ARAB WATCH COALITION
PRESENTS

CIVIL SOCIETY PERSPECTIVE ON TUNISIA'S PUBLIC DEBT AND ITS PROSPECTS

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Civil society perspective on Tunisia's public debt and its prospects

This study was conducted as part of a campaign by the Arab Watch Coalition to limit austerity measures in Arab countries. The aim is to elaborate a referential framework explaining the different challenges resulting from public debt and its impacts on the lives of citizens. This framework introduces all public debt dimensions to help civil society organizationsimprove their advocacy strategies to curb austerity policies and foster the role of the state in public spending serving the ultimate goal of safeguarding economic and social rights.

Tunisia's public debt in recent years surged to arecord levelnearing 90% of GDP at the end of 2020, up from 43% in 2009[1]. This huge debt caused macro-financial imbalances leading Tunisia to a vicious circle of having to borrow to pay public debt and cover current expenditures, to the detriment of public investments in vital areas affecting citizens' lives.

Considering the complexities of this issue, this study adopts a simple methodology by explaining the external debt dilemma, its terms, and its negative impacts on the citizen. The study also sheds light on the different stakeholders involved and their roles in developing Tunisia's borrowing policies. It also examines the negotiations process with donors including the International Monetary Fund (IMF), which currently plays a key role in Tunisia.

The study consists of four parts:

- An assessment of public debt's impacts on public spending policy.
- An analysis of the main public debt indicators.
- An examination of the policies of international financial institutions and their negotiations process with the Tunisian government.
- Prospects for overcoming the external debt crisis in the short and medium terms.

I- The impact of foreign debt and public spending policy on citizens:

At this stage of the study, it is important to recall the negative impact of the cost of debt servicing on the economic and social rights of citizens. The repercussions of expensive debt servicing did not only have a direct impact on macro-financial imbalances, but italso worsened the living conditions of citizens and affected the quality of public services.

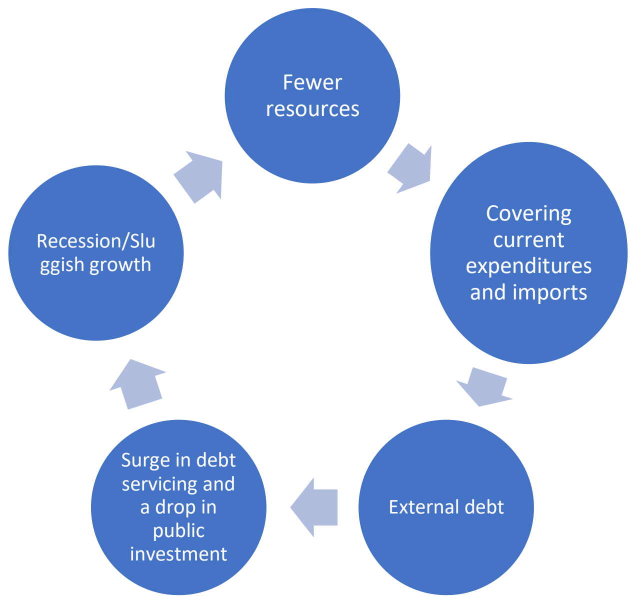
While reviewing the main reports and analyses available on Tunisia's public debt, we noticed a focus on the size of debt which alone does not enable us to accurately measure the direct impact on citizens. Instead, the cost of debt servicing- referring to payments from the state budget to donors- is a better indicator to measure the weight of debt on state resources and its impact on investment, social services, infrastructure, etc.

What makes the Tunisian case different from other countries is the interconnection between the rise in external debt and the considerable increase in spending, due notably to the heavy wage bill and fuel

[1]Budgets of 2009 and 2020 available on website of Tunisia's finance ministry.

subsidies, generating a situation in which foreign debt is not used to create wealth and promote investments or improve living conditions of citizens, but rather it is disbursed to fund consumption and non-productive activities. This situation would further deepen the scale of external debt as the following graph shows:

Graph 1: The vicious circle of Tunisia's public debt



The following section offers more details about the components of this vicious circle:

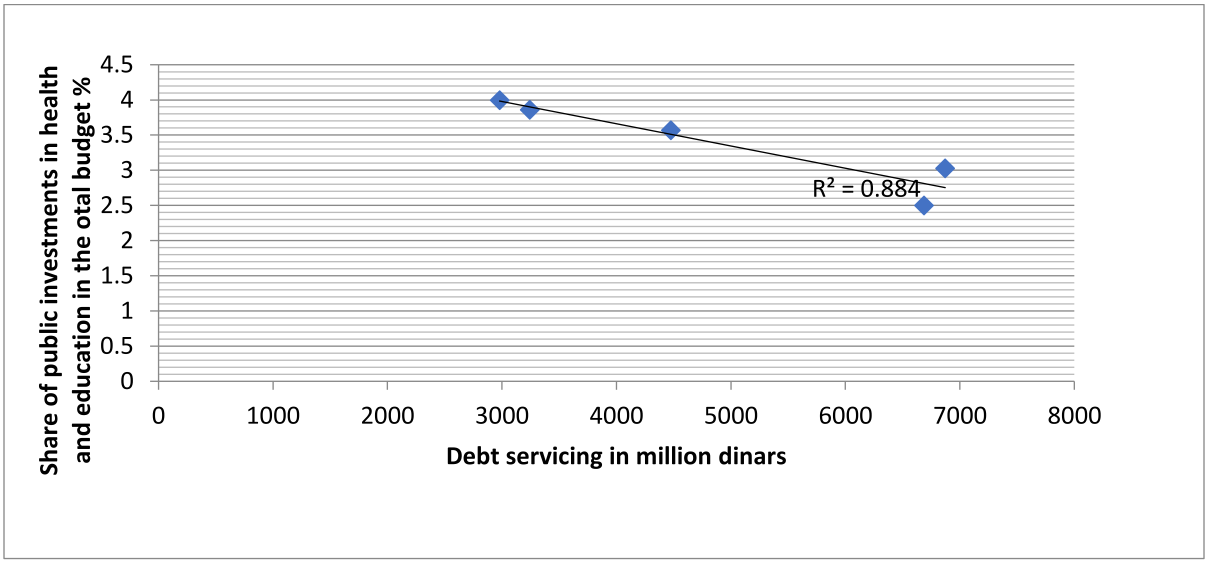
1- The surge in debt servicing and current expenditures versus the drop in public investments

Current expenditures refer to spending under the first article of the budget (rental expenditures and spending on food and hydrocarbon subsidies) which has remarkably increased during the last few years, with the public payroll, in particular, surging to 20 billion dinars in 2021, or 50% of the total budget, up from 7.6 billion in 2010. Subsidies costs rose to 3.4 billion dinars in 2021, including 2.4 billion to stabilize food prices and 401 million dinars to keep hydrocarbon prices stable in addition to 600 million to subsidize transportation.

The massive increase in spending on public payroll is mainly ascribed to the integration into the civil service in 2011 of thousands of workers who used to be in the informal sector. It is also due to the financial cost of counterterrorism and the 45% increase in wages between 2011 and 2019 benefiting security staff, including the police.

These domestic issues add to foreign financial pressures that are no less urgent in terms of commitments to donors. In this respect, foreign debt services exceeded 7 billion dinars in 2018. While it is true that Tunisia met its financial commitment to creditors, that was at the expense of the role of the state in improving conditions for citizens. This was reflected in recent years in a drop in public investments in the sectors of health and education, two pillars of the development model of Tunisia, a country that lacks significant energy resources.

Graph 2: Evolution of Tunisia's debt servicing and public investment in health and education



Source: central bank figures 2013-2018

The graph above shows the inverse relationship between external public debt servicing and the share of public investment in health and education in the total budget, which dropped to 2.5% in 2017, from 4% in 2014, in parallel with the rise in the cost of foreign public debt servicing, which neared 7 billion dinars in 2018. This demonstrates that the colossal cost of debt payment came at the expense of the state's role in ensuring economic and social rights, an issue that was worsened with the health crisis in 2020 revealing the fragility of the health sector and the lack of medical staff and equipment.

As a result of increased fiscal pressures, successive governments have since 2015 chosen the easy solution of reducing public investments in all sectors including health and education. The following table shows the shrinking public investment, which dropped 5% in 2019 in tandem with a rise in debt servicing.

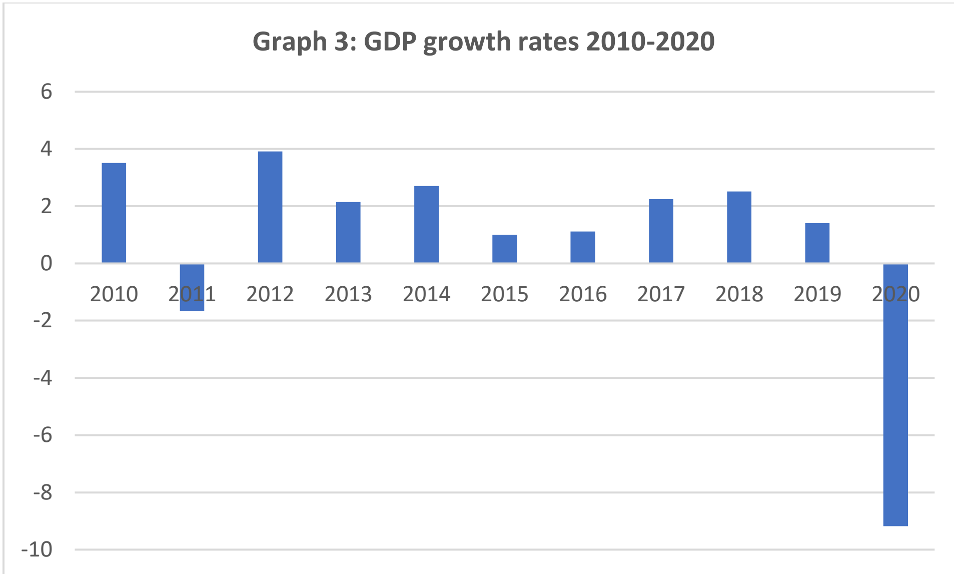
Table 1: Decline in the Real Value of Public Investment (2015-2019)

	2015	2016	2017	2018	2019
Value of public investments (1 million dinars) at current prices	5020.8	5692.3	5854.7	6142.5	6257.9
Overall inflation rate (%)	3.5	4.9	4.6	7.7	7.2
The value of public investments (1 million dinars) at stable prices	-----------	5420	5597	5703	5838
Annual price evolution compared with the previous year	----------	8%	-1.6%	- 2,5%	- 5%

Source: Central bank data (2020)

2- Economic recession

The remarkable decline in public investment has had a significant impact on growth since 2011, because public investment is the driver for growth, notably amid low private investments. The sluggish growth rates caused a drop in budget revenues forcing successive governments to seek external debt as an unavoidable solution to cover current expenditures. The following table shows the real growth rates registered since 2013:



Source: World Bank 2022

Before the Covid-19 pandemic and its detrimental economic impact, slow growth -not exceeding 1% between 2015 and 2020- had a significant impact on macro-financial balances leading to shrinking budget revenue and deepening the debt crisis.

According to our estimates, the loss of a percentage point of growth could cause a shortage ranging between 500,000 and 1 million dinars annually. This further shows the interlink between low economic growth and the increasing use of domestic and foreign debt.

Therefore, it is very difficult to overcome the vicious circle without implementing public policies and strategies in the short, medium, and long terms. The blame is on the successive governments since the 2011 revolution because they fell short of launching large-scale reforms of public finances to spur economic growth. They also failed to negotiate on an equal footing with creditors, including the International Monetary Fund (IMF). The previous analyses also showed that external public debt is not a technical issue that can be resolved through accountancy, but rather an ordeal that directly affects the living conditions of citizens and undermines their economic and social rights.

Beforeexamining the negotiations process between creditors and Tunisian governments, we would like to review the key indicators of Tunisia's foreign debt in recent years.

II- An analysis of Tunisia's public debt key indicators

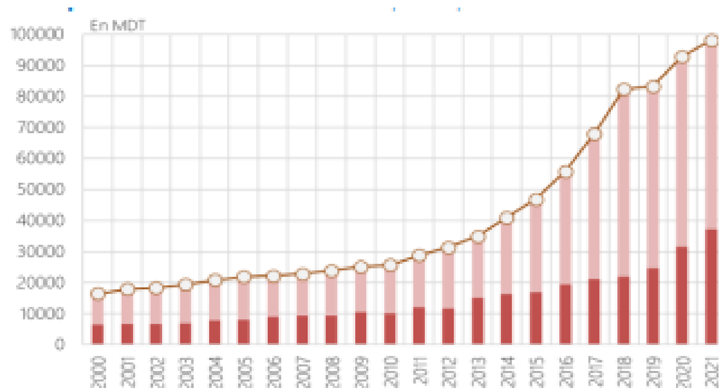
This section zooms on the key indicators of Tunisia's public debt with a focus on the size of the debt and its composition as well as the means to obtain the credit and its currencies. It also sheds light on creditors and sovereign credit ratings.

1- Size of Tunisia's domestic and external public debt

The following graph shows the spectacular surge in public debt to 100 billion dinars in 2021, nearly the size of GDP. This means public debt spiked threefold since 2013 from 30 billion.

Graph 4: Size of domestic and external debt in millions of dinars

(2000-2021)



External debt Domestic debt

Source: Finance Ministry

Foreign debt accounted for most of Tunisia's public debt at 65% by the end of 2021. This caused a devaluation of the local currency, which lost 70% of its value in the last ten years against the US dollar.

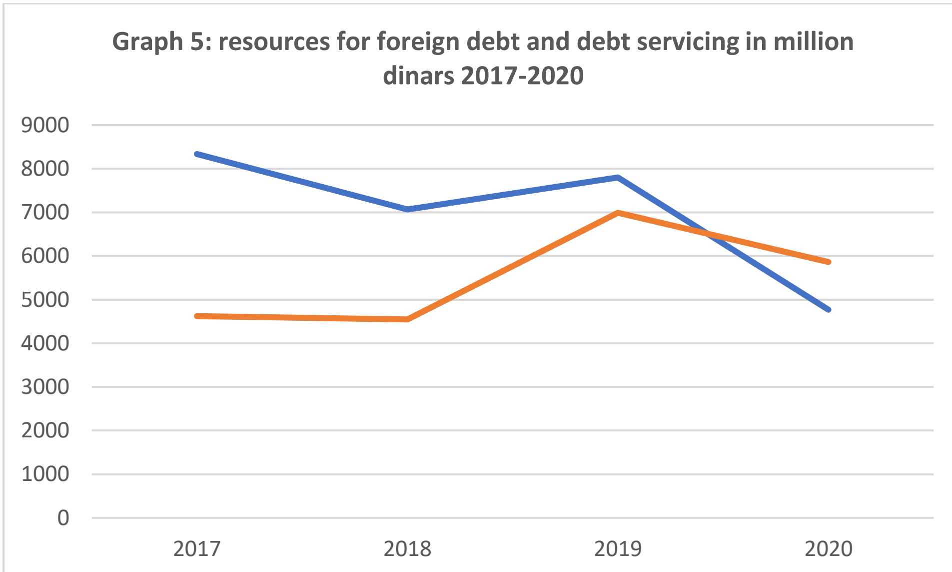
In the face of this ordeal, many economists and politicians urged the government to prioritize domestic debt as a solution to reduce dependence on foreign creditors and vulnerability to terms by international financial institutions. However, such a demand does not offer a solution because of a series of impediments:

- The growing need of the Tunisian economy for foreign exchange reserves to pay for imports and basic goods, especially oil, cereals, and medicine in addition to performing debt payments;
- National banks are falling short of performing their task of funding the economy and private investments opting instead for funding the state budget, which gives them guarantees of risk-free returns. This partly explains why net banking income rose by an average of 10% in the last five years at a time the national economy lacks funding;
- The inflationary impact of domestic debt through issuing treasury bonds that are bought by banks and disbursed later through the central bank in an operation that resembles issuing money without creating wealth leading to inflationary pressures in the medium term. The increasing inflation in recent years (between 7 and 8%) is part of the factors that led to an increased resort to domestic debt.

2- Debt servicing resources or borrowing to pay the debt!

An examination of the evolution of resources for foreign borrowing and debt payment since 2016 shows a shrinking gap between the two as shown by the graph below. This gap hit an all-time low in 2020 when the cost of debt servicing exceeded loans obtained by 1 billion dinars. This means that new credits received by Tunisia in 2020 were all used to pay old debt. However, the data from the Finance

Ministryshowed a fiscal surplus, because its figures did not consider interest on old loans as it only calculates the original debt amount. Therefore, we made sure here to include the cost of interest in the total debt amount.



Blue: foreign debt resources- Orange: Debt servicing including interest

This situation can indeed be ascribed to the financial consequences of the Covid-19 crisis, this negative trend started before 2018 as shown in the graph above. The gap was gradually narrowing between the revenue and spending, demonstrating the structural nature of the debt issue. In this regard, it is noteworthy to say that this gap has inversed and could deepen in 2022 and 2023, given the short maturity (5 years on average) for credits obtained by Tunisia in 2017, 2018, and 2019, which exceed 20 billion dinars that has to be paid before 2024, besides interest.

3- Borrowing for consumption purposes instead of investment and wealth creation

Foreign debt can be divided into two types. The first relates to loans that are used in tangible investment projects such as infrastructure and the procurement of equipment or supporting capacities of public institutions. These projects are usually hard to derail and closely monitored by international financial institutions. Such projects also include complaints and grievance processing and redress mechanisms to be used by the civil society in case of violations of rights or if the project goes against the policies of these institutions. The due diligence and monitoring mechanisms are usually accessible and possible for this first kind of credit.

The second type of debt relates to financial support as a tool that enables direct funding of the treasury leaving the government free to allocate these fundsto serve its priorities. This second type entails a set of problems at the technical level notably in terms of tracking because Tunisia's public finances are based on the principle of the comprehensiveness of the budget, i.e., the use of all resources to cover all expenditures regardless of the source of funding. Civil society has been in touch with the World Bank and the African Development Bank on how to apply their safeguards regarding budgetary support loans. Practically, these safeguards are yet to be implemented.

Official data show that the percentage of debt used in productive projects during the last two years did not exceed 20% of total debt, compared to 50% before the 2011 revolution, while debt intended for budgetary support accounted for 80%. This proves that most new loans are impossible to monitor or examine.

4- Composition of foreign debt and creditors

Before 2019, it was impossible to access information on the detailed composition of foreign debt and creditors. Authorities maintained a blackout on debt data. But in 2019, a new budget law required the government to prepare and publish a range of reports attached to the budget law including a report on public debt. Despite this achievement, numerous data relating to public debt are still lacking, such as interest rates on foreign debt and the cost of debt servicing. The budget law itself was only adopted following pressure from civil society and the European Union which funded the process of activating this law. This pressure came in a reaction to a two-year-long reluctanceby the governing coalition to examine this law.

The following table shows the composition of foreign debt and creditors.

Table 2: External debt composition by the source of funding

	2018		2019		2020	
Multilateral loans (1 million dinars) including interest	30146	50%	28578	49%	32451	53%
Bilateral loans (1 million dinars)including interest	7993	13,3%	9229	15,7%	9985	16,3%
Global financial markets (1 million dinars) including interest	22129	36,7%	20799	35,6%	18855	30,7%

Source: Annex 7 of the appropriation bill 2022

The above table demonstrates that multilateral loans represent about 50% of all debt obtained in the last three years. This category covers all loans offered by international financial institutions and regional banks. The following table shows the main multilateral creditors according to the size of their funding.

Table 3: The composition of multilateral debt by the most important donor institutions in 1 million dinars and its proportion to total external debt (20-8-20 2020)

	2018		2019		2020	
The International Bank for Reconstruction and Development	10149	17%	9457	16.1%	10884	17.75%
African Development Bank	8267.8	%13.71	7689.1	%13.1	8104.8	%13.22
International Monetary Fund	5696	9.45%	4920	8.3%	6512	10.65%
European Investment Bank	1828	3%	1617	2.7%	1763	2.9%
European Union	1714	2.85%	2514	4.2%	2635	4.3%

Source: Annex 7 of the finance bill 2022

The composition of multilateral loans is characterized by a diversity of creditors, with loans of the International Bank for Reconstruction and Development accounting for 17.75% of all. Despite having few IMF loans, the IMF indirectly controls approvals for loans offered by other institutions because of its influence in periodic negotiations that have been held with successive Tunisian governments since 2013. This led international financial institutions to align with the IMF regarding Tunisia. It is important to emphasize that Tunisia's debt ratings by financial institutions do not influence Tunisia's access to new loans compared with the IMF's role which serves as a "central bank" for other regional banks. No multilateral financial institution can offer Tunisia loans under the second funding type aiming at budgetary support without an agreement between Tunis and the IMF. In the next section, we will examine negotiations between the IMF and the Tunisian government.

It is also noteworthy to point out bilateral loans which account for 16% of Tunisia's foreign debt.

Table 4: The composition of bilateral loans in millions of dinars and its proportion in Tunisia's external debt (2018-2020)

	2018		2019		2020	
France	2764.9	%4.58	2592.7	%4.4	2721.2	%4.43
Saudi Arabia	596.2	%0.99	2030.5	3.4%	2002	3.26%
Germany	748.5	%1.24	1111.5	%1.8	1750.7	%2.85
Japan	1183.2	%1.96	1011	1.7%	912.3	%1.48
Italy	910.9	%1.51	845.2	%1.4	1085.6	%1.77

Source: Annex 7 of the appropriation bill 2022

The above table shows the size of bilateral debt and creditorswhich kept the same composition as in 2011, comprised mainly of Tunisia's traditional partners in the democratic transition (France, Italy, Germany, and Japan). But, in 2019, Saudi Arabia started playing a greater role by offering Tunisia a preferential loan of some 1.5 billion dinars right after the presidential elections. This support can be interpreted as a form of political support for the post-2019 Tunisian leadership.

III- An examination of international financial institutions' policies and the negotiations process with the government

International financial institutions have been playing a pivotal role in Tunisia in recent years. They do not only fund the budget and offer foreign exchange reserves to the country but also draw public policies including in economic and social areas. This part examines this role and sheds light on the negotiations process between the successive government since 2012 with the IMF. It also looks at the negative impact of IMF-imposed terms on the economic and social situation in the country.

1- Areas of operation of international financial institutions in Tunisia in recent years:

Previous analyses demonstrated the significant impact of the largest international financial institutions on foreign debt management. These institutions are the World Bank, the IMF, and the African Development Bank which update their cooperation policies with Tunisia every five years and publish them in the form of strategic cooperation documents. A look at these documents between 2017 and 2021, showed that these institutions operate in the following areas:economic reforms, governance, infrastructure, energy, agriculture, decentralization, water, education, and labor.

The following table lists the different fields and types of projects funded by international financial institutions as well as the role of each.

Table 5: key operation areas of intervention for international financial institutions in recent years

areas	Type of projects	institutions	leadership
Economic reforms	Funding the Budget, the economy, and foreign trade through support loans	IMF, World Bank, European Union, African Development Bank	Monetary Fund
Governance	Reforms of a legal and administrative nature	European Union, African Development Bank	European Union
Infrastructure	Improving infrastructure in poor areas	World Bank, European Union, African Development Bank	
Energy	Support for energy efficiency and renewable energies	German Cooperation Agency, European Union, African Development Bank	European Union
Decentralization	Digitization of local services, municipal capacity building	World Bank, French Development Agency, European Union	World Bank
Water	Projects to expand and improve the drinking water network	Saudi Arabia, Islamic Development Bank, World Bank	World Bank

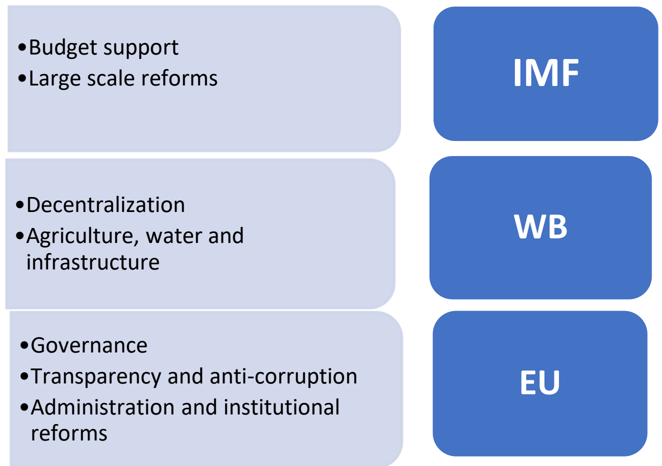
Source: The World Bank's Strategic Framework Document and other documents governing cooperation between Tunisia ad other international financial institutions 2017-2021

All available data in framework documents of financial institutions in Tunisia indicate the existence of mechanisms and tools to coordinate, track and exchange information between these institutions. Some are known, some are not, while some are organized in the form of committees and joint working groups, such as:

- Joint donor management in which the IMF plays a leading role, especially regarding budget funding.
- Bilateral policy management between the EU and the African Development Bank to run programs relating to governance and small projects.
- World Bank-led joint working committees with creditors targeting notably decentralization and drinking water projects.

Unrevealed coordination between these institutions clearly shows the distribution of roles with every institution specializing in a particular area, thus becoming the “main interlocutor” in negotiations with the Tunisian government in that sphere. A careful examination of the nature of the projects and negotiations between the successive governments and these institutions in recent years shows the dominance of three institutions in specific areas:

Graph 5: The dominant roles of international creditors and their main areas of influence



Since budget support loans have represented 80% of Tunisia’s total public debt since 2022 and considering the interconnection between this type of debt and austerity measures conditioned by the IMF, the following section offers a criticism of the way negotiations have been conducted with the IMF since 2012.

2- On negotiations between the government and the IMF

At the time of writing this study, periodic technical sessions are being held between the IMF and the government to reach a new deal that will help the government access additional funding to curb its 2022 fiscal deficit. Foreign financing needs are estimated at a record 12.6 billion dinars. This funding hinges on reaching an agreement with the IMF, in a situation that puts the government in a weaker position at the negotiations table. It is important to stress that the current negotiations are not isolated from the framework of the general negotiations which kicked off in 2012reaching a stage of suspicion and lack of trust in 2018.

- **Historical overview of IMF policies and programs in Tunisia**

With the failure of the IMF-imposed structural reform program in the 1980s, relations between Tunisia and the IMF have been characterized by a lack of trust in the last two decades. Tunisia only sought an IMF loan in 2013 worth 1.76 billion dinars as part of a two-year deal (2014-2015) with an interest rate of 1%. The deal was conditioned by a range of commitments by the Tunisian government, notably reducing subsidies on fuel and consumer goods, reducing company tax while expanding the tax base, floating the dinar, and recapitalizing public banks.

The government and the central bank led the conversations comfortably, given the possibilities of tapping the international market for loans with reasonable interest rates. But now, that is no longer possible given the degradation of Tunisia’s sovereign debt rating, pushing the government to seek a solution with the IMF as the only alternative. This situation has put the government in a weaker negotiation position.

In April 2016, the government signed a new loan deal with the IMF, dubbed the Extended Fund Facility, worth $2.8 billion. The loan was conditioned with terms including:

- Reducing the public wage bill in the civil service to 12% of GDP.
- Gradually cutting subsidies on fuel and basic goods by indexing prices on international markets;
- Restructuring public institutions facing financial difficulties.
- Adopting a competitive tax policy conducive to the development of economic players and broadening the tax base.

Successive governments have only met two provisions of this deal, namely the gradual loosening of the corporate tax from 25% to 15% but have since 2016 been increasing indirect taxes on the middle and poor classes. The second provision relates to the indexation of fuel prices on international markets. However, the government did not keep its promise to reduce public payroll and restructure public institutions, which has further delayed negotiations that have been ongoing since 2017.

- **On credibility and the government's negotiations capacity**

Since the launch of the second IMF program in 2016, relations between the IMF and the Tunisian government were marked by caution due to contradictory deals signed by the government which has agreed on a wage hike with the UGTT (Union Générale Tunisienne du Travail- Tunisian General Labor Union) in 2016 although it promised the IMF in May 1016 not to do so. These contradictions caused social tensions leading to two general strikes by the UGTT as well as reduced trust between the government and the IMF.

In the face of this impasse, the government proceeded with a technical approach to satisfy both the IMF and labor unions. This approach consisted in increasing thewages of civil servants through an exceptional two-year cut in income tax. This technical trick further undermined the credibility of the Tunisian government with the IMF. Moreover, the government listed a greater chunk of wage hikes in the contingency budget so as not to be included in the public payroll budget.

The decision of the IMF board of March 2018 to move from a semi-annual to a quarterly review in addition to the delay in paying the fourth quarter of debt evidenced the restlessness marking relations between the two parties.

- **Economic diplomacy and democratic transition**

This tense relationship between Tunisia and the IMF almost led to a rupture in 2018. Tunisia's economic diplomacy however played a key role in maintaining relations with the IMF and disbursing the fourth installment of the loan in December 2018. This came following a meeting between the Tunisian president and the IMF's director general in Berlin on October 30, 2018, on the sidelines of the G20 summit. According to reports, the need for continued support for Tunisia's democratic transition was a key argument used by Tunisian diplomacy to secure payment of the loan's fourth installment. The argument posits that forsaking Tunisia will lead to the collapse of the first democratic experience in the Arab World. This argument has put pressure on the IMF.

At that time, numerous meetings took place between IMF delegations and the leaders of the influential UGTT leading to an agreement on the payment of the loan's fourth installment.

- **Exceptional assistance**

In the wake of the Covid-19 outbreak, Tunisia received a loan worth $745 million in emergency support in April 2020 that was open to countries facing sudden shocks disbalancing its budget. Tunisia also benefited in August 2021 from a650 million offered by the IMF under Tunisia's special drawing rights. This came on the back of an expansionary monetary policy that benefited all member states, each receiving an amount commensurate to its contribution to the fund. This aid is a grant and not a loan.

- **The 2022 budget dilemma and the return to the negotiations table**

In the third quarter of 2021, new negotiations were launched between the IMF and the Tunisian government about a new program in a particular context marked by:

- A severe, economic and social crisis due to the repercussions of Covid-19 and the deepening 2022 fiscal deficit requiring the mobilization of record external resources exceeding 12 billion dinars.
- The political crisis has exacerbated amid worsening political prospects after the presidential decision to freezethe Parliament in July 2021 in addition to omens for a further power grab by the president who is now governing through decrees free of any checks. Indeed, the IMF did not take a stand regarding the political situation post-July 25, but the outspoken positions taken by the EU, the US, and the UN will be reflected in the negotiations process with the IMF and will have a direct impact on the guarantees that will be offered by Europe and the US to financial markets to enable Tunisia from affordable loans;
- The quasi lack of transparency and inclusiveness in the governmental management of economic and financial affairs. We noted an absence of press conferences and consultations with partners in the civil society and unions, save two meetings with the UGTT which most likely took place following pressure from the IMF.
- Conflict of interest between the government's programs and the statements of the President who declared openly his opposition to the measures taken by the government in its 2022 appropriation bill.

The five elements above sum up the conditions and general context of the current negotiations between a fund with ready-made rigid terms and a weak government that needs urgent access to 12 billion dinars in a process marred by media blackout and the exclusion of social and political stakeholders. This situation will further weaken the government and lead it towards accepting IMF terms. This is evidenced by the austerity penchant of the government proposal submitted to the IMF comprising mainly the following measures:

- Freezing wage increases in the civil service.
- Gradual increase in fuel prices through indexation on the international market.
- Abandoning subsidies on basic foodstuff by 2025 and replacing this aid with direct cash handouts to poor families according to a targeting mechanism.
- Reconsidering the ownership of the state of public economic institutions and proceeding to privatization as a possible solution.

Considering the direct repercussions of these terms on the living conditions of citizens and households, most stakeholders in the civil society and labor unions expressed their rejection of the IMF deal, arguing that it was elaborated in obscurity without prior consultations. This rejection took the form of a series of initiatives and campaigns by civil society organizations to put forward alternatives that could offer solutions to overcome the dilemma of external debt and the ensuing austerity measures inflicted on the middle and lower classes. This dimension will be examined thoroughly in the next section.

VI- Outlines of a comprehensive strategy of the Tunisian civil society towards external debt

This study sought to offer an alternative referential framework to understand external debt challenges and how to overcome them from the perspective of civil society organizations. Previous analyses demonstrate that external debt is a social issue that requires a comprehensive strategy that is not only limited to government decisions but also entails an active role of civil society organizations to find solutions and usher a way out for a country that has become trapped in the vicious circle of foreign loans. In this respect, this concluding section offers a set of strategic recommendations to activate the role of civil society.

The first civil society initiative as far as Tunisia's external debt is concerneddates toa few years before the revolution. Although these initiatives multiplied in the wake of 2011, they remained scattered and fell short of developing into large-scale campaigns bringing together all civil society, political, and labor union stakeholders against the current state of external debt. As external debt worsened last year, a new promising trend emerged after several associations came together speaking with one voice with the backing of international and regional organizations launching several initiatives and proposals since 2011, in a bid to lay a shared platform that the civil society can build its actions on.

1- Examples of civil society initiatives relating to external debt

The international campaign launched in 2011 by Raid Attac in cooperation with the Committee for the Abolition of Illegitimate Debt (CADMT) was the first of its kind to tackle the issue of external debt at a time indicators were not as serious as they are now. This pioneering experience, despite its radical character, managed to lobby in Europe among MPs and international associations in favor of deferring European bad debt owed by Tunisia during the era of Ben Ali pending a thorough audit. The campaign gathered 100 signatures fromEuropean parliamentarians. This effort was mentioned in a final statement by the European Parliament criticizing the conditions surrounding debt in North Africa and the Middle East. The campaign continued to gather momentum in Tunisia with the submission of a draft law to audit external debt in 2012. This bill was rejected by the Tunisian house of representatives. It was submitted again in 2016 by a member of parliament from the Popular Front but was not approved either.

After a period of silence, leaders of the campaign returned in 2021 to reiterate their calls on the Tunisian government to suspend external debt servicing citing the Ecuadorian experience as an example. In this respect, several organizations leading the campaign appealed to public opinion and the international community to help achieve that goal.

The campaign launched by Baousala and the Tunisian Economic and Social Rights Forum with support from Oxfamon December 14, 2021, is also among the key initiatives that continue to gather popular and civil society momentum to counter austerity policies and address the root causes of the external debt dilemma. The campaign had an efficient media plan including conferences and media briefings. A petition was also published calling for the president to unveil the government's negotiation plan with the IMF and to adopt an alternative economic program aiming at deep reforms to achieve social justice and reject austerity conditions in an IMF program. Besides carrying out an audit of external loans.

From another perspective, The Arab Watch Coalition launched a campaign in 2021 to curb austerity policies in the region, including Tunisia. It focused on strengthening civil society capacities through a series of workshops on planning and strategic thinking. It managed to involve new civil society organizations that added to traditional ones that usually campaign for fair loans for years. This gave a new dimension to how the issue of external debt is tackled by civil society and expanded the base of advocates.

Besides the three initiatives, we can cite some studies and activities led by some international organizations operating in Tunisia, such as German foundations Friedrich-Ebert and Heinrich Böll.

2- Strategic outline to activate the role of the civil society in external debt

By overviewing the main experiences of civil society as far as external debt is concerned, this study showcases the steady effort and struggle of civil society organizations in countering austerity measures that the government seeks to implement. To make these civil society initiatives more impactful, the present study suggests a set of proposals as follows:

- **Recommendations for the government on negotiations:**

Regardless of the plausibility of the proposals calling for a halt in dealing with the IMF at this stage, the current situation requires a pragmatic approach given the serious financial situation suffered by Tunisia and its urgent need for funding to feed its budget, support the economy and bolster foreign exchange reserves in the next few months. On this basis, reaching a deal with the IMF can be described as a “necessary evil” in the short term as long as there are no other alternatives in sight. However, the government should negotiate on an equal footing and strengthen its position on the negotiations table. This can be achieved through:

- Reviewing austerity measures and policies included in the government program and opening a comprehensive national dialogue bringing together over a month or two civil society organizations, political stakeholders, and unions in an atmosphere of transparency and inclusiveness. The goal is to elaborate a national economic program to be adopted by the government serving as a basis for negotiations with the IMF. This would give national legitimacy to the program and improve negotiation conditions in the government’s favor.
- Rehabilitate the democratic transition process and the swift return to the constitutional order. This would offer guarantees to the international community regarding democracy in Tunisia. Recent years have shown that the steadier Tunisia’s commitment to democracy, the better the government’s position in negotiations with creditors.

In the medium term, Tunisia needs to conduct a comprehensive reform of its financial system based on equality while abandoning discriminatory preferences and tax exemptions. In this connection, it needs to proceed with the digitalization of the tax administration and customsto better mobilize resources and achieve a gradual integration of the informal sector into the formal economy. To this end, the studies department at the UGTT and the Baoussala association have both submitted a set of recommendations and practical measures that should be taken into consideration. From another perspective, the government needs to adopt new policies and measures to put an end to the rentier logic and administrative chains represented in permits to practice many economic activities which in turn act as a barrier to private investment. This situation requires an urgent reform of the public audit institution and the public tenders system which have posed obstacles to public investments in infrastructure, health, and education.

These proposals are meant to offer solutions to spur growth and create wealth to spare the country the chains of external debt.

- **Strategic recommendations for civil society organizations**

While commending the struggle and the initiatives of engaged civil society organizations, including those mentioned earlier in this study, we would like to put forward the following recommendations to bolster this advocacy:

- Undertaken further efforts and initiatives in a united national framework with a horizontal structure. The leadership of this momentum should not be limited to specific organizations. It should rather act as a popular campaign open to other civil society organizations besides traditional leaders. In this connection, it will be beneficial to include the UGTTand prominent national figures (artists, athletes, and intellectuals…) as well as leading clean businessmen and womento avoid giving this campaign an ideological or intellectual tag and give it instead a national comprehensive character.
- Develop communication on social media and adopt simple messages that are accessible to all;

Content-wise, the following elements should be considered:

- Abandoning the idea of debt cancellation or deferral because of its counter-effect. External debt is not only a matter of budget figures, it is rather an element at the heart of Tunisia's economic and financial structure and a result of Tunisia's regional and international standing. Abstaining from external debt payments will put Tunisia outside the international financial system leading to repercussions on trade deals it has signed and undermining economic sectors while restricting Tunisia's access to foreign markets and barring the road for future loans or foreign assistance.
  Assuming Tunisia defaults, the country would remain in need of colossal amounts of hard currency to finance its imports of basic goods. This purchase would be impossible if Tunisia left the international financial system. In our view, using Ecuador's suspending debt payment is not reasonable at all because of two reasons: First, Ecuador is an oil-rich country producing 500,000 barrels per day with a population of 17 million people. In comparison, Algeria produces daily 850,000 barrels with a population of 45 million people, three times that of Ecuador. Second, when Ecuadordecided tosuspend debt payments in 2008, it did so as part of ALBA, a potent regional political and economic coalition set up in 2004 including Cuba and Venezuela. For Tunisia, the situation is different given the absence of the lethargy of the Maghreb Union.
- Putting pressure to rehabilitate the democratic transition process and the swift return to the democratic order. Tunisia's democratic exception in the region has given the country preferential treatment in external loans and strengthened its position in negotiations with creditors.
- Auditing external debt with a focus on bilateral loans and project-specific loans. In hindsight, corruption has affected these two types of loans more than others. Norway has in 2006 canceled all the loans falling in this category owed by developing nations. This type of loan can be tracked and assessed based on the projects it intends to fund, unlike loans that feed the

budget which is hard to monitor because the Tunisian budget is based on the comprehensiveness of funding, i.e., all funding is used to cover all expenditures without linking loans to a particular area in the budget.

- Listing the main allies abroad including members of parliament and international organizations and launching a communication plan to tackle the issue of bilateral debt. In this respect, regional and international organizations can help in terms of mediation and coordination.