenue from competition as well as trade unionists demanding pay rises for the bloated civil service. President Beji Caid Essebsi and Prime Minister Youssef Chahed fell out over the internal politics of secular party Nidaa

Tounes, fueling the group's further fragmentation. Having secured the most parliamentary seats in the 2014 elections, Nidaa Tounes now polls third behind the moderate Islamist Ennahda party and Chahed's newly founded secular Tahya Tounes ("Long Live Tunisia").

Amid the political turmoil, and as politicians are already eyeing the presidential and parliamentary elections in the fall of 2019, progress on the implementation of the progressive 2014 constitution has been slow. Chahed had made the fight against the pervasive corruption a signature policy of his tenure, arresting several individuals in highly publicized moves, but the constitutional anti-corruption authority is still not operational, while its transitional predecessor remains underfunded and understaffed. Partisan appointments undermine the trust in what are supposed to be independent state institutions, as did critical comments on the same by the nonagenarian president. The Constitutional Court, which was supposed to be created by 2015 according to the constitution, has still not been set up. It would be sorely missed in a serious crisis as its transitional predecessor cannot arbitrate between the president and prime minister, terminate the president's term in office in case of a clear violation of the constitution or determine the vacancy of the office of the presidency. In this context, an increasing number of Tunisians express their support for authoritarian alternatives to the current system.

Among the brighter spots, the Truth and Dignity Commission (IVD) has completed its work of examining gross human rights violations by the state, and those acting in its name and under its protection as well as the abuse of public funds under the Bourguiba and Ben Ali regimes. In a highly politicized climate, it documented and archived numerous cases, and according to the IVD's own reports, secured TND 700 million for the state budget and referred 72 cases to the judiciary.

Civil society remains an important source of pressure on the political system, demanding reforms and the implementation of the constitution. Amid the stagnation and disillusionment, the visit of Saudi Crown Prince Muhammad bin Salman to Tunisia in late 2018 exemplified the country's unique position among Arab countries. Not only could scores of people protest against the crown prince, who became controversial following his implication in the killing of journalist Jamal Khashoggi and his country's intervention in Yemen. After a complaint had been made, Tunisia's prosecutor launched preliminary investigations against bin Salman over human rights abuses in Yemen.

History and Characteristics of Transformation

The end of the authoritarian Ben Ali regime kicked off a tumultuous transition that resulted in the current democratic political system. In the aftermath of Ben Ali's departure in January 2011, street protests kept up pressure for comprehensive political change. This resulted in the election of the National Constituent Assembly, tasked with the elaboration of a new constitution, but also ongoing legislation. Tensions between the Islamist-dominated government and a mostly secular opposition increased when the assembly failed to meet its ambitious one-year deadline to complete the constitution. Political crises escalated after a series of security failures and two political assassinations in 2013, bringing the transition close to collapse as distrust between government and opposition ran high, and the instability hit the already flagging economy. The National Dialogue between political forces, initiated by civil society, produced a road map that cleared the way for the installation of a technocratic government. This interim administration oversaw the successful adoption of a progressive constitution in January 2014, and free and fair elections in the fall of 2014.

This transition ended more than five decades of modernizing bureaucratic authoritarian presidential regimes under the initial leadership of President Habib Bourguiba (1957 – 1987) and 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 (*Rassemblement Constitutionnel Démocratique*), which was officially dismantled on February 7, 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”) and Tunisian Workers' Party (Hamma Hammami's *Parti communiste des Ouvriers de Tunisie*, PCOT, renamed *Parti des Travailleurs Tunisiens*, PTT, in 2012) – remained severely repressed, and the few legal opposition movements and civil society associations were closely controlled by the government. Important interest groups – such as the Tunisian General Labor Union (*Union Générale Tunisienne du Travail*, UGTT) and the employers' Tunisian Union for Industry, Commerce and Handicraft (*Union Tunisienne de l'industrie, du commerce et de l'artisanat*, UTICA) – 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, and extralegal arrests and assaults that targeted critical journalists and independently 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 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 a high knowledge content. Alongside this growing export potential, a tourism-driven influx of foreign currency and programs with international organizations undergirded 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-induced upgrade program increased the competitiveness of export-oriented firms throughout the 1990s. As of January 1, 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, custom procedures). Amid 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 at all levels of state administration.

Despite ongoing reforms, Tunisia's authoritarian legacy is still evident. The state-heavy economic system has barely changed since the revolution, parts of Tunisia's body of law lag behind the progressive constitution and security forces have not become fully accountable for ongoing human rights abuses. Corruption continues to be widespread across public and private institutions, and the judiciary does not operate according to democratic standards. Finally, members of Tunisia's parliament have failed to comply with deadlines codified in the 2014 constitution – even though many of the current parliamentarians were involved in drafting the constitution.

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

The Tunisian state's control over its territory is intact, but violent groups challenge its monopoly on the use of force. Three Islamist terrorist groups operate in Tunisia, which are affiliated either to al-Qaeda or the Islamic State (IS) group. Two high-profile attacks in 2018 were aimed primarily at the security forces. On July 8, 2018, an attack on a National Guards patrol near Ain Soltane close to the Algerian border left eight officers dead and was claimed by al-Qaeda affiliate Okba Ibn Nafaa (OIN). On October 29, 2018, a suicide attack on Avenue Bourguiba, the most secured area of the capital Tunis, caused injured 15 police officers and five civilians. Only the attacker, an unemployed female university graduate, lost her life. The state of emergency remains in place. Yet, the government has so far been unable to regain full control over the Djebel al-Chaambi region, where OIN members continue to camp out. Socioeconomic dissatisfaction occasionally erupts into violent protests.

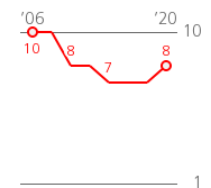
The Tunisian nation-state is overwhelmingly accepted as legitimate, although a comparatively small number of Salafis call for a redefinition of "tunisianité" from a specific Islamic perspective. While the large majority of Tunisians are Sunni Muslims, the presence of the small Jewish and Christian communities is uncontroversial.

The Tunisian constitution defines the state largely along secular terms but declares Islam to be the state religion. The tension between these poles generates many controversial debates in Tunisian politics. The appointment of a Jewish cabinet minister in 2018 – only the third member of the 2,000-strong Jewish minority in the country to join a cabinet since independence in 1956 – sparked some criticism. This was, however, largely aimed at potential conflicts of interest (the new tourism minister is a travel entrepreneur) and his visits to Israel as relations with Israel remain a contested issue across the Arab world.

Question
Score

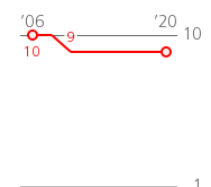
Monopoly on the
use of force

8



State identity

9



Some groups in society, most visibly LGBT+ people, face discrimination to the extent that this qualifies as a denial of full citizenship rights. For instance, Human Rights Watch stated that “unchecked discrimination prevents LGBT people from enjoying their most basic rights to health, education, work, and to seek legal action against abusers.”

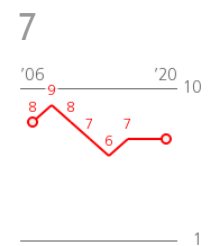
While the Tunisian state is effectively secular, the country’s constitution includes several ambiguities about the role of religion in public life. Article 6 guarantees the freedom of conscience, belief, and the free exercise of religion, but Islam is defined as the state’s religion in Article 1 and the head of state needs to be Muslim. At the same time, Article 2 describes the character of the state as “civil.” In September 2017, a ban on the marriage of Tunisian Muslim women and non-Muslim men was lifted. At the time of writing, the Tunisian parliament was debating a bill proposed by the president and approved by the government, which would grant women equal inheritance rights to men. The existing legal framework is at least partially based on Islamic law. The election of Tunis’s first female mayor in July 2018 – a member of Ennahda – was seen as incompatible by a spokesman of secular group Nidaa Tounes due to the mayor’s traditional but honorary role in Ramadan celebrations. Public opinion appears divided on the question.

The Tunisian state is present across its territory with a differentiated administration, which includes law enforcement, tax authorities, courts and social services. Provision, however, varies between the affluent coastal regions and disadvantaged areas, particularly in the interior. Across the country, the quality of state administration is often hampered by corruption, nepotism and bureaucratic inefficiencies. Taxation is often unevenly imposed on the private sector. According to the latest available World Bank data (2015), 98% of Tunisians have access to improved water sources, while 92% have access to improved sanitation facilities.

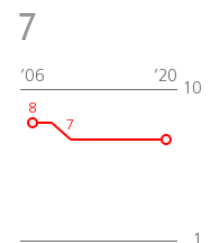
2 | Political Participation

In May 2018, Tunisia held its first free and fair municipal elections after the 2011 revolution, which had been significantly delayed. The vote was implemented by the Independent High Authority for Elections (Instance Supérieure Indépendante pour les Élections, ISIE) – an independent body. An electoral law reform in 2017 introduced new provisions for local elections, particularly the extension of the franchise to military and security officers, as well as measures for the advancement of women, and young and disabled people on the candidate lists. Nevertheless, at 35.6%, turnout was low – roughly half of that at the 2014 legislative elections, as was electoral registration. There is also a generational cleavage: Less than a quarter of eligible citizens between 18 and 21 were registered for the ballot, while the figure increased with age with three quarters of people aged over 51 registered. While internal conflict has undermined ISIE’s capacity and work leading up to the elections,

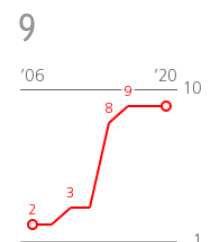
No interference of religious dogmas



Basic administration



Free and fair elections



the vote was nevertheless technically credible, with transparent procedures and only some incidents caused by logistical failures. This allowed multiple different parties and candidates to run. However, only the two main parties in government at the time, Nidaa Tounes and Ennahda, were able to field candidates across all constituencies, not least due to the strict equality measures. The majority of media covered the vote, but two TV stations and two radio broadcasters decided against coverage, citing the difficulty of applying the strict impartiality rules.

Like the low turnout, the results of the municipal elections showed significant political disenchantment. Aggregated to the national level, independent candidates received the most votes, followed by Ennahda and Nidaa Tounes.

With the appointment of a new president of ISIE in January 2019, a last big hurdle for the preparations for the coming national elections in 2019 has been cleared. The authorities are confident that they can be held on time and without problems. Past national elections in 2014, which returned the current parliament and president, were held in a free and fair manner.

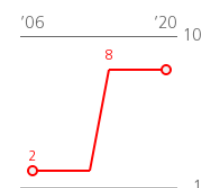
Tunisia's politicians are elected democratically and have the power to govern on the national and local level. Tunisia's military has a tradition of political impartiality. However, individuals can still have outsized influence on decision-making. This includes the leader of Ennahda, Rached Ghannouchi, who does not hold elected office. Public institutions are also still influenced by a small cadre of businesspeople and figures associated with the pre-2011 authoritarian regime of President Ben Ali. The country's dependence on external funding makes it more susceptible to the influence of donor countries and agreements with international financial institutions limit the range of economic policy choices available to the government.

The rights of association and assembly are guaranteed by the constitution in articles 35 to 37. The state of emergency put limits on the right of assembly, but protests were permitted and did occur. There have been incidences of security forces intimidating protesters. According to Amnesty International, courts in Gafsa tried hundreds of individuals on charges of "disrupting the freedom of work" in 2017 after anti-unemployment protests. However, literally unparalleled in the broader Middle East and North Africa region, mass demonstrations against the state visit of Saudi Crown Prince Muhammad bin Salman on Tunis's central Avenue Habib Bourguiba were held in November 2018. In the protests, several hundred Tunisians protested against the Saudi crown prince's visit, calling him a "murderer" in reference to the killing of Saudi journalist Jamal Khashoggi in the kingdom's consulate-general in Istanbul a few weeks before.

The right of association is respected with some restrictions. Several monitoring groups report that in contravention of the law, the government delayed the registration of some associations through unnecessary bureaucratic hurdles, occasionally for political reasons. Only the judiciary is permitted to suspend or dissolve associations.

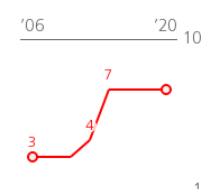
Effective power to govern

8



Association / assembly rights

7



In June 2017, Prime Minister Chahed gave associations a one-month deadline to report any foreign funding, with associations only allowed to receive funding from countries that have diplomatic relations with Tunisia. The Prime Minister's Office reports that the courts have dissolved 16 associations since 2011, as they failed to justify funds received from abroad to the authorities. The NGO "I-Watch" asserts that the government has suspended another 50 organizations on the basis of shortcomings in reporting their financial sources, including foreign funding. The authorities say proper procedure was followed in all cases. In June 2017, the Islamist party Hizb Ettahrir (Liberation Party) had its activities suspended by the court of Tunis for violating the law of associations, but resumed its work after the suspension.

Tunisian law protects the freedom of expression, above all in Article 31 of the constitution. Nevertheless, there are both legal and practical limitations as public order, public morals and national defense are listed in the constitution as reasons for limiting freedom of expression.

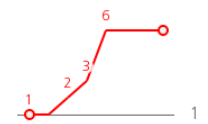
In the 2018 World Press Freedom Index by Reporters Without Borders, Tunisia ranked 97 out of 180 countries, a slight decline from 96 out of 181 countries in 2016. There have been reports of police harassment of journalists, particularly during protests. Following public criticism of foreign media by President Essebsi, two French journalists were briefly detained and questioned by police in January 2018. Reporters Without Borders also criticized the trial of journalists in the military justice system, stating that such trials were a violation of international law, and highlighted the blacklisting of certain news outlets for interviews by the authorities. In March 2018, parliamentarian and blogger Yassine Ayari was sentenced by a military court to 16 days imprisonment for a Facebook post published in 2017 in which he mocked the appointment of a senior military commander. Self-censorship continues to be widespread.

The right to information and the right of access to information is protected by the constitution. The 2016 Freedom of Information Act was followed by the establishment in 2017 of the Access to Information Authority (Instance d'accès à l'information). However, in December 2018, the authority's president, Imed Hazgui, criticized the limited capacity of public administration, including the lack of human resources and digitized documents, and the weak legal framework governing access to information. These issues, and the persistence of authoritarian norms, present obstacles to the right of access to information.

Freedom of expression

6

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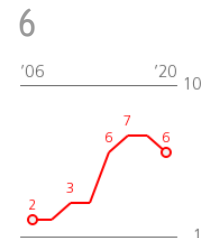
3 | Rule of Law

Tunisia's political institutions operate in a semi-presidential system as per the 2014 constitution. The president of the republic and the president of the government (prime minister) share executive power. The prime minister's portfolio is dominated by domestic policy whereas the directly elected president deals with foreign policy, defense and national security. In the complex power-sharing setup, the president is required to consult the government in his policy areas. In political practice, the incumbent president, Beji Caid Essebsi, has sought to concentrate power in the presidency, where it was traditionally located prior to the 2011 revolution. The parliament, the Assembly of People's Representatives (Assemblée des Représentants du Peuple, ARP), is vested with legislative power, which can also be exercised by the people directly in referendums. However, the assembly's ability to operate in accordance with its constitutional mandate and serve as a check on the executive is hampered by its members' lack of actual political power and resources.

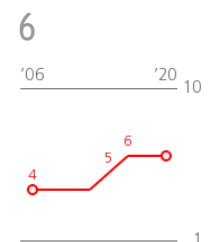
Once established, the Constitutional Court will have broad review powers. Due to the lack of consensus over the appointment of judges, the constitutional deadline to establish the court by 2015 has been missed. This is critical as the court is the only institution authorized by the constitution to determine the provisional or definitive vacancy for the post of president of the republic. The risk of an unconstitutional transfer of power thus exists in its absence. Technical bodies of constitutional rank, such as the Electoral Commission, Audiovisual Communication Commission and Human Rights Commission serve as checks on the elected institutions. Though not all of the commissions have been established and some face criticism for the partisan appointment of their members.

Some constraints on the independence of Tunisia's judiciary persist. Both legal and institutional safeguards of constitutional rank are supposed to protect the judiciary from undue interference. For example, judges enjoy criminal immunity, and the transfer, removal or dismissal of judges can only be enacted by the Supreme Judicial Council, the body managing the profession of judges. This council also appoints judges, with the president of the republic. The Constitutional Court, which will enjoy broad review powers, has not been set up at the time of writing, but its transitional predecessor enjoys some review power over current legislation (the control of the constitutionality of draft law only). The judiciary is institutionally differentiated, but the persistence of corruption, lack of resources, and violation of human rights codified in the 2014 constitution and proper procedure present genuine challenges. In some cases, civilians are tried in military courts.

Separation of powers



Independent judiciary



The political transition has not led to a reduction in corrupt practices, but rather to its “democratization,” as many Tunisians say. Bribery is common in daily life with the security and health care sectors reportedly most affected. In its annual report for 2017, the anti-corruption authority, INLUCC, reported that it had received over 9,000 complaints, of which roughly half were within its jurisdiction. It forwarded 245 cases to the judiciary. However, the courts take four to seven years to decide on cases. INLUCC reported in August 2018 that some of its informants had been harassed, fired from their jobs or even imprisoned.

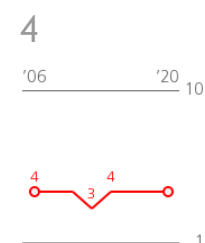
In 2017, the Chahed government ordered the arrest of several high-profile individuals in the context of its public “war against corruption.” Since then, however, there has been less (public) anti-corruption activity undertaken by the government. While the transitional INLUCC is underfunded and understaffed, the permanent constitutional anti-corruption authority is not yet established at the time of writing. Only 65,000 of 350,000 public officials submitted an obligatory wealth declaration by the December 2018 deadline.

Polls show dissatisfaction with the rule of law. More than half of respondents in the 2018 Afrobarometer Survey stated that officials who commit crimes “always” go unpunished, 22% believing that officials “often” go unpunished. Only 4% believe officials “never” and 14% believe officials “rarely” go unpunished. Furthermore, 61% of respondents stated that people risk retaliation for reporting incidents of corruption. A presidential pardon in December 2018 for a former political adviser to Nidaa Tounes and ex-president Ben Ali in a widely publicized financial corruption case drew criticism from multiple civil society groups.

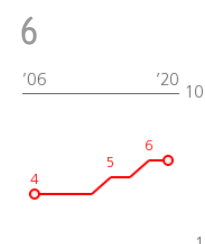
Constitutionally, civil rights are well-protected in Tunisia. Title two of the 2014 constitution protects equality before the law; the right to life, human dignity, physical integrity, privacy, citizenship and asylum; the presumption of innocence and due process; and humane treatment, political and social rights. There are also constitutional safeguards against undermining any of these rights. Yet, these rights are neither fully reflected in the body of law nor fully respected by the state’s institutions.

Despite legislative progress on due process, discrimination and gender-based violence, several groups in society are still disadvantaged, not least because the relevant laws are not consistently applied by the authorities. Despite the right to a lawyer, some suspects in pre-charge detention were not informed of this right by the police or were denied access. The authorities did not consistently respond to cases of racist attacks or women suffering abuse in accordance with new rules. Consensual same-sex sex is a crime under the penal code, which provides up to three years in prison for “sodomy.” Despite increasing public criticism, the authorities have continued the practice of anal testing to “prove” homosexuality, and presumed gay men have been prosecuted and imprisoned in several cases.

Prosecution of office abuse



Civil rights



The continuation of the state of emergency since November 2015 has had a detrimental effect on civil liberties. Under state of emergency powers, hundreds of Tunisians remain under house arrest, although conditions were eased according to Human Rights Watch. Many of those under house arrest were placed under the so-called S17 travel ban procedure. Individuals suspected of joining a group fighting abroad can have their movement restricted both domestically and internationally under this measure.

4 | Stability of Democratic Institutions

The democratic institutions established by the 2014 constitution perform their functions effectively but not without friction. On the national level, changing political alliances have resulted in friction between political parties, and between the government of Prime Minister Youssef Chahed and President Beji Caid Essebsi.

The holding of municipal elections in May 2018 finally kicked off the long-delayed process of decentralization, which should distribute more resources and greater political decision-making to the local level. Due to the lack of consensus over the appointment of judges to the Constitutional Court, this part of the third branch of government has yet to be established.

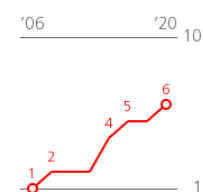
While there is open debate about the design of the political system, there is no mainstream political force that seeks to openly abolish the democratic order as such. For most of the review period, the two largest political parties, Ennahda and Nidaa Tounes, effectively formed a coalition. This coalition ended without either party questioning the system as such. Large national associations, such as the trade union body UGTT and employers' group UTICA, regularly join dialog processes with state institutions to tackle national issues. The military has maintained its traditional, apolitical role and the domestic security apparatus respects the authority of elected institutions with few exceptions. While some radical groups seek to overthrow the constitutional order, key non-governmental organizations promote democratic norms.

5 | Political and Social Integration

The Tunisian party system remains fragmented and shows low levels of institutionalization. According to 2018 Afrobarometer data, 81% of Tunisians do “not feel close to any political party,” and 79% either would not vote or would not know who they would vote for if elections were held tomorrow. Following the 2018 municipal elections, the moderate Islamist Ennahda and secular Nidaa Tounes parties were the two largest parliamentary parties. However, less than a year later, the new secular Tahya Tounes (“Long Live Tunisia”) party, led by Prime Minister Youssef Chahed emerged as the second largest formation in the national parliament after

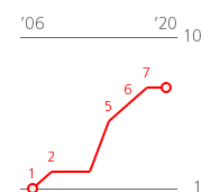
Performance of democratic institutions

6



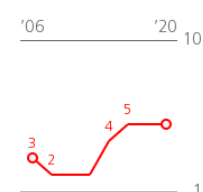
Commitment to democratic institutions

7



Party system

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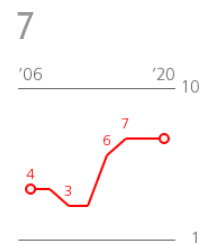


Ennahda, following an internal conflict within Nidaa Tounes. Ennahda, which now refers to itself as a “Muslim conservative” rather than Islamist party to broaden its electoral appeal, has the greatest presence across the country, with extensive grassroots support and well-defined internal rules. Nidaa Tounes, which had campaigned in 2014 on an anti-Islamist platform, initially held the largest number of seats in the parliament. However, its loose coalition of forces from left-wing, nationalist and business backgrounds as well as some former regime figures did not survive an internal leadership struggle, which divided the party and led to multiple defections. Nidaa Tounes’s unexpected and awkward coalition with Ennahda contributed to the internal-party divisions, as did the autocratic tendencies of President Beji Caid Essebsi, who founded the party, and his son Hafedh Caid Essebsi.

While both Ennahda and Nidaa Tounes maintained a core electorate and nationwide representation, the 2018 municipal election results echoed significant disenchantment with the existing political forces. At 33.7%, turnout was lower than in the national elections in 2014. The largest group abstaining from the vote were young Tunisians. Despite challenging requirements for independent candidates, this group received the highest share of votes at over 30%, followed by Ennahda (29%) and Nidaa Tounes (21%). While Ennahda thus maintained its vote share from previous elections, Nidaa Tounes came first in only a few councils.

Tunisia boasts a diverse civil society that incorporates various social interests, ranging from social movements and community organizations to trade unions and professional associations. In some instances, multiple associations have joined forces, for instance, to demand certain reforms of the government. The sector is segmented: There are more established groups, such as the group of four organizations recognized in the 2015 Nobel Peace Prize for mediating the political transition gridlock in 2013. The powerful Tunisian General Labor Union (UGTT) belongs to this group. Associations founded after the 2011 revolution were often initiated by young Tunisians who are less likely to engage in party politics than in civil society organizations. Finally, there are international NGOs, which professionalized work in the sector while raising concerns among some of the population of an “NGOization” of what is increasingly seen as an industry in its own right. The UGTT has become more overtly political during the review period. Mostly representative of public sector workers, it is also effectively part of the government via notionally independent individuals. Prior to the 2011 revolution, UGTT had on occasion participated in elections. There is now speculation that it will field candidates in the 2019 national elections.

Interest groups



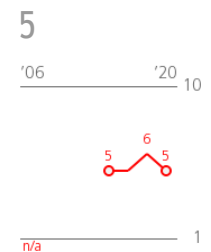
Almost half of Tunisians (46%) prefer democracy to any other kind of government, according to 2018 Afrobarometer data, down from 71% in 2013. While 20% think that non-democratic government could be preferable in some circumstances, 29% found that the kind of government does not matter for people “like them,” with a slight divide between urban (27%) and rural (33%) responses. However, as satisfaction with democracy is declining since the 2013 and 2015 Afrobarometer polls, the preference for autocratic alternatives is increasing. While almost 80% rejected one-man rule in the previous polls, the 2018 figure is 61%, with similar developments for one-party or military rule. Support for elections declined from 95% in 2013 to 90% in 2015 to 64% in 2018.

In November 2017, only about a quarter of Tunisians thought their country was a “full” or a “nearly full democracy.” The largest group of respondents (39%) thought Tunisia was a “flawed democracy,” whereas 31% found it was “not a democracy at all.” In the same poll, 21% found democracy definitely more important than prosperity, whereas 10% found it somewhat more important. Conversely, 21% found prosperity somewhat more important and 41% found it definitely more important than democracy. Over the course of six polls between November 2015 and November 2017 that asked the same question, the group supporting prosperity somewhat more than democracy faced the largest decline from 56% in the first poll to just over a fifth in the last. None of the other questions have experienced a change of similar dimensions in either direction.

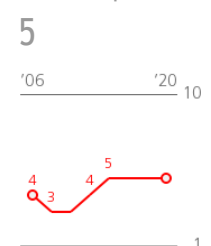
Trust in democratic institutions varies, but has generally declined. In the 2018 Afrobarometer poll, 16% trust the president a lot (2015: 32%), 22% somewhat (2015: 23%), 18% trust the president a just a little (2015: 20%) and 32% not at all (2015: 22%). Meanwhile, 5% trust the parliament a lot (2015: 20%), 15% somewhat (2015: 29%), 17% just a little (2015: 25%) and 50% not at all (2015: 21%). The one state institution that maintains its position as the most trusted is the military: 77% trust it a lot (2015: 83%), compared to 33% for the police (2015: 43%) and 35% for the courts (2015: 33%). According to the IRI poll, 67% of respondents thought that ministries do nothing for people like them and 73% thought the same of the parliament. These figures also worsened over the course of the last six polls. Only 13% of respondents thought things in Tunisia went in the right direction, while 83% thought they are going in the wrong direction. The same survey showed deep concern about the country’s economic situation.

There is an active sector of civil society organizations, both secular and religious. Since the 2011 revolution, this has operated much more freely and many organizations have become more professional. Nonetheless, social capital in Tunisia remains comparatively weak and trust remains low. According to 2018 Afrobarometer survey data, most Tunisians suspect non-governmental organizations of corruption: 41% believe some NGOs are involved in corruption, 10% believe most

Approval of democracy



Social capital



are and 14% believe all of them are. Only 7% believe no NGOs are corrupt and 28% responded with don't know or haven't heard enough about NGOs.

Where solidarity is practiced, this is often on an ad hoc basis, for instance during natural disasters, rather than in an organized framework. Tunisia was among the 10 countries with the lowest score in Gallup's Civic Engagement Index in 2017, indicating that its citizens were unlikely to donate to charity, volunteer their time or help a stranger in need.

II. Economic Transformation

6 | Level of Socioeconomic Development

While Tunisia boasts high human development and is often hailed as a regional leader on gender equality, profound inequalities persist and are to some extent structural. Ranked 95 out of 189 countries in the 2017 Human Development Index, Tunisia is in the bottom half of those countries with "high human development" according to the UNDP definition. Its score of 0.735 marked a slight improvement over the last report and is the third highest among the non-oil Arab countries after Lebanon and Jordan. This reflects improved outcomes in health, education and income, but the rate of improvement has declined over recent decades. When adjusted for inequality, Tunisia's HDI score is 22% lower – above the 16% average deduction for countries of high human development. According to the World Bank, Tunisia's GDP per capita (in PPP) was \$11,911 in 2017. In 2010 (the latest available), the country's Gini coefficient was 35.8, a drop from 40.8 a decade previously, reflecting a reduction in inequality. Official figures put the 2015 poverty rate at 15.2%, down from 20.5% in 2010 and 23.1% in 2005. When measured against an income threshold of less than \$3.20 per day at 2011 international PPP-adjusted prices, 9.1% of Tunisians lived in poverty in 2010 (latest available figures).

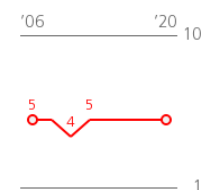
However, national averages cast over significant variations, such as gender differences and regional disparities. In the third quarter of 2018, Tunisia's overall unemployment rate was 15.5%. Yet, it was 22.8% for women and 12.5% for men. Unemployment was higher among higher education graduates, among whom the gender gap was even greater – 18% male and 38.7% female unemployment in the first quarter of 2018. Regionally, the figures in 2016 varied between 32% unemployment in the southern governorate of Tataouine and 6.6% in Monastir.

The UNDP's Gender Development Index reveals stark discrepancies: According to 2017 data, life expectancy at birth is higher for females (78 years) than males (73.9 years). Yet mean years of schooling are lower (6.4 compared to 7.9 years) and

Question
Score

Socioeconomic
barriers

5



estimated gross national income per capita (in 2011 \$PPP) differ drastically: \$4,537 for females and \$16,152 for males. This lands Tunisia in the bottom fifth of countries due to the absolute deviation from gender parity in HDI values in spite of its reputation as a regional leader for women's rights.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	43152.5	41808.4	39952.1	39860.7
GDP growth	%	1.2	1.3	1.8	2.5
Inflation (CPI)	%	4.4	3.6	5.3	7.3
Unemployment	%	15.2	15.5	15.4	15.5
Foreign direct investment	% of GDP	2.2	1.5	2.0	2.5
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-3849.7	-3694.3	-4079.7	-4428.7
Public debt	% of GDP	55.4	62.3	70.6	77.0
External debt	\$ M	27244.8	28363.5	33468.2	34662.6
Total debt service	\$ M	2034.1	2036.0	3034.8	2786.2
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	19.6	20.5	20.8	-
Public education spending	% of GDP	6.6	-	-	-
Public health spending	% of GDP	4	3.9	-	-
R&D expenditure	% of GDP	0.6	0.6	-	-
Military expenditure	% of GDP	2.3	2.3	2.1	2.1

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

While the Tunisian authorities are principally committed to a market-based economy, there are limitations to the extent that prices are the result of competitive markets. Despite decades of liberalization and privatization, significant parts of the Tunisian economy are subject to state intervention, be it through subsidies, regulation or public ownership in strategic areas such as infrastructure or energy. Such interventions also create high barriers to entry for firms, domestic and foreign. Most prices result from market competition, but the state subsidizes several socially important commodities like staple foods and energy. As part of an overhaul of the subsidy system, the government sought to reduce energy subsidies, but implementation of these reforms was patchy. Tunisia still grapples with the economic legacies of authoritarianism, which include state capture and crony capitalism. While difficult to quantify, corruption, nepotism and widespread tax evasion affect market competition. A 2014 World Bank assessment stated that 24% of firms reported having to make informal payments to “speed things up,” which was one of the highest rates globally at the time. Starting a business and investing has, however, improved with the creation of a one-stop shop for investors and a negative list of investment authorizations as well as the Start-up Act. According to the World Bank’s Doing Business report 2018, starting a business requires nine different procedures, 11 days and 4.6% of GNI per capita.

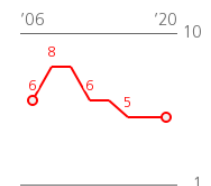
The level of private investment has declined since 2000 and is currently low. The OECD concluded 2018 that business investment has suffered from excessive regulations on product markets, as well as complex administrative procedures that encourage corruption, unpredictable taxation, increasing problems with customs clearance and the shipping of goods, and an inefficient financial system.

The economy is effectively still dichotomous, with domestic/onshore companies largely shielded by regulation and therefore relatively uncompetitive. The export-oriented, “offshore” sector on the other hand is largely isolated from the domestic market and competitive. While it is illegal to take Tunisian dinars out of the country, the currency is principally convertible for current account transactions. However, some foreign exchange operations require central bank authorization. As non-residents, foreign investors may transfer currency without authorization. However, procedures for capital and dividend repatriation remain complex and businesses frequently complain about difficulties.

Estimates of the informal sector in Tunisia vary. According to 2016 figures by the African Development Bank, among the under-40s, 60% of employed men and 83% of employed women work in the informal sector. This figure reflects both dysfunctional markets and rigid labor regulation, which means employers tend to offer short-term contracts or informal employment.

Market
organization

5



The Tunisian Competition Council is the regulator established to ensure the competitiveness of markets in the country in accordance with the legal framework of the Competition Law. It has both juridical and consultative functions. In May 2018, the president of the Competition Council reported that TND 19 million of fines had been imposed by the organization since its founding. However, only TND 2.5 million had been collected by the responsible Ministry of Commerce.

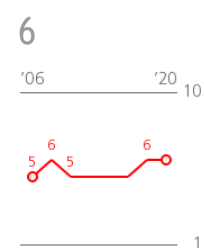
The good ratings Tunisia has in the past enjoyed for anti-monopoly policy have been mostly accurate for international investors in the offshore economy whereas the domestic market continues to be less competitive due to extensive regulation, which facilitate nepotistic practices. The abolishment of a preferential tax regime for offshore companies is planned for 2019. In 2017, energy subsidies represented a substantial 1.6% of GDP.

Tunisia has been a member of the WTO since its founding in 1995. The gap between the total bound tariff rate (57.9) and applied “most favored nation” rate (11.6) according to 2016 WTO data is substantial. Tunisia enjoys free trade in industrial goods with the European Union, its primary trade partner, since 2008, following an Association Agreement with the bloc in 1995. Negotiations on a Deep and Comprehensive Free Trade Agreement began in 2016, but are not expected to bear fruit before the 2019 elections in Tunisia. While almost negligible in its potential impact in Europe, the negotiations are controversial in Tunisia, which sends almost 80% of its exports to the European Union. Civil society and some businesses that are currently well-protected from competition are particularly critical, while political parties mostly show disinterest and the wider public is hardly aware of the issue.

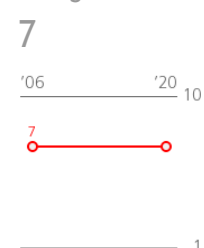
Regionally, Tunisia participates in the 2004 Agadir Agreement, which has progressively lifted trade barriers with Morocco, Egypt and Jordan. Tunisia also co-founded the Greater Arab Free Trade Area in 2005. Commercial barriers with Algeria, Libya, Morocco and Turkey have been lowered through bilateral deals over recent years. The country has also joined the Common Market for Eastern and Southern Africa (COMESA), and expressed its interest in joining the West-African bloc ECOWAS in 2017, where it now has observer status.

In the 2019 World Bank’s Doing Business index, Tunisia ranked 101st for trading across borders ahead of Algeria and Egypt, but scoring lower than Morocco. The 2018 Heritage Foundation Index of Economic Freedom gives Tunisia an all-time high score of 82.1% for trade freedom, noting an average applied tariff of 3.9% and that non-tariff barriers remain an impediment to some trade. The latter apply particularly to goods produced by competitors in Tunisia. The most affected industries remain motor vehicles and pharmaceuticals, where import restrictions such as quotas apply. The inconsistent application of procedures (e.g., required checks) by Tunisian Customs presents another obstacle for importers.

Competition policy



Liberalization of foreign trade



The state dominates banking, but while the sector still suffers from structural and asset-quality issues, its performance is improving. Most banks observe prudential ratios and the share of non-performing loans (NPLs) decreased to 13.9% of the total in the first quarter of 2018 compared to 16.6% at its peak in 2015. This ratio is still high, but is expected to continue to decline as public banks in particular, supported by recent write-off resolution legislation and improved internal processes. The high ratio of NPLs in public banks is also a legacy of the banks' role under the authoritarian Ben Ali regime. Access to credit was then often given to cronies rather than productive business projects and adequate screening procedures were omitted. Beside NPLs, reforms of the sector have concentrated on anti-money-laundering measures. Supervision could still be strengthened further as could measures to improve access to credit, particularly for SMEs.

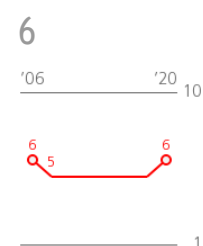
The aggregate capital adequacy ratio was 12% at the end of June 2018. Tunisia's central bank is implementing tighter prudential norms to achieve full compliance with the Basel III requirements by 2020. The Tunisian financial sector's comparatively low profitability appears to be linked to its fragmentation. Mergers may help to generate economies of scale.

8 | Monetary and fiscal stability

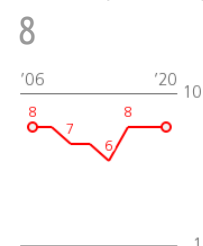
The central bank of Tunisia has demonstrated its commitment to price stability in the review period – its central mandate according to the 2016 central bank law – which also sets it out as an independent institution. Since the appointment of a new central bank governor, the institution's independence appears more secure. In response to accelerating inflation, which reached over 7% in 2018, the central raised interest rates in March (by 75 bps) and by an unprecedented 100 bps in June 2018. Previously, inflation in Tunisia had been relatively stable (2017: 5.3%, 2016: 3.7%, 2015: 4.9%, 2014: 4.9%, 2013: 5.8%, 2012: 5.1%, according to the IMF World Economic Outlook October 2018). A September 2018 IMF program review projects the annual inflation rate will be 7.8% for 2018. Despite the rate hikes, the IMF noted in September 2018 that in real terms key interest rates remain negative and therefore recommended further increases. The central bank has confirmed it is committed to bring real rates into positive territory.

The sharp increase in prices weighs on Tunisians' purchasing power. It is the result of a combination of factors including value-added tax increases, higher energy prices resulting from subsidy cuts in domestic policy. Imported goods became dearer due to the depreciation of the Tunisian dinar as well as increases in import duties aimed at reducing the trade deficit. Wage rises that are not linked to productivity improvements as well as profiteering by speculators have further contributed to the price hikes. The government reactivated the National Price Control Commission, which was widely seen as a political move. The commission can deter profiteering

Banking system



Monetary stability



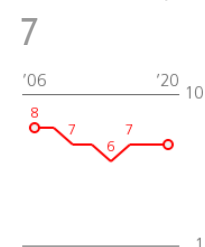
by monitoring wholesale and retail prices, but inflation is too driven by external factors (e.g., global oil prices) for the measures to have a large-scale impact. It is worth noting that IMF calculations show households being affected very differently by inflation with larger price hikes experienced by high earners. As consumption patterns vary, a difference in inflation of 2.4 percentage points between the top and the bottom deciles emerged – the largest in recent history.

The authorities increased exchange rate flexibility with the introduction of competitive central bank foreign exchange auctions. Over the course of 2018, the Tunisian dinar has sharply depreciated against the euro and U.S. dollar by 15% and 19%, respectively. In the World Bank's real effective exchange rate index, Tunisia's currency dropped to 87.5 in 2017, compared to 95.1 in 2016 and 99.8 in 2015.

Fiscal stability is an important part of Tunisia's agreements with the IMF. The budget deficit worsened slightly from 5.3% in 2016 to 5.9% in both 2016 and 2017. It is projected to have reached 5.2% in 2018. The 2019 budget, which the parliament passed in December 2018, seeks to bring the deficit down to 3.9% for that year, mainly via expenditure cuts. Particularly in the 2019 election year, such measures will meet significant resistance and the deficit will likely be higher. The public sector wage bill is central to the lack of fiscal space for the Tunisian government. In 2017, it represented 14.8% of GDP, while overall government expenditure was 30.3% of GDP. The authorities have committed to a wage bill target of 12.4% of GDP in 2020. In 2018, the government introduced some reforms to contain this aspect (including limited recruiting and an early retirement scheme), but these have met profound resistance. Negotiations between the government and the main trade union association, UGTT, are ongoing at the time of writing with a general strike implemented in January 2019 and further strikes threatened. State-owned enterprises are another source of fiscal risk as many are loss-making.

Public debt increased from 55.4% of GDP in 2015 to 62.3% in 2016 and 70.3% in 2017. It is projected to have reached 72% of GDP in 2018, while the 2019 budget aim to bring it below 70% appears unrealistic. It stood at 40.5% of GDP in 2010. The government could rely on concessional resources to finance the country's growing balance of payments deficit since the 2011 revolution. Yet after a period of stable sovereign ratings, several agencies downgraded Tunisia (e.g., Moody's from Ba3 to B1 in August 2017 to B2 in March 2018). Tunisia's reserve coverage is deteriorating. It stood at 4.8 months in 2015 and has dropped to 3.3 months in 2017 and is projected to have dropped further to 3.4 months in 2018.

Fiscal stability

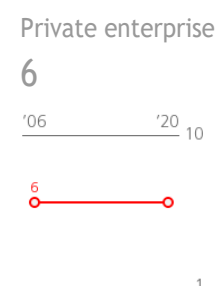
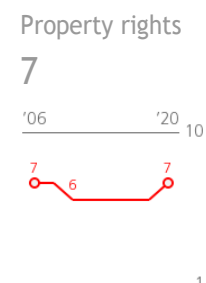


9 | Private Property

Physical and intellectual property are protected by the Tunisian constitution. In practice, non-Tunisians in particular face restrictions on the rights to property. Real estate acquisitions by foreigners require the approval of the local governor and agricultural land cannot be bought, just rented for a maximum of three years. It has become easier to register property thanks to improvements in the transparency of the cadaster. Registration requires four procedures and takes 39 days and 6.1% of property value in a standardized case by the World Bank's 2019 Doing Business Report.

Tunisia's standing in international assessments of property rights has stabilized after a dip following the 2011 revolution. In the 2018 Global Competitiveness Report, Tunisia scored 4.5 out of 7 and ranked 56 out of 140 countries for the protection of property rights. Intellectual property is less well-protected, with Tunisia scoring 3.9 out of 7 in the report (both figures: constant to the 2016 – 2017 report). In the Heritage Foundation's rating on the protection of property rights, Tunisia almost recovered its pre-2011 rating of 50%, scoring 49.4% in the 2018 index after five years at 40%. Tunisia's shortcomings reflect doubts about the judiciary's ability to uphold the rule of law and enforce contracts effectively. The segmentation of the economy between onshore and offshore is relevant here and the rights of export-oriented businesses appear to be better protected than those operating solely in the domestic market.

The state remains an important player in the Tunisian economy, both through regulation and the numerous state-owned enterprises that dominate some sectors. Powerful union resistance has blocked privatizations of state-owned enterprises since the 2011 revolution. Tunisia ranked 80 out of 190 countries in the World Bank's 2019 Ease of Doing Business Report, continuing its slide from rank 75 in the 2016 report. Nonetheless, the report notes that beside the registration of property, there have been improvements in starting a business, payment of taxes and the protection of minority investors. It takes six procedures and eight days to start a business, and costs 4.3% of GNI per capita, a clear improvement over the nine procedures, 11 days, and 4.6% of GNI per capita in the previous year. Starting a business as well as investing have become easier with the opening of a one-stop shop for investors that combines different registrations. The 2018 Start-up Act improved the business climate for start-up enterprises and signaled that the country is open to the start-up sector, providing a clearer legal and regulatory framework as well as various tax and other exemptions. Access to finance has improved but remains a hurdle for start-up enterprises in Tunisia, and there remain concerns about corruption and nepotism.



10 | Welfare Regime

The Tunisian constitution enshrines several social rights such as the right to health and work. While the social safety net is formally comprehensive, it has significant gaps and several of its insurance funds run significant deficits.

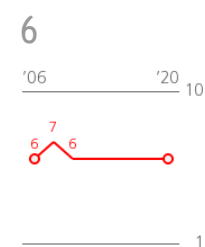
Roughly half of all health care services are provided by the public sector. In 2015, public health care expenditure represented 3.8% of GDP, down from its 2013 peak of 4.1% (WHO figures 2019). Over the course of a decade, life expectancy at birth has increased by over a year to 75.7 in 2016 from 74.4 (World Bank 2018). However, significant regional disparities exist in public health care infrastructure. Specialized services in particular are concentrated in the wealthier coastal regions. Life expectancy varied regionally between 77 years in Tunis and Sfax, and 70 in Kasserine and Tataouine in 2009, according to the latest available African Development Bank figures.

The government continues to reduce blanket subsidies on energy and food as part of its agreements with the IMF, aiming to move to a more targeted system. Meanwhile, the coverage of social safety net programs has expanded: The number of cash transfer beneficiaries rose from 108,000 to 242,000 households in 2017, while the level of transfers per household rose, too. Reforms to improve the targeting of cash transfers, including a database of poor and low-income households, are being developed. Meanwhile, to strengthen the struggling finances of social insurances, the government has agreed several reforms with employer and worker organizations, including raising the retirement age by two years to 62 for public sector employees. These reforms are pending parliamentary approval.

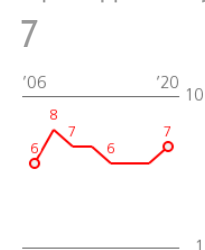
According to 2015 World Bank figures, only 37% of the population contributes to pensions and only half of the population is covered by health insurance. Amid high rates of unemployment, the absence of unemployment benefits represents the largest gap in the social safety net and is reflected in the large informal sector.

Tunisia has a reputation for being a regional leader on progressive gender policies and its constitution includes anti-discrimination clauses. Nonetheless, discrimination against women and other groups in society persists. In the Gender Inequality Index, which is based on reproductive health outcomes, empowerment and economic activity, Tunisia scored 0.298, a slight improvement on previous years (2010: 0.320, 2016: 0.300, 1995: 0.530), ahead of regional neighbors Algeria (0.442) and Morocco (0.482), but behind Libya (0.170). Data from 2014 (the latest available) still shows a significant gap in literacy rates between men (86.1%) and women (72.2), although this is much less evident among younger Tunisians. In fact, primary school enrollment is equal between the genders. In secondary and tertiary education, female enrollment outweighs male participation (by 1.1 and 1.7, respectively). The gross enrollment ratio for primary education was 114.7%, 92.9% for secondary and 32.6% for tertiary education (latest available data).

Social safety nets



Equal opportunity



A presidential Commission on Individual Freedoms and Equality was tasked in 2017 with recommending reforms linked to individual freedoms and equality deriving from the 2014 constitution, and international human rights standards and trends. Its 2018 report recommends ensuring equality between men and women in inheritance, decriminalizing “sodomy” in the criminal code, eliminating “morality” laws, and abolishing the death penalty. President Beji Caid Essebsi has subsequently proposed legislation that would end the practice of a double share of inheritance for male heirs, which is rooted in Islamic law. The cabinet has approved the bill, which is pending parliamentary approval at the time of writing. However, significant voices including the Ennahda party oppose the reform, arguing that it is a violation of Islamic law, while a 2017 survey by the International Republican Institute showed that 63% of Tunisians, including 52% of women, oppose equal inheritance shares.

The 2018 municipal elections returned a female mayor in Tunis – a high profile post – and 87 other women across the country, representing 19.5% of the total. However, women are still underrepresented in the workplace (26.5% labor force participation in 2017), particularly in higher positions. A new law aimed at protecting women from violence was passed in July 2017, but its implementation faces hurdles.

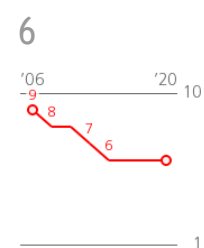
Beyond gender, there remains significant discrimination based on sexual orientation and ethnicity. In October 2018, the parliament passed legislation that criminalizes discrimination on the basis of race, color or ancestry, but its implementation is still falling short of expectations.

11 | Economic Performance

Economic growth picked up during the review period, but the high levels of unemployment, particularly among young graduates, have not declined. Real GDP growth is projected to have reached 2.6% in 2018, after 2.0% in 2017, 1.1% in 2016 and 1.2% in 2015. GDP per capita growth was lower, at 0.8% in 2017, and 0.0% in 2016 and 2015.

Three years after the 2015 attacks, tourism rebounded in 2018 as EU member states relaxed their travel guidance, and more tourists from Russia and the Maghreb visited Tunisia. An increase of 42.1% in tourism receipts between 2017 and 2018 gave a boost to GDP, the current account and returned the tourism sector to its role as a major hard-currency source. GDP per capita (PPP current prices) reached \$11,911 in 2017, up from \$11,464 in 2015. It is projected to have reached \$12,369 in 2018. Despite the slight acceleration in economic growth, unemployment remained constant – and stabilized, which can be seen as an achievement – at 15.5% in the third quarter of 2018, up from 15.4% in 2015. Women, graduates and residents in disadvantaged regions face significantly higher unemployment rates.

Output strength



Inflation hiked to over 7% in 2018 due to increases in taxes and energy prices, and a depreciation of the Tunisian dinar, which made imports dearer. On an aggregate level, prices had previously been relatively stable (inflation rate in 2017: 5.3%, 2016: 3.7%, 2015: 4.9% – though some staple items increased in price above this rate). The central bank intervened with interest rate hikes to limit inflation.

Public debt increased to 70.3% of GDP in 2017, from 62.3% in 2016 and 55.4% in 2015. It is projected to have reached 72% of GDP in 2018. The government aims to reduce public debt to under 70% in 2019. Debt had previously dropped from 67.4% in 2002 to 40.5% of GDP in 2010.

In the external sector, Tunisia's trade deficit soared in the first months of 2018. For the whole year, the trade balance is projected to reach 13.3% of GDP, a 1.8% deterioration on the previous year. Imports grew due to rising global oil prices, though slower growth in consumer goods imports partly offset this. However, despite a surge in olive oil sales, overall exports did not manage to keep pace with imports. Low investment in crude oil production and industrial unrest in the phosphate sector caused a drop in exports from these industries, while demand for clothing, and electrical and mechanical goods was lower than expected in the European Union.

Foreign direct investment virtually stagnated and reached 2% of GDP in 2017 as investors adopted a wait-and-see approach given the country's overall uncertainty. It has more than halved since the revolution in real terms as privatizations of state-owned enterprises – once a major source of FDI – have been blocked by the trade union association UGTT. The government now hopes to attract private investors through public-private-partnerships.

12 | Sustainability

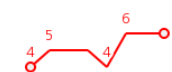
The Tunisian government does not implement a comprehensive environmental strategy. Environmental concerns are most often associated in public discourse with waste management. In March 2017, a ban on plastic bags in large supermarkets took effect to tackle the accumulation of garbage in public spaces. The newly created environmental police force became active in July 2017. Beginning in the capital Tunis and the most touristic regions, the environmental police force will gradually expand its work to other parts of the country.

While “green economic growth” is part of the government's five-year economic vision (2016 – 2020), it took until January 2019 for the Tunisian Ministry of Industry to award the first wind energy concessions to foreign companies. The German, Dutch and French groups will build their projects in the northeast of the country and sell electricity to the state utility STEG. Renewable energy currently represents 3% of the total, but the government aims to increase this to 30% by 2030. Renewables have strong potential in the country and the government's aim is realistic if current efforts

Environmental policy

6

'06 _____ '20 10



1

are continued. However, various business risks increase the price of project financing in the country. Nonetheless, Tunisia stands out among Arab countries for having the most comprehensive policy framework for energy efficiency improvements, according to the latest available Arab Future Energy Index (2015).

Public expenditure on education represented 6.6% of GDP in 2015 (22.9% of total government expenditure), up from 6.2% in 2012, according to the latest available figures. The overall literacy rate is 79%, with the levels at 86.1% for men and 72.2% for women. The gap between the genders is closing due to the almost 100% and gender-equal primary school enrollment (2014 World Bank figures). For 15- to 24-year-olds, the literacy rate is 96.6% for men and 95.8% for women (UNESCO 2014 figures). Amid the high level of formal education that many Tunisians enjoy, the education system has qualitative weaknesses. For example, the high rate of unemployment among graduates reflects the fact that higher education institutions fail to teach the skills sought by employers.

In the latest comparative education study by the OECD, in which Tunisia participated in 2015, the Tunisian pupils' results were below the OECD average. In the U.N. Education Index, which measures the average years of schooling, Tunisia scored 0.659 for 2017, a clear improvement over 10 years from 0.601. However, in the 2018 Global Competitiveness Report (GCR), Tunisia scored 3.6 out of 7 in the skills set of graduates, 4.4 in digital skills among population and 3.1 in teaching critical thinking. The latter score in particular reflects the fact that teaching remains focused on repetition rather than the individual's development of skills. A lack of funding contributes to the shortcomings in outputs.

In 2015, Tunisia invested 0.6% of GDP in research and development, down from 0.7% in previous years. This is likely too modest an investment for the country's long-term economic development and a consequence of the government's high expenditure on consumption (e.g., public sector wages and subsidies), which leaves little for investment. The 2018 GCR ranked Tunisia 84 out of 140 countries for innovation capability, based on indicators such as workforce diversity, cluster development, scientific publications and patent applications.

Education policy /
R&D

6



Governance

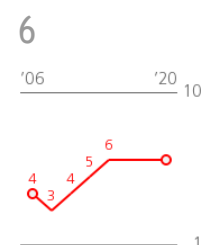
I. Level of Difficulty

There are moderate structural constraints on governance in Tunisia. Its geographic proximity to Europe on the southern shore of the Mediterranean remains a comparative advantage for economic development. No natural disasters or pandemics struck the country during the review period. It still benefits from decades of investments made in human development, such as in health care and education. However, while scoring highly on literacy, many Tunisian graduates lack the particular skills sought by employers. This skills mismatch is an obstacle for economic development. Moreover, public investments within the country has been uneven, often benefiting the more affluent coastal areas. In the historically disadvantaged regions of the country – much of them in the interior – the state has failed to compensate for the lack of private sector development. In fact, public services are of poorer quality there, too.

Regional instability weighs down on Tunisia’s own stability. The ongoing conflict in neighboring Libya has pushed many Libyans to seek refuge in Tunisia, with Tunisia increasing spending on security measures to mitigate spillover effects from the conflict in Libya. At the same time, the traditionally important remittances from Tunisians working in its oil-rich neighbor have largely ceased, while the country also lost a source of oil from which it could purchase oil in Tunisian dinars rather than scarce foreign currency. A 2017 World Bank report suggested the Libya conflict “may have contributed 24% to the overall drop in growth over a five-year period from 2011 to 2015” in Tunisia.

Civil society organizations have developed into a counterweight to the government and then-party state since at least the 1970s. The founding of the Tunisian League of Human Rights (Ligue Tunisienne des Droits de l’Homme) in 1977 as the Arab world’s first human rights organization signifies this development. While numerous organizations existed under the authoritarian Ben Ali regime that were nominally non-governmental, many were co-opted or even launched and funded by the regime. A 2013 study put the share of genuinely independent organizations prior to the 2011 revolution at 10%. Since the end of authoritarianism, the number of civil society organizations has grown significantly and their involvement in national politics is now mostly taken for granted. Nonetheless, Tunisians are still unlikely to donate to

Structural
constraints



Civil society
traditions



charity, volunteer their time for an organization or help strangers according to polling data by Gallup, reflecting low social capital. Authoritarian and patriarchal social norms and practices still present obstacles to the potential of civil society.

Tunisian institutional politics has once again become more polarized after the end of the “grand coalition” between the secular Nidaa Tounes party and the moderate Islamist party Ennahda, including accusations of secret involvement in political violence.

Attacks by extremist groups, including a suicide attack in central Tunis in which the attacker was the only fatality, have failed to mobilize groups along cleavages. Such attacks have focused on the security sector during the period under review. Previously, tourism had been a major target, but the state appears to have been able to prevent attacks in this area. Nonetheless, extremist violence remains a concern. Tunisian media report that three terrorist groups are active in the country, which have entrenched themselves in 80 spots in mountainous regions: Katibet Okba Ibn Nafaâ (al-Qaeda), predominantly in the Chaambi mountain region; Katibet Jound Al Khilafa (IS group), in the Mghila mountains; and Katibat de l’Unicité et du Jihad (IS group), which split from Jound Al-Khilafa.

Beside political violence, social unrest remains a major source of instability. Strikes and sit-ins have continued during the review period and sometimes escalated. A general strike, called by the UGTT in its wage negotiations for state employees, on 17 January 2019 managed to bring public life to a virtual standstill, including aviation. The strike was, however, peaceful and well organized.

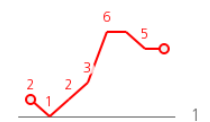
II. Governance Performance

14 | Steering Capability

Despite the relative longevity of Prime Minister Youssef Chahed’s term in office, compared to the numerous administration changes previously, the government’s attention was often consumed by short-term issues. This was also reflected by the fact that there were two government reshuffles during the review period – politics appeared to trump policy. While the government presented a Five-Year Economic Vision in 2016 with a detailed development plan, the most effective policy anchors for reform were provided by agreements with international financial institutions (above all the IMF) whose funding the Tunisian government depends on. Prime Minister Chahed’s “war on corruption,” which is popular among voters, has so far mainly resulted in sporadic measures rather than a strategic approach. Entrenched interests of business networks and public sector unions fiercely defend the status quo with its tight web of regulation, which protects incumbent businesses and the large government bureaucracy apparatus.

Conflict intensity
5

'06 '20 10



Question
Score

Prioritization

6

'06 '20 10



Prime Minister Youssef Chahed publicly advocates reforms, but structural economic changes have not taken place. In May 2017, Chahed ordered the arrest of a leading mafia boss, Chefik Jaraya, suggesting that Chahed is serious about his publicly announced war on corruption, which boosted his popularity. While further arrests followed, the overall policy picture as in other areas is muddled. The transitional anti-corruption authority INLUCC remains underfunded and its constitutional successor is still not fully established. Efforts to improve the fiscal position have borne some fruit but less than expected. Particularly when it comes to reducing the bloated public sector wage bill and the reform of state-owned enterprises, the government is under pressure from the IMF to take action and the trade union association UGTT to retain the status quo.

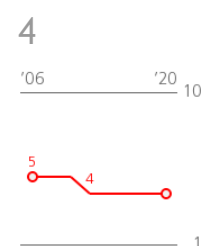
Tunisia's political institutions are able to make use of past experience in policy learning framework. They also consult domestic and international technical experts in the policy process, such as in parliamentary committee hearings. In multiple policy areas, development cooperation agencies (e.g., Germany's GIZ and the UK's DfID) advise policymakers on reforms. The government's ability to innovate, adapt and draw on these sources of policy learning is hampered by its limited administrative capacity and ability to maneuver politically. Demands by international financial institutions (above all the IMF) meet fierce resistance from entrenched interests (e.g., trade unions and well-connected business networks). In the area of anti-corruption policy, for instance, the government announced a "war against corruption," but chose incremental steps to a potentially more effective "big bang" of reforms, as advocated by many corruption experts.

15 | Resource Efficiency

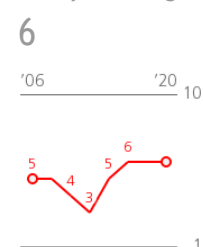
Tunisia's public wage bill remains extraordinarily high as the state employs over 600,000 public servants, consuming resources that could otherwise be used for long-term investment into the country's economic development. While the government undertook efforts to reduce the wage bill, including a drastic reduction in recruitment, the wage bill still stood at a very high 14.8% of GDP (compared to an OECD average of about 10% of GDP). Half of public spending is on staff. The generous levels of staffing do not translate into an efficient bureaucracy.

Despite tax increases and some expenditure cuts, the government has continued to run high deficits. Public debt has increased to 70.3% of in 2017 and is projected to have reached 72% of GDP in 2018. The 2019 budget aims to bring it below 70%, but (as with previous budgets) this is based on optimistic growth and tax revenue forecasts, and thus appears unrealistic. Budgets are debated and passed by parliament, which is limited in its effectiveness by shortcomings in its own institutional capacity. State expenditure is also subject to accountability by the Court of Auditors, which revealed numerous cases of mismanagement, embezzlement, and corruption within state institutions and state-owned enterprises in its 2018 report.

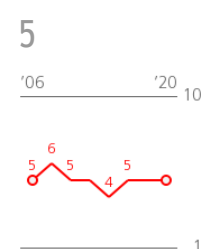
Implementation



Policy learning



Efficient use of assets



The constitution foresees a complex power-sharing arrangement within the executive as well as decentralization of government. The former setup has been publicly criticized by President Beji Caid Essebsi, who has concentrated significant powers in the presidency. With municipal elections in May 2018 and the constitution of municipal councils only completed in summer 2018, it remains to be seen over the coming years to what extent the various levels of government manage to cooperate. On the national level, interministerial coordination is not efficient. On migration, for example, numerous ministries share different responsibilities and compete for influence in this policy area, yet fail to establish a coherent approach. High-profile policies are often subject to personalized decision-making rather than the institutional framework.

Prime Minister Youssef Chahed has publicly declared a “war against corruption,” as this corruption incurs significant economic costs for Tunisia. In principle, the country boasts a comprehensive institutional framework to ensure accountability and integrity, though the anti-corruption authority INLUCC is still the transitional institution set up after the 2011 revolution. The constitution foresees an independent Good Governance and Anti-Corruption Agency of constitutional rank, but this agency is not yet operational. Both the Court of Auditors and INLUCC publish regular reports listing incidents of corruption, embezzlement and other breaches of integrity rules. In practice, INLUCC in particular is underfunded and understaffed. In February 2017, the parliament passed a law on corruption reporting and protections for whistleblowers, which establishes mechanisms, conditions and procedures for denouncing corruption. However, proposed by President Essebsi in 2015, the parliament passed a controversial “administrative reconciliation law” in September 2017. It grants impunity to public officials implicated in corruption under the Ben Ali regime and allows them to return to positions of power. Critics argue the bill undermines both citizen trust in state institutions, and the work of the Truth and Dignity Commission, which is mandated to investigate human rights violations and corruption under the country’s authoritarian regime.

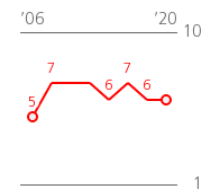
There is a clear legal framework for party financing, which provides limits on how much an individual can donate to a candidate or party. However, while foreign donations are prohibited, rumors about such funding for the largest parties abound. Only 65,000 of 350,000 public officials submitted an obligatory wealth declaration on the deadline in December 2018, rising to roughly one-third in early January 2019.

The right to access information is legally enshrined and in 2017 the Access to Information Authority (Instance d’accès à l’information) was established. However, shortcomings in the capacity of public administration and the persistence of authoritarian norms present hurdles to the realization of the right to access information.

Corrupt practices in public procurement are illegal but persist. In a November 2017 poll by the International Republican Institute, 57% of respondents said that personal

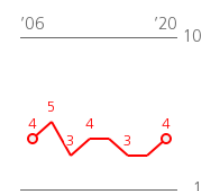
Policy coordination

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Anti-corruption policy

4



contacts and/or relationships are “very important” to “get things done” in dealings with the government. With 16% believing they were “somewhat important,” 73% of respondents pointed at their importance.

16 | Consensus-Building

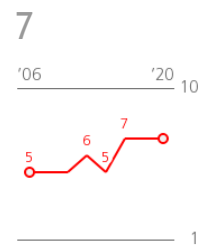
Tunisia’s elites share a consensus on procedural democracy. The main parties and civil society organizations agree that government requires elections to be legitimate and in principle respect the constitutional political order. In practice, authoritarian norms persist. Liberal rights and unelected independent state institutions are not consistently respected. Political decision-making continues to be highly personalized and is often carried out beyond the state’s official institutions.

The country’s key political actors – government administration, political parties, social forces – principally agree on market-based economics and base their development strategy on it. There is, however, considerable disagreement over the extent to which the state should intervene in the economy. For example, the privatization of loss-making SOEs is a serious option for some politicians, while others – as well as the powerful UGTT trade union – fundamentally oppose it. Similarly, a free trade deal proposed by the European Union was met with skepticism, including by business.

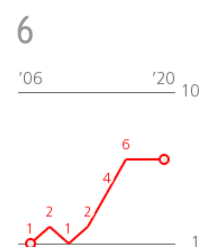
None of the existing anti-democratic actors in Tunisian politics are currently powerful enough in themselves to stall or reverse democratization in Tunisia. The key actors in this regard are members and associates of the former Ben Ali regime who fear further scrutiny of their roles under authoritarianism as well as ultra-conservative Islamist groups who view religious teachings as incompatible with a liberal democratic order. While violent attacks have occurred during the review period, their positions are only shared by a small minority of Tunisians, and the security forces have managed to clamp down on violent groups and improve security.

An important problem remains the political gridlock among elite actors, which has prevented the establishment of key democratic institutions as foreseen by the constitution. For instance, the absence of the Constitutional Court leaves the country without an institution to arbitrate in exceptional circumstances, such as the determination of the provisional or definitive vacancy of the presidency, or terminate the president’s term in office in case of a clear violation of the constitution. Thus, as a consequence of the gridlock, the absence of the court increases the risk of authoritarian power grabs, particularly in major crises.

Consensus on goals



Anti-democratic actors



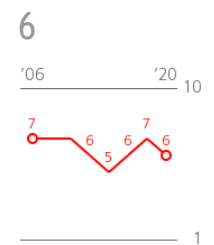
The traditional cleavage in Tunisian politics between political forces that propose relatively strict secularism and those who favor a role for religious principles in public life has re-emerged. In September 2017, President Essebsi announced the end of the alliance between his secular Nidaa Tounes party and the Islamist Ennahda, which had lasted four years. The coalition between the partners from two ends of the political spectrum had surprised many observers after a polarized transition and divisive electoral campaign in 2014 and was brokered by the two leaders of the movements, Essebsi and Rachid Ghannouchi. They sought to provide political stability and unity, but the coalition also resulted in a lack of clear party political ideology, the effective absence of a government-opposition dynamic in parliament and was accused of facilitating an authoritarian drift.

Following the president's failure to sack Prime Minister Youssef Chahed, the collapse of the coalition soon resulted in attacks on Ennahda and Chahed. The most serious of them was the suggestion that Ennahda operates a secret "security apparatus" and was implicated in the assassination of two left-wing politicians, Chokri Belaid and Mohamed Brahmi, in 2013. Ennahda vehemently rejects these accusations and argues that they are used as a pretext to ban the party – as was the case under the Ben Ali regime. The secretary-general of Nidaa Tounes meanwhile has initiated legal proceedings against Chahed, arguing that his government reshuffle was a "coup d'état" in the absence of closer consultation with President Essebsi. In late January 2019, Chahed announced the creation of a new secular party, Tahya Tounes ("Long live Tunisia"), which has already overtaken Nidaa Tounes as the second largest formation in parliament after Ennahda. If it expands its base further and forms a coalition with Ennahda after the 2019 elections, this could reduce polarization between secularists and Islamists.

Other cleavages in society concern regional and inter-generational inequalities, which have yet to be tackled effectively. The young, university graduates, women and residents of regions outside the affluent coastal belt are all disadvantaged groups. To some extent, the regional differences are represented by the fact that Ennahda's electorate is mostly in the southern regions, while Nidaa Tounes's supporters tend to be concentrated in the coastal areas. Nonetheless, the state has yet to pour more resources into tackling marginalization – decentralization will play a key part in this. Several instances of social unrest have shown how powerful the cleavage is between those who are socioeconomically included and those who are not.

The participation of civil society has largely become the norm in the political process. Though, evidently, some organizations are more able to pursue their aims on the political level than others. In 2015, the Nobel Peace Prize was awarded to the so-called quartet of Tunisian CSOs that brokered a key part of the country's transition. Of these four organizations, the trade union association UGTT continues to enjoy considerable political power. In the legislative process, CSOs are regularly consulted and several organizations present in the parliament scrutinize the work of the

Cleavage /
conflict
management



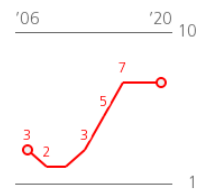
Civil society
participation

7

assembly's members. Only three quarters of the members of the future Constitutional Court will have to be legal experts. In theory, this leaves open the possibility of recruiting a diverse range of members, including civil society members, to the court's bench.

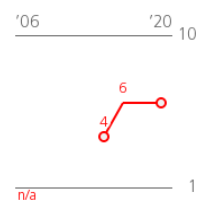
The Truth and Dignity Commission (l'Instance Vérité et Dignité, IVD) concluded its work in 2018. Its task was to examine incidents of gross human rights violations by the state, and those acting in the name and under the protection of the state, as well as abuses of public funds from July 1, 1955 – before Tunisian independence the following year. The institution and its president quickly became politically controversial. After taking up its work, the IVD faced obstacles from the authorities. The Ministry of Interior and Ministry of Defense refused to cooperate with the commission's demands for information and failed to respond to summons for questioning. The commission's term was limited to four years, renewable for one year. In March 2018, when the work of the commission had not been completed, the parliament voted against an extension to the IVD's mandate – despite the commission's own decision to continue work. A court decision later that month allowed the IVD to renew its mandate, but the episode cast a shadow of perceived illegitimacy over its work. According to the IVD, the commission secured TND 700 million for the state budget and referred 72 cases to the judiciary, but human rights organizations observe a reticence by the courts to prosecute the cases. In the first special court case on death under torture, none of the 14 defendants have appeared in court.

While the IVD completed its work, the Economic Reconciliation Law, proposed by President Essebsi and passed in a modified form by the parliament in 2017, militates against the work of the commission. The law provides impunity for public officials involved in corruption prior to 2011 who did not personally benefit and could not disobey orders. There were large-scale protests against the law. Critics bemoan that it replaces the transparent IVD process with an opaque one, which risks undermining the public's confidence in the state's institutions. Both Prime Minister Youssef Chahed and President Beji Caid Essebsi failed to attend the IVD's final session in December 2018. The Transitional Justice Law requires the government to develop a program to implement the IVD's recommendations and send it to parliament, but in the current climate it is uncertain it will.



Reconciliation

6



17 | International Cooperation

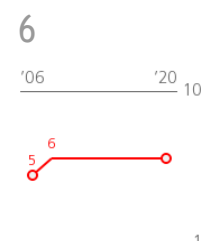
The “Tunisia 2020” vision, launched by the government in 2016, continues to guide the authorities’ approach to development. It continues the country’s post-independence practice of codifying five-year development plans. The current strategy rests on five pillars: public institution effectiveness, economic diversification, human development and social inclusion, regional development, and green economic growth. It is a detailed plan that in many instances includes concrete projects that attracted investment and loans in the context of the Tunisia 2020 conference. On this level, the Tunisian authorities have defined the inputs required from international partners well. However, several obstacles have hampered the implementation of the plan. Management capacity within the administration, and coordination between ministries and departments remain poor, further undermined by regular cabinet reshuffles. Politically, the government lacks the power and will to implement reforms against entrenched interests.

The government’s choice of partners occasionally sparks controversy. Cooperation with international financial institutions often raises concern about national sovereignty. The coincidence of Saudi Arabia’s need for diplomatic support in the aftermath of the murder of Saudi journalist Jamal Khashoggi and Tunisia’s financial needs appear to have resulted in the promise of \$830 million in loans and investments. This came shortly after a visit by Saudi Crown Prince Muhammed bin Salman to Tunis in November 2018, which sparked significant protest.

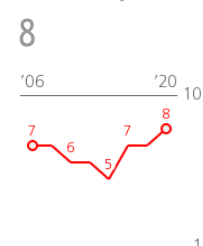
Tunisia largely enjoys a high level of credibility among its international partners and shows notable engagement in international cooperation. The country’s international partners have continued to provide comparatively generous funds for a variety of purposes. The IMF’s Extended Fund Facility Arrangement, which the government needs to cover the budget and current-account deficits is perhaps the most crucial of these. Though the World Bank, European Union, some EU member states and the United States have also provided financial support during the review period. Several Gulf states remain donors and investors in Tunisia.

During the review period, Tunisia served a term as a member of the U.N. Human Rights Council, to which it was elected with a large number of votes in 2016. It was praised for its constructive engagement with the council’s mechanisms. Tunisia also accepted the majority of recommendations made in the context of the universal periodic review of human rights in the country. The country is not in full compliance with all human rights agreements it is signatory to, although U.N. human rights experts have lauded moves toward equal inheritance (to be confirmed by the parliament) as well as the first hearing by the Specialized Criminal Chamber, as a consequence of the reconciliation work of Tunisia’s Truth and Dignity Commission. When it comes to relations to donors, Tunisia is perceived as a confident, but cooperative partner with its own initiatives.

Effective use of support



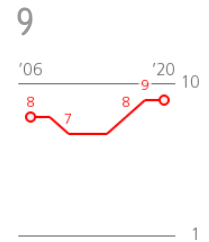
Credibility



Given Tunisia's high dependency on Europe – around three quarters of its export go to the trade bloc – the government seeks to diversify its trade relations with a view to the African continent. Tunisia is a member of numerous regional organizations, including the Arab Maghreb Union (AMU). However, while further integration in the AMU could bring considerable benefits to its economies, frictions between Algeria and Morocco have resulted in the AMU remaining one of the least integrated regions. As a result, Tunisia has sought alternatives to expand its trade ties, and joined the Common Market for Eastern and Southern Africa. Prime Minister Chahed also expressed an ambition for Tunisia to join ECOWAS in 2017, where it now has observer status.

Meanwhile, cooperation with the European Union has continued, and negotiations over a Deep and Comprehensive Free Trade Agreement (Accord de Libre-échange Complet et Approfondi) have progressed even though such a deal remains controversial in Tunisia. The European Union and EU member states also cooperate with the Tunisian authorities on security issues, namely on border security amid the ongoing conflict in neighboring Libya. In this regard, Tunisia also coordinated with Algeria, which faces similar threats from extremists, many of whom are based in the mountains in the border region between the two countries. In 2018, the Tunisian Air Force held its first joint exercises with the Air Force of Saudi Arabia, something Tunisian armed forces repeatedly do with European and U.S. armed forces.

Regional cooperation



Strategic Outlook

Against the serious threat of terrorism and economic weakness, Tunisia's young democratic institutions have remained stable. This alone should count as an achievement in a region marked by conflict, repression and instability. Yet for democracy to establish firm roots, standstill is not an option. Now that security has improved, Tunisia's politicians should finally complete the institutional framework and undertake structural economic reform to deliver a democratic dividend to citizens whose 2011 rebellion was triggered by poverty and marginalization. In fact, these can be mutually conducive.

In the area of institutional reform, the overdue creation of the Constitutional Court is a matter of urgency. As the ultimate legitimate arbiter between state institutions, the court is sorely needed to provide stability in the event of future crises and prevent the country sliding back into authoritarianism. It also has an important role to play in realizing the rights contained in the progressive 2014 constitution by examining the constitutionality of pre-2011 legislation. To improve governance, increase accountability and tackle corruption, the judiciary needs further reform, and the constitutional Good Governance and Anti-Corruption Authority needs to become operational and be backed by sufficient funding. Ensuring stability is one part of an effort to lure back investors (domestic and international) and nurture much-needed private sector growth. Another part is to thin out Tunisia's thick jungle of regulations, beginning with those that are simply out of date. Privatization of loss-making state-owned enterprises is neither a realistic option nor necessary to improve their performance. They should thus be profoundly reformed under continued state ownership.

However, structural reforms will only produce tangible benefits for citizens in the medium to long term. Amid declining support for democracy, economic growth is needed soon. With a high public wage bill, expenditure on subsidies and debt service swallowing the government's revenue, the state will not be able to kickstart economic growth on its own. Thus, international partners should step up support, for instance, via a generous rescheduling of its more than \$32 billion foreign debt. This would facilitate the Tunisian government's work in implementing structural reform. As the conflict in Libya shaved almost a quarter off potential Tunisian economic growth between 2011 and 2015, efforts to stabilize the country would also bring considerable benefits to Tunisia. In turn, the Tunisian authorities should continue their efforts to reduce their dependence on European markets and reach out to its regional neighbors. Reviving the deal under which Libyan oil could be purchased in Tunisian dinars would save the country precious hard currency.

With more fiscal capacity – and this would also require improved revenue as well as a reduction in spending on the public wage bill and subsidies – the government could focus on investment. This is needed to develop the skills base Tunisia requires to climb the value chain and attract international investors. Particularly in the disadvantaged regions, improvements in public and social infrastructure are also part of dealing with the historic injustice people in these areas have experienced. Accelerating efforts to increase renewable energy production could be part of this

and would further reduce the country's vulnerability to external shocks, which comes with a dependence on oil imports.

The political climate in which Tunisia's transformation is proceeding is unlikely to improve, especially with the world economy likely to slow and global political uncertainty increasing. In this context, the end of the so-called consensus government between Ennahda and Nidaa Tounes has brought about a welcome clarification of electoral choices for Tunisian voters. But as polarization over the months since the breakup has shown, it also risks undermining confidence in the entire democratic process.