



**SOVEREIGN DEBT, THE
SUSTAINABLE DEVELOPMENT
GOALS AND TRADE UNIONS IN
TUNISIA**



Summary briefing – December 2023¹

Tunisia: Democratic progress is under threat and new negotiations based on social dialogue are needed to avert a social and economic crisis.

¹ This briefing is based on a longer background paper commissioned by ITUC and completed by Prof. Mongi Boughzala.

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WHAT IS THE DEBT SITUATION?

Tunisia is currently amid a debt-driven economic crisis that has already cast a shadow over democratic progress achieved since 2011 and presents the threat of broader social unrest. The crisis urgently needs a long-term compromise solution that reflects the aspirations of all stakeholders, and which can only be delivered through reinvigorated social dialogue involving trade unions.

Following the revolution in 2011, the economy slowed sharply, and unemployment worsened. The budget deficit, and consequently public debt, has grown rapidly because of several factors, both external and specific to Tunisia. Since 2021, public debt has exceeded 80 per cent of GDP, and considerably more when State-guaranteed debt and that of State-owned enterprises is taken into account.²

The country's poor economic performance and recent political instability have led to a deterioration in its public finances and sovereign rating. Negotiations for a new agreement with

the IMF in October 2022 reached a preliminary technical agreement for a US\$ 1.9bn loan, but this was not confirmed by the IMF Board. At the end of 2023, the situation remained unclear. As a result, Tunisia finds itself unable to access other multilateral and bilateral sources to meet its financing needs.

The crisis has already visibly affected the standard of living of most Tunisians, especially workers, as well as the quality of public services to which they have access. More generally, it reduces the chances of achieving the SDGs. The crisis remains a serious threat to jobs, living standards, social justice and the environment. A change in direction is needed, given that successive governments over the past decade could have acted earlier and at less expense.

The aim of this briefing is to explore the possible scenarios and options in the face of rising debt in this difficult situation, with particular emphasis on its impact on the SDGs and the role of the Tunisian General Labour Union (UGTT) in developing the necessary reform programs and strengthening tripartite social dialogue between the government, UGTT and the Tunisian Confederation of Industry, Trade and Handicrafts (UTICA).

WHAT ARE THE CAUSES AND KEY ISSUES?

The Tunisian case is not isolated: many countries at different income and development levels, including fellow MENA countries Egypt and Jordan, are currently in comparable situations.

As elsewhere, Tunisia's debt crisis has been influenced heavily by a series of global factors, including the dynamics of world prices and interest rates, aggravated by the Covid-19 pandemic and the war in Ukraine.

² IMF 2021.

In Tunisia, however, debt has also evolved due to specific factors, namely the rapid increase in public spending in the post-revolution era, the need to address the rising cost of subsidies in a just manner, and a lack of progress on tax reform and revenue enhancement.

NEED TO ASSESS THE STRUCTURE OF PUBLIC SPENDING THROUGH SOCIAL DIALOGUE

Public spending on wages saw significant growth, almost tripling between 2010 and 2021 from TND 6.8bn (US\$ 2.1bn) to TND 20.2bn (US\$ 6.5bn). In 2019, wages accounted for more than half of government expenditure, compared with 41 per cent in 2010. This represents a heavy burden, and was the result of both massive recruitment, which took place mainly between 2011 and 2015, and salary increases. Nearly 150,000 additional employees were recruited, most of them unskilled and unrelated to real staffing needs (they had not previously been unemployed). This was followed by recruitment for education and health, and in larger numbers for the army and the Ministry of the Interior. In total, the number of government employees rose by almost 50 per cent, from 420,000 in 2010 to 640,000 in 2020. However, given the level of unemployment and the lack of job opportunities in the private sector, there is currently no question of laying off some staff to reduce this number.

Regarding wage increases, contrary to the IMF's view,³ civil servants are not overly well paid, and there is no reason to bring their remuneration into line with that of private sector workers, who often work under precarious conditions and are poorly paid and poorly protected. Overall, private sector wages in Tunisia are low, and it would be fairer to try to raise them and bring the level of wages in the private sector up to that of the public sector, rather than the other way round. The primary aim of

economic development should be to ensure decent wages for all, within the limits of what is possible, while improving productivity. This is the UGTT's point of view and that of the UTICA, at least in principle.

As for improving the performance of civil servants, and more generally the efficiency of public administration, the important thing is to proceed as quickly as possible to a real reform of the civil service, in accordance with the principles of good governance and the rewarding of effort and skills. The UGTT also insists that this reform be carried out within the framework of social dialogue.

NEED TO ADDRESS COST OF SUBSIDIES WHILE MINIMISING SOCIAL IMPACT WITHIN A UNIVERSAL APPROACH

Subsidies and transfers are the second largest contributor to the budget deficit and debt, rising as a share of total government expenditure, rose from 15 per cent in 2010 to 24 per cent in 2019. Between 2010 and 2020, food subsidies tripled, largely due to variations in the exchange rate and world prices, particularly those of energy, cereals and vegetable oils. Energy subsidies rose from 2.6 per cent to 5.3 per cent of GDP in 2021-2022 due to higher world prices.

While they contribute to increasing the budget deficit, subsidies and social transfers play an important role in protecting citizens' purchasing power, even though they fall short of a universal protection programme. Both the Tunisian authorities⁴ and the International Financial Institutions (IFIs)⁵ have repeatedly called for strengthening and reinforcing social protection and assistance programs as key instruments in the fight against poverty and inequality. This applies particularly to the free healthcare program and the national assistance program for families in need (PNAFN). The latter grants

³ IMF 2021.

⁴ Ministère des finances Tunisie, 2021.

⁵ World Bank 2022, IMF 2021.

cash assistance to those eligible for assistance. Since 2011, the number of families benefiting has risen from 132,000 to 254,000, and more recently to 320,000, with the help and encouragement of the World Bank. At the same time, the IFIs have labelled subsidies for energy and food consumption in Tunisia as inefficient and inequitable, and called for reform.

While all partners recognise the need to address the high cost of subsidies, there are clear differences of principle and on reform priorities. Unions reject important elements of the IFI approach, notably the replacement of subsidies with heavily targeted payments. They highlight that the impact of abolishing subsidies (without any mitigating countermeasures) would fall on all Tunisians and undermine social cohesion at a critical time. They also note the persistent flaws in targeting attempts, as well as the risk of the ghettoization of the poor. Unions advocate compensatory measures, delivered within a more gradual approach that links subsidy withdrawals to the evolution of wages. They also advocate for prioritising energy subsidies provided to companies over cuts to social expenditures in the first instance. In the medium term, the establishment of a harmonised system of universal social protection, compatible with the country's means, should indeed be a priority objective for the country.

INSUFFICIENT PROGRESS ON TAX REFORM AND REVENUE ENHANCEMENT

Numerous analyses on Tunisia's sovereign debt⁶ stress the importance of improving the State's own revenues, and therefore tax justice and modernisation of tax administration. This would act as a means of reducing the budget deficit and debt, and at the same time freeing up more resources for public investment and the country's development. There is considerable potential on this front.

The government has announced a program of reforms aimed at achieving greater tax justice, simplifying the tax system, broadening the tax base, and generalising its digitisation, without increasing the burden on formal businesses that apply the law. However, the main challenge lies in implementation and the weak capacity of tax authorities to combat tax fraud and evasion in all forms. Results so far are limited; according to data from the Ministry of Finance,⁷ between 2019 and 2022, tax revenues grew, but by less than inflation. To ensure permanent progress, tax authorities need to enhance their ability to overcome several, well-recognised conflicts of interest from different sources :

- Conflicts of interest come first and foremost from the administration itself, certain elements of which prefer to maintain the same methods and status quo.
- The challenge also comes mainly from several categories of taxpayers who manage to evade taxation by various means. Some manage to do so by organising themselves into federations/associations/unions (doctors, lawyers, entrepreneurs, etc.) to claim or retain privileges. Others, such as business leaders, will invoke their loss of competitiveness and the risk of being forced out of business as soon as a new tax measure affecting their interests is announced, in order to push the government to abandon it.
- Within the informal sector, businesses do everything to remain in the shadows and unseen by the tax authorities. There are several categories of informal businesses, and degrees of informality, and even among well-registered, formal businesses forms of informality and tax evasion exist. In particular, there are around 100,000 businesses that earn fairly comfortable,

⁶ World Bank 2022, IMF 2021, OECD 2021, Ministry of Finance, etc.

⁷ Ministère des finances Tunisie, 2023.

even high, incomes and pay almost no income tax and do not charge VAT.⁸ Additionally, hundreds of thousands of ‘flat-rate companies’ pay only a small, fixed amount to tax authorities, even though they generate substantial revenues. The government has taken steps to remedy the situation and broaden the tax base, but the results in terms of tax collection are likely to remain modest. Time will tell whether the improvement of 2022 is permanent or not.

Due to the inadequacy of its resources, the complexity of the tax system, and the major obstacles it must overcome, the current tax administration is not yet able to tax everyone equally, despite efforts to improve it. It lacks both human and material resources. Not only are more staff and equipment needed, but investment in intangibles, such as training, information systems and digitalisation are required to upgrade the overall system.

WHAT IS THE EFFECT ON KEY SDGs INCLUDING DECENT EMPLOYMENT, INEQUALITY AND GENDER, AND CLIMATE?



SDG 1: Reducing Poverty and Vulnerability.

While there have been debates around the economic efficiency of different

policies since 2011 – public sector recruitment, increased wages, subsidies for consumer goods and energy, and cash transfers to families in need – from the perspective of the fight against poverty, inequality and hunger, these interventions have undoubtedly served to improve the purchasing power of poor and modest households, and enabled the poorest to avoid hunger and extreme poverty.

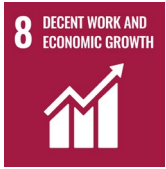
They have also helped to reduce inter-regional inequalities, as social assistance recipients are more concentrated in the most disadvantaged regions in the west of the country and in rural areas. Comparative data from national household consumption and budget

surveys in Tunisia, conducted in 2010, 2015 and 2021, confirm that poverty and inequality declined between 2010 and 2015 (and between 2000 and 2010), but note that a slight reversal of trends occurred between 2015 and 2021. This was due to the decline in real, middle-class incomes and increased vulnerability following Covid-19. World Bank estimates show that poverty continued to fall even between 2015 and 2019. Therefore, the increase in poverty between 2015 and 2021, (from 15.2 per cent to 16.6 per cent) can largely be viewed as an effect of the pandemic. However, extreme poverty was maintained at 2.9 per cent, because of the aid granted to the poorest families. Although the proportion of people suffering from hunger is low, vulnerability remains high and can be said to have worsened. A quarter of the population is not far from poverty or is at risk of falling below the poverty line. These results mean that if aid and subsidies were abolished, poverty and inequality would rise sharply. Poverty would rise to almost 22 per cent.

⁸ Boughzala 2023.

SDG 8 on Decent Work and and Employment.

The Tunisian labour market has long been characterised by persistent quantitative and qualitative imbalances between labour supply and demand.⁹ This imbalance manifests itself mainly in three forms: high unemployment, a mismatch between the qualifications required by employers and those provided through the education and training system, and difficulties in accessing the labour market for young people and women. These imbalances are related to two factors: i) the level and structure of labour supply, and therefore to the education and training system, ii) the level and structure of labour demand and the type of businesses that exist in Tunisia.



Unemployment has been persistently high in the country and the main demand of young people during the revolution was access to decent employment. Yet unemployment has risen since 2011, from approximately 13 per cent to a current rate of around 15 per cent. Unemployment affects young people, graduates and women. Over two-thirds of the unemployed are under 30, and 85 per cent are under 35. For those in work, more than 70 per cent of young people aged 15 to 29 works in low-skilled occupations.¹⁰ Many women, even the most highly educated, leave the job market due to the challenges of finding a decent job. Women are also paid less than men, and face a heightened risk of harassment.

The economy is not generating enough jobs, even in periods of rapid expansion and the jobs available are not in line with the training and expectations of young people. Most jobs created in the private sector are low-productivity, low-skill, low-wage jobs, and are often informal. According to the INS, almost half of all jobs created are informal. A lack of demand for skilled labour creates a mismatch between

the skills demanded by companies and those produced by the education system and offered by young jobseekers. After massive recruitment in the public sector between 2011 and 2015, recruitment has virtually ground to a halt due to control the public sector wage bill.

Most employees among young people and young adults, including a good proportion of those in formal employment, do not benefit from all the conditions of decent work. Safety in the workplace is not guaranteed, their prospects and opportunities for training and self-fulfilment in the workplace are limited, and in the private sector, the possibility of organisation is limited in practice, even though it is guaranteed by law. In short, the economy, and the private sector in particular, are not generating enough jobs to meet the expectations of young people, especially university graduates, and present women with additional challenges that force them out of the labour market.

Authorities have not acted since 2011 to move the country towards more productive, skilled labour-intensive activities. The State has done little to improve the situation because of public finance problems, while solutions call for substantial private and public investment, as well as a far-reaching reform of the education and training system. Traditional active labour market policy programs designed to promote youth employment have had limited positive effects. In particular, the shift towards a more modern and efficient private sector and the harmonisation of supply and demand for labour and skills were neglected. This strategic shift requires visionary leadership and collaboration between the State, workers, private investors and the education, training and research sector. Dialogue and coordination between all stakeholders are essential to create a climate conducive to development. The UGTT subscribes to this logic, as does UTICA.

⁹ Boughzala 2020.

¹⁰ INS quarterly population and employment surveys, ILO ETVA survey.

SDG13 on Environment and Climate Change.

Access to water is a key concern in Tunisia, and notable progress has been made in recent decades in water mobilisation and distribution, sanitation, and wastewater recycling. Access



to electrification is almost universal throughout the country. Progress on decarbonisation is however slow, having barely increased since 2016. The share of renewables in electricity generation was

less than 4 per cent in 2021, despite a target to bring it up to 12 per cent by 2022 and 30 per cent by 2030. Delays in developing green energies and the green economy, as well as those related to access to and quality of water, are directly linked to the problem of debt, since these objectives require major efforts and public investment. As outlined, the State's investment capacity is hampered from making such investments because of the current fiscal policy and public debt.

WHAT ARE THE POTENTIAL OPTIONS AND WHAT CAN TRADE UNIONS ADVOCATE FOR?

Tunisia is experiencing political and social instability, and risks falling into a financial and balance-of-payments crisis. Managing the social backlash generated by the reforms needed to bring the country's debt under control poses a major challenge. It is widely accepted, including by the IMF and World Bank, that the solution lies in social dialogue and stakeholder participation in the design of these reforms. Identifying a scenario that reconciles the various points of view and the imperatives of stabilisation and growth could facilitate dialogue. Nevertheless, in all cases, debt control will require a combination of measures to modify the volume and structure of spending, increase tax revenues and accelerate growth. Such measures will inevitably affect certain interests and arouse opposition.

The IMF has produced and published ¹¹ analyses of Tunisia's debt sustainability (DSA), giving rise to several scenarios,

while also considering possible variations and shocks. The IMF consistently insists on the need to restructure spending, develop revenues to reduce the deficit and debt, and redirect resources towards growth and fairer social spending (particularly education and health). Despite this rhetoric, in practice its conditionalities focus on financial stabilisation and debt reduction and not growth. In all its scenarios for Tunisia, it projects a growth rate of no more than 3 per cent. The main measures it proposes are to improve revenues, reduce the wage bill and replace subsidies with cash transfers to the poorest. Without considering alternatives, the main conclusion is that, unless the State rapidly implements the reforms it proposes, the country will be heading for acute financial distress and default.

However, the IMF's reform scenario is neither the only one possible nor the most appropriate. More attention and weight can instead be given to growth, bearing in mind that others ¹² have recommended similar programs. Accelerating public and private investment is the key to overcoming the crisis,

¹¹ IMF 2021.

reducing debt and moving onto a sustainable, inclusive growth path. Trade unions can, therefore, advocate for alternatives to the IMF-endorsed approach that reconciles the imperatives of controlling debt and faster growth. Work carried out for the UGTT¹³ has shown that a better approach would be to couple more vigorous action on revenues and investment to ensure rapid growth and a reduction in the primary deficit. Under such a scenario, wages may initially rise more slowly than inflation, then increase in real terms after around three years. The result is that, in addition to growth, the debt ratio can fall quite rapidly: from 80 per cent to 62 per cent. At the same time, the budget deficit would be reduced to less than 4 per cent.

The country can then free up resources for social services, environmental protection, the reduction of poverty and inequality, the promotion of research and technical progress and the other SDGs. This plan could restore hope and social peace.

However, this scenario would only be credible if the main stakeholders adhered to it and committed to implementing it. Effective and sustained social dialogue is essential at all stages. The UGTT is ready to participate fully in this. Other key stakeholders include UTICA and other civil society organisations, as well as the IFIs and broader international community. However, it is clear that such processes must naturally be driven by the political authorities – primarily the Government and Presidency.

In the event of disagreement or insufficient action, continued social tension, and the financial deadlines on external debt, as well as other significant debts, such as those of public enterprises, Tunisia could find itself unable to pay its creditors in a short time and would be obliged to ask for its debt to be rescheduled. Experiences of rescheduling around the world show just how costly this process is for the State and for the country in terms of production, employment and increased poverty.

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ITUC
International Trade Union Confederation

info@ituc-csi.org

www.ituc-csi.org

Phone: +32 (0)2 224 0211

Boulevard du Jardin Botanique, 20
1000 Brussels, Belgium

Publisher responsible in law:
Luc Triangle, General Secretary

