



# Tunisia's Challenge: Avoiding Default and Preserving Peace

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*Preventing War. Shaping Peace.*

## Table of Contents

|                                                                                         |    |
|-----------------------------------------------------------------------------------------|----|
| Executive Summary.....                                                                  | i  |
| I. Introduction .....                                                                   | 1  |
| II. Tunisia Turns Populist .....                                                        | 4  |
| A. A Popular President Driving an Ideological Project.....                              | 4  |
| B. Rhetoric and Violence against Sub-Saharan Migrants.....                              | 7  |
| C. A Split International Response.....                                                  | 8  |
| III. Drama with the IMF .....                                                           | 10 |
| IV. To Deal or Not to Deal: Choices and Consequences .....                              | 14 |
| A. First Option – A Revised IMF Agreement.....                                          | 14 |
| B. Second Option – No Deal .....                                                        | 16 |
| C. The Consequences of Default: How Bad Would It Be? .....                              | 18 |
| 1. Economic consequences.....                                                           | 18 |
| 2. Other consequences .....                                                             | 20 |
| V. Preserving Domestic Stability .....                                                  | 22 |
| VI. Conclusion .....                                                                    | 25 |
| APPENDICES                                                                              |    |
| A. Map of Tunisia.....                                                                  | 26 |
| B. About the International Crisis Group .....                                           | 27 |
| C. Crisis Group Reports and Briefings on the Middle East and North Africa since 2020... | 28 |
| D. Crisis Group Board of Trustees .....                                                 | 30 |

# Principal Findings

**What's new?** Under President Kais Saïed, Tunisia has gone from the reform period spurred by the 2011 uprising to an increasingly populist, authoritarian model of government. International Monetary Fund (IMF) financing, together with governance and economic reforms, could offer a way out of the crisis, but Tunis is resisting.

**Why does it matter?** If Tunisia does not reach a new loan agreement with the IMF, the likelihood of default on its external debt in 2024 or 2025 will increase significantly. Default, in turn, could exacerbate the risk of violence and imperil already fragile domestic stability.

**What should be done?** The IMF should offer Tunisia financing with less stringent conditions to reduce the risk of social unrest. While encouraging the IMF to take this approach, Tunisia's foreign partners should keep governance and human rights on the agenda. Donors should be prepared to provide emergency assistance in case of default.

## *Executive Summary*

Since July 2021, when President Kais Saïed concentrated power in his own hands, Tunisia has taken an autocratic turn amid a growing economic crisis. Saïed has accompanied his efforts to build an authoritarian system with stridently nationalist rhetoric that has sparked vigilante attacks on sub-Saharan migrants. His resistance to Western influence has led him to reject the terms of a proposed International Monetary Fund (IMF) loan that could stabilise the country's ailing economy by balancing the budget and restoring investor confidence. Without a loan, the country may default on its foreign debt in 2024 or 2025. To avert the socio-economic disaster that could ensue, the government and IMF should work toward a revised agreement that would ease requirements for spending cuts and other economic reforms, to avoid shocking the system. Tunisia's foreign partners should actively support such a deal, while urging Saïed to protect African migrants and others from vigilante violence and ensuring that human rights stay on the agenda. In case of default, they should be prepared to provide emergency assistance.

Tunisia's political climate has changed radically since July 2021. In that month, Saïed invoked Article 80 of the constitution to declare a state of emergency and stage what is widely considered a self-coup – replacing the country's semi-parliamentary system with a presidential one that arrogates almost all government authority to himself. Peddling a program inspired by nationalist and leftist ideology, the president plays upon resentment, notably of the former political class and Western countries, to boost his popularity. His nationalist rhetoric has created a climate conducive to criminal violence against sub-Saharan migrants.

Stifled by repression, Tunisia's opposition is disorganised, divided and distracted, while large sections of the population are preoccupied with survival in the face of deteriorating socio-economic conditions. Among ordinary Tunisians, the fear of repression that disappeared in the wake of President Zine El Abidine Ben Ali's overthrow in the 2011 uprising has resurfaced. Over the course of 2023, arrests and convictions of public figures, especially politicians, have accelerated. More than 50 of them are in prison on a range of charges or in exile under international arrest warrants. Additionally, since the war in Gaza started on 7 October, much of the population as well as the political class has been more focused on expressing solidarity with the Palestinians than on tensions at home.

The main economic indicators remain alarming. Over the past ten years, political instability and increased spending to the detriment of investment slowed economic growth. More recently, the country has experienced a series of shocks deriving from the COVID-19 pandemic and Russia's all-out war in Ukraine that have further constrained growth and driven up inflation. Foreign debt has soared, approaching 90 per cent of GDP in 2022. The debt burden prompted international agencies to downgrade Tunisia's credit rating, making it virtually impossible for the country to get loans from abroad.

Tunisia's international partners are divided, including internally, over the stand they should take to confront these developments, which they view as leading the country in the wrong direction. In the U.S., members of Congress regularly denounce

Tunisia's authoritarian drift and human rights violations, but the executive branch has nurtured its security partnership with Tunis, which has proven resilient. The EU, led by Italy, is largely silent on the president's autocratic turn, keen to minimise the risk of increased migration fomented by an economic implosion. The African Union (AU) has expressed outrage at the attacks on sub-Saharan migrants, but Algeria and Syria are forging increasingly cordial links with Tunisian leaders, for whom they feel an ideological affinity.

To counter the economic downturn, Tunisia's foreign partners have encouraged Saïed to accept a deal with the IMF – the terms were laid out in a staff-level agreement in October 2022 – that would help the country meet its scheduled debt repayments. But Saïed and his supporters reject the economic reforms attached to the loan, fearing they would increase poverty and trigger social unrest. While the IMF appears to be open to more flexible arrangements, even such a compromise may go too far for Saïed. Although he has kept channels to the IMF open, Saïed (who portrays Tunisian elites as in cahoots with Western donors to the detriment of the Tunisian people) may simply prefer to forgo a deal and take his chances with default on the foreign debt.

That would be a mistake. Although Saïed's supporters and some economists say Tunisia may be able to find other sources of foreign exchange (eg, through revenues generated through remittances, subventions from friendly governments like Algeria or phosphate and oil sales), these scenarios are rife with uncertainty. Arguments that Tunisia may be able to weather default – for example by drawing on foreign reserves while it briskly reschedules its debt – are similarly wobbly. They tend to ignore the ways in which the country's significant risk factors could start a downward spiral. These include a massive domestic debt load, which may be difficult to service if the country faces a credit crunch as the result of default, and the prospect of surging inflation should the government print money either to pay its domestic creditors or make the public-sector payroll. Economic hardship could drive citizens into the streets, create violent competition for scarce resources and even lead army officers trained in the West to challenge the government.

Under the circumstances, the priority for donors and the IMF should be to coax Saïed's team back to the table, where they should offer Tunis a revised deal with less stringent terms – both to help manage the prospect of social unrest and to help Saïed see his way to accepting a loan. While the odds are not great, this approach could still work, and it is worth pursuing. In parallel, donors should work to bolster programs for coordinated engagement with Tunisia in the G7 Plus format – which could be broadened to cover a wider array of topics – and also work more concertedly to synchronise policies with regional bodies such as the African Union so that Tunis faces a more united front of outside actors.

Western donors also should work to keep human rights – including for sub-Saharan migrants – and governance reform on the diplomatic agenda, framing their recommendations as ways to help prevent a build-up of grievances among the public. Whether or not Tunis buys the rationale, this framing is less likely to engender pushback than an appeal to values or principles, which it is likely to see as an effort to impose Western mores and degrade its sovereignty. Finally, donors will also need to prepare

emergency support packages to supply Tunisians with the necessities of life should the current path lead to default and the shocks that would likely follow.

Persuading Tunisia to accept arrangements that allow it to avoid default, while encouraging more rights-respecting behaviour on its part, will require flexibility and tactful diplomacy by donors and partners. Even then, success may be a long shot. So long as there remain openings for reaching an IMF deal, however, outside actors should continue to do what they can to make best use of them, even as they get ready for worst-case scenarios that unfortunately seem all too likely.

**Tunis/Brussels, 22 December 2023**

# Tunisia's Challenge: Avoiding Default and Preserving Peace

## I. Introduction

Tunisia is suffering a multidimensional crisis. The post-2011 period of democratic transition took a dramatic turn for the worse in July 2021, when President Kais Saïed imposed a state of emergency, suspended parliament, dismissed the prime minister and consolidated his own authority. A year later, Tunisians adopted a new constitution that replaced the country's semi-parliamentary system with a presidential one without checks and balances. They then elected a National Assembly with little actual power.<sup>1</sup>

The pace of repression has accelerated since early 2023, with the police arresting or pushing into exile some 50 public figures, including politicians, businesspeople, trade unionists, journalists and senior civil servants, on charges of money laundering, conspiracy to harm state security, collusion with foreign powers or sending young people to join jihadist groups in Syria after civil war erupted there in 2011.<sup>2</sup> The most prominent detainee is parliamentary speaker Rached Ghannouchi, leader of the Islamist-inspired An-Nahda party, who received a one-year sentence for "apologising for terrorism" – a reference to a 2022 declaration in which he called the police "tyrants".<sup>3</sup> He faces charges in a dozen cases in other courts as well.<sup>4</sup> Resorting to earlier emergency legislation, the government also prohibited An-Nahda and the anti-Saïed opposition coalition to which it belongs, the National Salvation Front, from staging demonstrations.<sup>5</sup> Police closed down several An-Nahda offices, arresting or banishing nine of the party's fifteen top figures.<sup>6</sup> Already fragmented, the opposition has been discredited further by this crackdown.

At the same time, the judiciary and police are operating in increasingly unpredictable ways, making it dangerous for anyone to express political discontent. The public has little appetite for dissent anyway, as many are drawn to Saïed's populism, but those who might be so inclined are generally dissuaded by the growing perception of risk. Since October, the war in Gaza has riveted the public, diverting attention from Tunisia's internal difficulties.<sup>7</sup> The government has taken advantage of the distraction.

<sup>1</sup> A semi-parliamentary system is a political system in which the president is directly elected by popular vote and holds significant powers, though sharing executive authority with the prime minister. Parliament can dismiss the government. See Constitution de la république tunisienne, 2022.

<sup>2</sup> "Tunisia: Wave of arrests targets critics and opposition figures", Human Rights Watch, 24 February 2023. See also Frida Dahmani, "En Tunisie, la chasse aux opposants s'étend au-delà des frontières", *Jeune Afrique*, 31 October 2023.

<sup>3</sup> "En Tunisie, l'opposant Rached Ghannouchi condamné à un an de prison", Agence France Presse, 15 May 2023.

<sup>4</sup> Benoit Delmas, "Tunisie: le temps des condamnations", *Le Point*, 18 May 2023.

<sup>5</sup> "Tunisie: interdiction des activités du mouvement Ennahdha", *Kapitalis*, 18 April 2023.

<sup>6</sup> Crisis Group interviews, civil society activists and An-Nahda supporters, Tunis, June 2023. See also "Tunisia: Authorities close Ennahdha offices, EU worried", Agence France Presse, 18 April 2023.

<sup>7</sup> Mathieu Galtier, "Conflit israëlo-palestinien : en Tunisie, la colère vise aussi la France", *Libération*, 27 October 2023.

In addition to authoritarian drift, Tunisia has also seen economic crisis in recent years. The political ferment following the 2011 uprising saw an increase in spending to the detriment of investment. Between 2010 and 2022, the civil service wage bill rose from 10 to 15 per cent of GDP due to pressure on the state to provide jobs to the unemployed, while public and private investment fell from 23 to 12 per cent of GDP.<sup>8</sup> Political instability is also partly to blame for the fact that Tunisia lost 982 industrial plants – representing 17 per cent of those with more than ten employees – between 2010 and 2022.<sup>9</sup> As a result, average GDP growth fell to 1.6 per cent in the period 2011-2019, compared with an average of 4.4 per cent in the preceding decade.<sup>10</sup>

This bleak economic picture has only been made worse by a series of economic shocks over the past ten years. Tourism was moribund in the period 2015-2018 due to a series of jihadist attacks in the capital, Tunis, and the city of Sousse on the eastern coast. The COVID-19 pandemic hit the economy hard in the early 2020s, while Russia's all-out war in Ukraine sent commodity prices soaring. While GDP recovered swiftly after the pandemic, the country's average economic growth rate has dropped to 0.6 per cent, one of the lowest in the region.<sup>11</sup>

These shocks have undermined living standards and made it harder for small businesses to get by. Average annual inflation has been hovering around 10 per cent since 2022. The cost of foods such as eggs, meat, oils, vegetables, cereals and dairy products has gone up particularly quickly, due in part to the rise in international commodity prices, the fall in domestic agricultural productivity (related to, among other things, difficulties in importing fertiliser from Russia amid the Ukraine conflict) and the depreciation of the Tunisian dinar.<sup>12</sup> In 2022, fuel prices rose by 20 per cent, and electricity and gas prices by 12 and 16 per cent, respectively.<sup>13</sup> Shortages of essential foodstuffs have become commonplace. Since the second half of 2022, increasing debt among state-owned enterprises and a government monopoly on agricultural, agri-food and pharmaceutical imports have combined with price controls to cause recurring shortages of basic products such as fuel, cereals, sugar, coffee, dairy products and medicines.<sup>14</sup>

As the economy has floundered, the state has turned increasingly to foreign debt to prop it up. In 2022, it was close to 90 per cent of GDP. In 2023, government financ-

<sup>8</sup> "Tunisie : Pourquoi la masse salariale a explosé", *Leaders*, May 2017; and "La masse salariale en Tunisie sera-t-elle réduite ?", *Business News*, January 2023.

<sup>9</sup> This trend accelerated after the COVID-19 pandemic, with 545 of these 982 plants closing in three years. Hachemi Alaya, "Les vrais problèmes économiques de la Tunisie", *Ecoweek*, 31 October 2022.

<sup>10</sup> "Tunisian economy suffers loss of competitiveness in 2011-2019 period", Agence Tunis Afrique Presse, 6 February 2021.

<sup>11</sup> Tunisia imports two thirds of its barley for livestock feed and almost 60 per cent of its total grain from Russia and Ukraine. In 2022, due to the war in Ukraine, the prices of imported cereals reached their highest point since independence in 1956. Over 95 per cent of the soft wheat (used for flour and bread) consumed in Tunisia is imported, as is 44 per cent of the durum wheat (used for semolina, pasta and couscous). See "L'économie tunisienne 2023, La Tunisie au milieu du gué", GI4T (Nirvana, Tunis), May 2023; and "Tunisia Economic Monitor: Reforming Energy Subsidies for a Sustainable Economy", World Bank, Spring 2023.

<sup>12</sup> What is more, the country has experienced four consecutive years of drought since 2019, and the 2023 cereal harvest is expected to be barely one third of the previous year's. See "L'économie tunisienne 2023, La Tunisie au milieu du gué", op. cit.

<sup>13</sup> "Reforming Energy Subsidies for a Sustainable Economy", op. cit.

<sup>14</sup> "L'économie tunisienne 2023, La Tunisie au milieu du gué", op. cit.

ing requirements reached a record \$7.5 billion. State budget expenditure is forecast at \$17.3 billion, against estimated revenues of \$14.9 billion, while debt servicing costs amount to \$5.1 billion. In 2024, Tunisia will face debt repayments of around \$3.9 billion, up from \$2.8 billion in 2023.<sup>15</sup>

Given these numbers, foreign investors are seriously questioning the country's long-term debt sustainability. At the end of January, Moody's downgraded Tunisia from Caa1 to Caa2 (indicating a very high risk of default), adding a "negative outlook".<sup>16</sup> Another agency, Fitch, has lowered Tunisia's sovereign rating four times since March 2020 (though raising it once). In March 2022, the two agencies reduced the country's rating from B- with negative outlook to CCC, and in June 2023 from CCC to CCC- (a dip from the Moody's rating in January, as CCC is equivalent to Caa2 in the slightly different systems).<sup>17</sup> Given the prohibitive interest rates (over 20 per cent) that this sovereign rating would entail, Tunisia's access to debt financing in international markets has been virtually shut off. There may be other sources of liquidity, as discussed below, but they cannot be relied upon. Obtaining an International Monetary Fund (IMF) loan is therefore likely to be crucial to staving off default. Yet, as discussed below, Saïed is not interested in a deal with the Fund on the terms it has offered and may not even wish to negotiate another that takes his concerns into account.

This report explores the sources of Tunisia's democratic backsliding and economic crisis. It describes the scenarios that would result from either obtaining an IMF loan or from failing to secure one, followed by a foreign debt default. It also advances ideas for the country's international partners as they consider how to arrest or to mitigate the fallout from Tunisia's spiralling crisis. The report is based on some 70 interviews conducted in Tunisia, France, Belgium, Italy and the U.S. between December 2022 and July 2023 with journalists, academics, senior civil servants, trade unionists, political and civil society leaders, diplomats, members of international organisations and ordinary Tunisian citizens.

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<sup>15</sup> Multilateral loans account for almost half of Tunisia's external debt. Bilateral loans (from, in order of value, France, Saudi Arabia, Germany, Japan, Italy and Algeria) account for 15 per cent and international private claims for 35 per cent. Tunisia's multilateral lenders are the International Bank for Reconstruction and Development, the African Development Bank, the IMF and the EU. IMF loans make up around 20 per cent of multilateral debt. The main private holders of government bonds are Capital Group, the Royal Bank of Canada and Franklin Resources. Mohamed Haddad, "Cartographie de la dette extérieure tunisienne", Heinrich Böll Stiftung/Imded, Tunis, April 2021; and "Rapport sur le projet de budget de l'Etat pour l'année 2024", Ministère des finances, République tunisienne, October 2023 [Arabic].

<sup>16</sup> In January, Moody's also downgraded the ratings of four Tunisian banks exposed to liquidity risk due to the country's difficult external funding conditions. This downgrade made it more difficult for banks to grant letters of credit to Tunisian exporters and discouraged many insurance companies from guaranteeing foreign capital invested in Tunisia, thus reducing foreign direct investment. Crisis Group telephone interviews, businessmen, Tunis, January-February 2023. "Moody's downgrades Tunisia's ratings to Caa2 with a negative outlook", Moody's, 27 January 2023.

<sup>17</sup> Moody's and Fitch press releases during the relevant periods. See also Bassem Snaije and Francis Ghilès, "Tunisia's Choice: Bankruptcy under Dictatorship or Economic Rebirth and Democracy?", Rosa Luxemburg Stiftung, May 2023.

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## II. Tunisia Turns Populist

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### A. A Popular President Driving an Ideological Project

Trumpeting a populist ideology, President Saïed has come to enjoy both open and tacit support, particularly among lower-income Tunisians. A stated priority of his left-wing nationalist project is to redistribute political power to society's "most disadvantaged strata".<sup>18</sup> According to Saïed's backers, the people will become "virtuous" again when they are no longer exploited by an elite subservient to foreign interests.<sup>19</sup> This idea permeates the preamble to the new constitution, as well as several presidential decrees concerning the economy and elections.<sup>20</sup> So far, the state security apparatus, which has gained considerable influence since Saïed's power grab, seems to be amenable to his plans.

Saïed and his circle also aim for a radical overhaul of Tunisian politics and the state administrative system.<sup>21</sup> To achieve their goals, they created "communitarian companies". These entities, are to "achieve the equitable distribution of wealth through the collective exercise of economic activity".<sup>22</sup> They are mainly to be funded with money the state would obtain from 460 businessmen accused of corruption who, in exchange for an amnesty, agreed to finance development projects in the deprived interior.<sup>23</sup>

Saïed's rhetoric aims to exploit popular resentment of the wealthy, foreigners and the politicians who emerged during what many refer to as the "black decade" (2011-

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<sup>18</sup> Ridha Lenin, "Could the idea of the historical bloc be a solution for the stalled Tunisian revolution?", 2016 [Arabic]. Unpublished document consulted by Crisis Group.

<sup>19</sup> Crisis Group interviews, Saïed supporters, Tunis, January-March 2023. Saïed's biggest supporters are members of the Mouvement des forces de la Tunisie libre, a small group that defines itself as "progressive", "revolutionary" and "post-Marxist". Saïed appointed its main ideologue, Kamel Feki, known as "Kamel Stalin", governor of Tunis in December 2021 and then interior minister in March 2023. See "Biographie du nouveau Gouverneur de Tunis, Kamel Feki", *Businessnews*, 30 December 2021; "Tunisie : Kamel Feki succède à Taoufik Charfeddine à la tête du ministère de l'Intérieur", *Leaders*, 18 March 2023.

<sup>20</sup> Constitution de la République tunisienne, 2022. See also "Décret n°15 du 20 mars 2022 relatif aux sociétés citoyennes", *Idaraty.tn*, April 2022 [Arabic]; "Décret-loi n° 2023-8 du 8 mars 2023, modifiant et complétant la loi organique n°2014-16 du 26 mai 2014, relative aux élections et aux référendums", *Journal Officiel de la République Tunisienne*, 9 March 2023; and Eric Gobe, "La Tunisie en 2021 : un coup politique peut masquer un coup d'Etat", *L'Année du Maghreb*, 2022.

<sup>21</sup> See the document distributed by Saïed's supporters: "For a new constitutive step", 2019 [Arabic]. See also Khalil Abbès, "Democracy now: A reading of the KS phenomenon", *Nachaz, Mots passants*, October 2019 [Arabic].

<sup>22</sup> Crisis Group interviews, Saïed supporters, Tunis, January-March 2023. See also Article 81 of the Tunisian constitution, Constitution de la République tunisienne, 2022; Crisis Group Middle East and North Africa Briefing N°73, *Eviter les surenchères populistes*, 4 March 2020; "Décret n°15 de 2022 du 20 mars 2022 relatif aux sociétés citoyennes", op. cit.; Brahim Meddeb, "Les mystères du mystérieux Kaïs Saïd : essai de démystification des liens de la commune de Paris 1871 à la future commune de la Tunisie, 2022", SMS Institute, July 2022; and Mehdi Elleuch and Yassine Nabli, "Tunisia's Communitarian Companies: Justice or Domination?", *The Legal Agenda*, 2 June 2022.

<sup>23</sup> Crisis Group interviews, Saïed supporters, senior civil servant, Tunis, January-March 2023. See also "Tunisie : Saïed incite les membres de la commission de réconciliation pénale à oeuvrer davantage à récupérer l'argent spolié", *Gnet*, 26 June 2023.

2021).<sup>24</sup> In public appearances, Saïed attacks his political opponents without naming them, comparing them to “germs” or “harmful animals”.<sup>25</sup> He has portrayed the country and himself as “threatened by external and internal conspiracies”, notably led by Zionists, and claimed that foreign forces are interfering in Tunisian affairs.<sup>26</sup> He has blamed the worsening socio-economic situation on speculators, former politicians, businessmen and media personalities.<sup>27</sup> He has belittled the post-2011 democratic transition.<sup>28</sup> He has also said Tunisia must reconnect with its roots, complete its struggle for national liberation and reject “the path imposed by the West and the national elite subservient to it”.<sup>29</sup>

According to many of his supporters, Saïed is sincere in wanting to rid the country of corrupt businessmen and civil servants, whom he and his allies accuse of working for foreign interests under the previous post-2011 order, embezzling public funds, plundering oil and gas resources, and sabotaging the government to create chaos and avoid being judged for their actions.<sup>30</sup>

Saïed's rhetoric resonates strongly among the economically disadvantaged, for whom it generates hope of positive change, and helps insulate him from blame for the country's woes. Contrary to the impression one may form from the international media, most Tunisians are not in the streets demonstrating against worsening socio-economic conditions or joining the opposition.<sup>31</sup> At most a few thousand people close to opposition parties and trade unions have protested in the capital on a handful of occasions in 2022 and 2023.<sup>32</sup> One Saïed supporter noted:

Even if people are hungry, they won't revolt against Saïed. They're with him and the government. They are against the scoundrels of the “black decade” [the democratic transition in 2011-2021]. Even if they [the West] come to Tunisia with foreign armies, they won't succeed in returning power to these fraudsters [the former ruling political parties]. They're finished. The government is working on structural

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<sup>24</sup> Crisis Group telephone interview, Tunisian sociologist, February 2023. See also Crisis Group Briefing, *Eviter les surenchères populistes*, op. cit.

<sup>25</sup> See “Ainsi parlait Kaïs Saïed: une analyse des discours du président”, *Inkyfada*, 20 July 2022.

<sup>26</sup> Ibid. See also Mounir Hocine, “Tunisie ‘traits, suppôts du sionisme...’, le coup de sang complotiste de Kaïs Saïed”, *24h Algérie*, 3 September 2022; “Normalisation avec l'entité sioniste : Saïed fait allusion à la peine de mort (vidéo)”, *Réalités Online*, 4 November 2023.

<sup>27</sup> See “Ainsi parlait Kaïs Saïed: une analyse des discours du président”, op. cit.

<sup>28</sup> Ibid.

<sup>29</sup> Crisis Group interviews, former senior civil servants and academics, Tunis, March 2023. See also Crisis Group Briefing, *Eviter les surenchères populistes*, op. cit.

<sup>30</sup> Crisis Group interviews, Saïed supporters, Tunis and by telephone, March-September 2023. Saïed's supporters include members of the 2015 Winou el petrole (Where's the Oil?) campaign, who claim that Tunisia has large oil deposits secretly exploited by post-2011 governments in cahoots with foreign powers. Catherine Gouëset, “Tunisie : ‘Où est le pétrole ?’, la campagne qui déchaîne passions et rumeurs”, *L'Express*, 18 June 2015.

<sup>31</sup> Yosra Ouane, “Des milliers de Tunisiens manifestent contre la dégradation de la situation économique et sociale”, Anadolu Agency, 25 February 2023. See also “Des milliers de Tunisiens manifestent contre la vie chère et le président, Kaïs Saïed”, Agence France Presse, 15 October 2022.

<sup>32</sup> “Tunisia: Demonstration against the president a week before the legislative elections”, Agence France Presse, 10 December 2022.

reforms. Even if it's painful for the people, the people are aware of it, and they will wait for the exit from the abyss.<sup>33</sup>

But there is some evidence that the public's patience with Saïed is not infinite. Research in Tunis and Sfax suggests that the president's standing has been declining since July.<sup>34</sup> Growing bread shortages resulting from government mismanagement seem to have dented his popularity.<sup>35</sup> Several citizens interviewed by Crisis Group noted that while they consider Saïed a clean, determined leader who knows what Tunisians need, they find he lacks the economic expertise to pull it off.<sup>36</sup>

Nevertheless, a return to the pre-2021 democratic transition seems unlikely in the short term.<sup>37</sup> As one Tunisian scholar told Crisis Group, fear of chaos and violence has turned large sections of the population fatalistic, believing that the failure of Saïed's project would plunge the country into dangerous unknown territory, making their daily lives even more unbearable.<sup>38</sup> Moreover, the return of the Palestinian question in the political discourse, notably in the form of Saïed's speeches denouncing Zionism and Israel's attitude toward Palestinians, has rallied much of the public around the president.<sup>39</sup>

With some people expressing loyalty to the president and others having resigned themselves to the situation, few are actively opposing the new system. A pro-Saïed Tunisian said many disadvantaged people are hoping that the rich will get poorer, "because, if everyone gets poor, society will become fairer".<sup>40</sup> A Sfax resident noted that others try to convince themselves that "citizens will recover the money that previous decision-makers embezzled" once Saïed's project succeeds.<sup>41</sup> Few among the opposition or the civil society groups campaigning for democracy and the rule of law, who stand accused of serving foreign interests or engaging in espionage, dare express their frustrations on social media.<sup>42</sup>

Another explanation for the president's continued popularity is that many Tunisians have benefited from government disarray, at least so far. Amid the authoritarian drift, state institutions have become weaker, due to the president's erratic decision-making style, his administration's chaotic management of day-to-day affairs, poor

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<sup>33</sup> Crisis Group telephone interview, Saïed supporter, April 2023.

<sup>34</sup> Crisis Group telephone interviews, Sfax and Tunis residents, July-August 2023.

<sup>35</sup> Following a shortage of flour for "classic bakeries" offering subsidised products, on 1 August the Ministry of Commerce prohibited 1,500 "modern bakeries" offering non-subsidised products from purchasing their quota of subsidised flour and semolina. Hundreds of bakers mobilised to protest this decision. In mid-August, following negotiations, the government backtracked and authorised the resupply of these bakeries. Monia Ben Hamadi, "En Tunisie, le ras-le-bol des boulangers qui n'ont plus de farine", *Le Monde*, 17 August 2023. See also "Crise du pain en Tunisie : l'approvisionnement des boulangeries subventionnées va reprendre", Agence France Presse, 20 August 2023.

<sup>36</sup> Crisis Group telephone interviews, Sfax and Tunis residents, July-August 2023.

<sup>37</sup> Crisis Group telephone interviews, Sfax and Tunis residents, July-September 2023. See also "Du pain unique de Saïed à l'autorisation du pain de Agareb, on nage en plein absurde", *Business News*, 30 August 2023.

<sup>38</sup> Crisis Group telephone interview, Tunisian historian, February 2023.

<sup>39</sup> Crisis Group telephone interviews, Sfax and Tunis residents, October-November 2023. See also "Ainsi parlait Kaïs Saïed: An analysis of the president's speeches", op. cit.

<sup>40</sup> Crisis Group interview, Saïed supporter, Tunis, January 2023.

<sup>41</sup> Crisis Group telephone interview, Sfax resident, April 2023.

<sup>42</sup> Crisis Group interviews, civil society activists, Tunisian regions and by telephone, 2022-2023.

transparency and the lack of checks and balances.<sup>43</sup> Low-ranking officials take advantage of the confusion to indulge in petty corruption; retailers to inflate their prices despite government controls; and farmers to avoid paying for electricity. As border controls are looser than before 2021, young people from peripheral areas find it easier to cross the Mediterranean clandestinely in search of a better life in Europe.<sup>44</sup>

## B. *Rhetoric and Violence against Sub-Saharan Migrants*

In the period from February to July, Saïed's nationalist rhetoric provoked a series of racist attacks. On 21 February, the president claimed in a speech that "hordes of illegal migrants" were behind "violence and unacceptable acts", adding that the "ulterior aim" of sub-Saharan migration to Tunisia is to "transform [its] demographic make-up" and "strip it of its Arab and Islamic identity".<sup>45</sup> In the following days, the authorities arrested several Tunisians sheltering or employing irregular migrants, forcing many to dismiss their employees.<sup>46</sup> These actions left many sub-Saharan migrants fearful and in hiding.<sup>47</sup>

Bands of vigilantes emerged in response to Saïed's statements, some led by his supporters, others organised by the tiny, xenophobic Tunisian National Party and still others consisting of petty criminals.<sup>48</sup> In major cities and suburbs, they attacked sub-Saharan migrants or reported them to the police and National Guard. Some of these groups assisted the security forces in evicting hundreds of migrants from their homes or entered migrants' houses themselves to damage and steal property.<sup>49</sup> On 22 May, a group of Tunisians attacked sub-Saharans in a working-class district of Sfax, leaving a Beninese national dead.<sup>50</sup> On 2 July, clashes broke out between Tunisians and sub-Saharans in another part of Sfax – and again two days later after a migrant stabbed and killed a young Tunisian in a scuffle.<sup>51</sup> In response, the police, backed by residents, arrested hundreds of sub-Saharans and bussed them to the south, near the Libyan border (where they scattered).<sup>52</sup>

<sup>43</sup> Crisis Group interviews, civil society activists, senior civil servants, journalists, academics, businessmen and diplomats, Marseille, Tunis, Paris, Brussels and by telephone, 2022-2023.

<sup>44</sup> Crisis Group interviews, community activists, Tunisian regions and by telephone, 2022-2023.

<sup>45</sup> "Communiqué de la présidence de la République tunisienne", Facebook page of the Tunisian Presidency, 21 February 2023.

<sup>46</sup> "Houssemeddine Jebali : Les Tunisiens qui hébergent ou emploient des clandestins seront arrêtés !", *Business News*, 24 February 2023.

<sup>47</sup> Crisis Group interviews, Tunis and Sfax residents, Tunis and by telephone, February-March 2023. See also Thierry Brésillon, "En Tunisie les migrants subsahariens victimes de la peur du 'grand remplacement'", *La Croix*, 1 March 2023.

<sup>48</sup> Crisis Group interviews, Tunis and Sfax residents, Tunis and by telephone, February-March 2023. See also "La Tunisie rongée par les démons du racisme", *Le Monde*, 3 March 2023.

<sup>49</sup> Saïed's supporters also launched social media campaigns attacking organisations and individuals defending migrant rights. Crisis Group interviews, journalists, opposition and civil society activists, sub-Saharan migrants and Tunis and Sfax residents, Tunis and by telephone, February-March 2023.

<sup>50</sup> "Un migrant subsaharien tué dans une attaque par des jeunes Tunisiens", Agence France Presse, 29 May 2023.

<sup>51</sup> "Sfax: nouveaux affrontements entre habitants et migrants subsahariens (vidéos)", *Kapitalis*, 3 July 2023; and "Tunisian stabbed to death in clash with African migrant", Agence France Presse, 4 July 2023.

<sup>52</sup> Leslie Carretero, "Tunisie: des centaines de migrants arrêtés et envoyés dans le désert, à la frontière libyenne", *Info-Migrants*, 5 July 2023.

### C. *A Split International Response*

The xenophobic attacks provoked a wave of indignation in global media, but foreign governments – who were already divided over how to approach Tunisia under Saïed's leadership – remained equivocal.<sup>53</sup> In the U.S., criticism has largely been limited to Congress and pro-democracy organisations that regularly denounce the country's authoritarian drift. The Biden administration, while chastising Saïed for arresting his political opponents and urging a return to constitutional rule, has adopted a careful tone overall.<sup>54</sup> The goal, a U.S. analyst noted, is likely to make sure "the key interests at the core of the relationship" – namely diplomatic and security cooperation – "are protected". At the UN, for example, Tunisia has voted with the U.S. on Ukraine. Tunisia also maintains good military-to-military relations with Washington; Tunisian army officers are largely U.S.-trained.<sup>55</sup>

The EU, Tunisia's chief donor, main trading partner and biggest investor, has adopted what a European diplomat sardonically labelled a "more for less" policy – suggesting that the fewer EU-promoted reforms Tunisia makes, the more money will flow from Brussels.<sup>56</sup> Partly spurred by Italy's right-wing government, which has been trying to score points at home by cracking down on migration, the EU has stopped denouncing or even mentioning the regime's growing authoritarianism since the end of 2022. Instead, Brussels seems to be putting its energy into a bid to encourage Saïed to accept a deal with the IMF (discussed further below), as well as to cooperate more closely on migration, security and the economy.<sup>57</sup> Another European diplomat noted that, in taking this approach to Saïed, the EU is reinforcing the "assertive" and "transactional" diplomacy he favours: to allow himself to deal with major powers on an equal footing, he highlights the nuisance he can cause on issues such as migration.<sup>58</sup>

In the region, the picture is more varied. The African Union, focusing on the violence against sub-Saharan migrants in Tunisia, released a statement in February saying member states must "refrain from racialised hate speech that could bring harm to people".<sup>59</sup> In the wake of anti-migrant attacks in February and March, sev-

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<sup>53</sup> U.S. State Department spokesman Ned Price said the U.S. was "concerned about violence against migrants". "U.S. State Department Spokesman Press Conference", U.S. State Department, 6 March 2023.

<sup>54</sup> "U.S. Department of State Spokesperson Ned Price", press briefing, U.S. State Department, 15 February 2023; and "Statement on Arrests of Political Opponents in Tunisia", press statement, U.S. State Department, 19 April 2023.

<sup>55</sup> Crisis Group interviews, Tunisian opposition figures, U.S., Algerian and Russian academics, Tunis, Washington, Rome and by telephone, October 2022–June 2023. On 27 March, a letter from members of the U.S. House of Representatives to Secretary of State Antony Blinken urged the Biden administration to "ensure that any U.S. foreign assistance to Tunisia supports the restoration of inclusive, democratic governance and the rule of law". It also asks the White House to check that any aid "directly supports Tunisians in dire economic straits and does not strengthen the hand of those, including the domestic security services, who have exacerbated repression and authoritarianism". See "Connolly, Meeks Lead Letter to Secretary Blinken on Situation in Tunisia", press release, Congressman Gerry Connolly, 27 March 2023.

<sup>56</sup> Crisis Group telephone interview, European diplomat, June 2023.

<sup>57</sup> Crisis Group interviews, Italian and U.S. diplomats and academics, Washington and Rome, June 2023.

<sup>58</sup> Crisis Group interview, European diplomat, Brussels, April 2023.

<sup>59</sup> "The President of the African Union Commission Strongly Condemns Racial Statements about Fellow Africans in Tunisia", press release, African Union, 24 February 2023.

eral African countries suspended imports from Tunisia and cancelled orders for Tunisian products.<sup>60</sup> On the other hand, Algeria, Tunisia's influential neighbour, has offered unstinting support for Saïed's anti-Western rhetoric and his refusal to seek assistance from the IMF on terms he deems intolerable. The same is true of Syria, which re-established diplomatic ties with Tunisia in April. (Tunisia had severed them in 2011 because of the Assad regime's brutal repression of the Syrian uprising.)<sup>61</sup> On the sidelines of the Arab League summit in Riyadh in May, Saïed met with Syrian President Bashar al-Assad, describing the discussion as "historic" and "reflecting the solidity of the fraternal relations established between the two countries".<sup>62</sup>

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<sup>60</sup> Wejden Jlassi, "Boycott de produits tunisiens en Afrique subsaharienne, une campagne lourde de conséquences", Anadolu Agency, 9 March 2023.

<sup>61</sup> "Abdelmajid Tebboune : la Tunisie fait face à un complot et l'Algérie la soutiendra", *Business News*, 22 March 2023; and "La Tunisie et la Syrie vont rétablir leurs relations diplomatiques", Agence France Presse, 12 April 2023.

<sup>62</sup> Seif Soudani, "Tunisie-Syrie : la grande réconciliation", *Le courrier de l'Atlas*, 19 May 2023.

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### III. Drama with the IMF

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In view of Tunisia's worsening macro-economic indicators and the growing risk of debt default, Western countries have been offering Saïed incentives and applying pressure on him to accept financial assistance from the IMF. So far, he has refused the terms the IMF proposed as part of a loan agreement; indeed, he may have decided to reject the IMF route altogether in solving his debt default challenge, seeing the Fund's conditions as intolerable infringements on Tunisia's sovereignty. Negotiations have not yet reached the point of no return, however.

A bit more than a year ago, things looked more hopeful. On 15 October 2022, the IMF and Tunisia reached a staff-level agreement on a 48-month, \$1.9 billion Extended Fund Facility, a new loan that was supposed to "restore macroeconomic stability, strengthen social safety nets and tax equity" and help Tunis step up reforms favouring growth and job creation.<sup>63</sup> The deal's terms required the government to make a series of reforms and take other steps before the IMF board of directors would approve the loan. These comprised monthly fuel price hikes, Saïed's public endorsement of the IMF agreement and the enactment of a new law, signed by the president and published in the official gazette, paving the way for privatisation of state-owned enterprises.<sup>64</sup>

But that deal never reached fruition. Apart from signing off on a fuel price hike in November 2022, Saïed refused to take the measures in the staff-level agreement; his reasons are not fully clear, though he reportedly feared a spike in social tensions.<sup>65</sup> Because the IMF additionally did not receive sufficient credit commitments from Gulf Arab countries and others to supplement its own loan, its board postponed approving the deal indefinitely that December.<sup>66</sup>

Sometime in early 2023, after Tunisia's Western partners convinced Gulf Arab countries to pledge additional resources tied to the agreement, they tried to push the Tunisian government to resume talks with the IMF by highlighting the catastrophic consequences of failure to clinch a deal. At a U.S. Senate hearing on 22 March, Secretary of State Antony Blinken declared that Tunisia must reach an agreement with the IMF or risk collapse.<sup>67</sup>

This statement did not go over well in Tunis. In April, Saïed declared that "the diktats" were "unacceptable", in part because they would lead to further impoverishment, and that the best way forward was to "rely on ourselves".<sup>68</sup> His supporters, as well as the Tunisian General Labour Union (UGTT, Tunisia's main trade union) and friendly

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<sup>63</sup> "IMF Staff Reaches Staff-level Agreement on an Extended Fund Facility with Tunisia", press release, International Monetary Fund, 15 October 2022.

<sup>64</sup> Crisis Group telephone interviews, international financial organisation official and diplomats, December 2022-March 2023. See also Abou Sarra, "Amendement de la loi 89 : Le non-dit sur sa non-publication dans le JORT", Web Manager Center, 17 April 2023.

<sup>65</sup> Crisis Group telephone interviews, international financial organisation official and diplomats, December 2022-March 2023.

<sup>66</sup> Crisis Group interviews, international financial institution official and diplomats, 2022-2023. See also Hachemi Alaya "La route de la faillite ou la voie de la réforme: La Tunisie à la croisée des chemins", *Ilboursa*, 30 August 2023.

<sup>67</sup> "Sans accord avec le FMI, La Tunisie risque de s'effondrer, selon Antony Blinken", Agence France Presse, 22 March 2023.

<sup>68</sup> Ismail Majdi, "Kaïs Saïed : 'les diktats du FMI sont inacceptables'", Anadolu Agency, 6 April 2023.

pundits, also spoke of “the imposition of foreign diktats” and the risk that subsidy cuts would unleash a wave of riots similar to those of January 1984, which were triggered by a rise in bread and cereal prices.<sup>69</sup>

The rejected terms encompassed mainly measures that Tunis had agreed to in connection with previous IMF facilities, namely the 2013-2015 Stand-By Arrangement and the 2016-2019 Extended Fund Facility arrangement. These included requirements for greater exchange rate flexibility; the gradual elimination of subsidies on basic items (not including bread); social protection for the most vulnerable; bank interest rate liberalisation; cuts in civil service wages; and the partial or complete privatisation of state-owned companies in financial difficulty.<sup>70</sup> From the IMF's perspective, these measures have the potential to boost economic growth and reduce Tunisia's debt burden in the medium term.

Saïed's continued reluctance to come to terms with the IMF has caused great unease in Western capitals, especially in Europe, and is linked to worries that Tunis will find itself unable to service its foreign debt. Josep Borrell, the EU high representative for foreign affairs and security, warned that, if Tunisia were to collapse as a result of debt default, it “could lead to migration to the EU and instability in the Middle East and North Africa region”.<sup>71</sup> But for all the alarm they may be feeling about Tunisia's economic woes, European governments have been fairly ginger about how they press Saïed to change course. Indeed, the European response to Tunisian intransigence has come mostly in the form of “carrots” to convince the president to accept a revised form of the October 2022 deal. On 25 March, French Ambassador André Parent told the Tunisian press agency that France was ready to help cover Tunisia's residual financing needs in 2023 and 2024 if the country carried out the IMF reform plan.<sup>72</sup>

For its part, Italy stepped up its diplomatic appeals to the IMF, in an effort to show greater flexibility toward Tunisia. Rome wanted to prevent a wave of irregular migrants, most of whom would likely make Italy their first port of call. On 23 March, Italian Prime Minister Giorgia Meloni told the senate that the country risked being “invaded” if Europe did not help the Tunisian economy.<sup>73</sup> On 26 April, Foreign Minister Antonio Tajani said IMF loan tranches should not be entirely conditional on reforms.<sup>74</sup> On 20

<sup>69</sup> Crisis Group interviews, Saïed supporters and trade unionists, Tunis and by telephone, April 2023. On 1 May, UGTT Secretary-General Nouredine Taboubi affirmed that his organisation endorsed the president's rejection of the IMF's “diktats”. Quoted in Ismail Majdi, “Kaïs Saïed : ‘les diktats du FMI sont inacceptables’”, Anadolu Agency, 6 April 2023; “La Tunisie rejoindrait les Brics, selon un parti pro-Saïed”, *African Manager*, 9 April 2023; and “En Tunisie, le principal leader syndical remet en cause les négociations avec le FMI”, Agence France Presse, 1 May 2023.

<sup>70</sup> Crisis Group telephone interviews, international financial organisation official, diplomats, Saïed supporters and trade unionists, 2022-2023. See also Kaïs Attia, “A Decade of Austerity”, Al Bawsala, 2022; and “Tunisia, Request for an Extended Arrangement under the Extended Fund Facility”, IMF, June 2016.

<sup>71</sup> “EU fears ‘a collapse’ of Tunisia”, Agence France Presse, 21 March 2023.

<sup>72</sup> “La France disposée à contribuer à combler le gap budgétaire de la Tunisie sous réserve de la concrétisation des réformes (André Parant)”, Tunis Afrique Presse, 25 March 2023.

<sup>73</sup> Emmanuel Berretta, “Migrants : Giorgia Meloni alerte sur la situation explosive en Tunisie”, *Le Point*, 23 March 2023.

<sup>74</sup> “Tajani : La Tunisie ne doit pas être laissée aux Russes ou aux Chinois”, *Business News*, 26 April 2023.

May, at the G7 summit in Japan, Meloni called on the IMF to help Tunisia without preconditions.<sup>75</sup>

Then, in June, the EU enhanced its financial incentives for Tunisia and, along with the country's other Western partners, encouraged the government to present a revised reform program to the IMF. Meloni visited Tunis twice, on 6 and 11 June. During her second visit, she was accompanied by EU Commission President Ursula von der Leyen and Dutch Prime Minister Mark Rutte.<sup>76</sup> They offered Saïed a strengthened partnership with the EU, including €900 million in macro-financial assistance in exchange for a deal with the IMF and another €255 million for Tunisia's cooperation in repatriating Tunisian and sub-Saharan irregular migrants as well as handling applications by asylum seekers and refugees on Tunisian soil.<sup>77</sup> On 12 June, U.S. Secretary of State Antony Blinken declared at a press conference with Tajani that Tunisia needed further financial assistance and for this reason should present the IMF with a "revised reform plan".<sup>78</sup>

Thus far, the Western donors' efforts have not worked. Until June, the government was working with IMF negotiators on an amended deal, but it appears to have stopped since then, on the president's instructions.<sup>79</sup> In the face of Western inducements, Saïed dug in. On 2 June, he reaffirmed his rejection of IMF "diktats", while suggesting a tax hike on high-income Tunisians as an alternative to an IMF loan.<sup>80</sup> Borrowing an expression attributed to one of Islam's first caliphs, Omar Ibn Khattab, he said the state should "take excess money from the rich and give it to the poor".<sup>81</sup> On 11 June, on the sidelines of his meeting with von der Leyen, Meloni and Rutte, Saïed declared that the IMF should review its proposal, implying that he might reject the migration component included in the EU's enhanced partnership scheme.<sup>82</sup> On 13 June, while visiting a mining town near Gafsa, he told an audience of unemployed youth that he would bend the knee only before God. "There is no sura in the Quran named after the IMF", he said.<sup>83</sup>

In August, in another move away from a deal with the IMF, Saïed replaced Prime Minister Najla Bouden, who had been directly involved in the negotiations, with a

<sup>75</sup> "Au G7, Giorgia Meloni presse le FMI de débloquer une aide à Tunis", Agence France Presse, 20 May 2023. In a communiqué issued at the end of the meeting, the G7 urged Tunisia to resume negotiations over a revised agreement with the IMF. "G7 Hiroshima Leaders' Communiqué", Council of the European Union, 20 May 2023.

<sup>76</sup> Allan Kaval and Nissim Gasteli, "En visite à Tunis, Giorgia Meloni plaide en faveur d'un accord avec le FMI", *Le Monde Afrique*, 7 June 2023.

<sup>77</sup> Crisis Group telephone interview, European diplomat, June 2023. See also "The European Union and Tunisia agreed to work together on a comprehensive partnership package", Joint statement by the EU and Tunisia, 11 June 2023.

<sup>78</sup> "Blinken says would like to see Tunisia present revised reform plan to IMF", Reuters, 12 June 2023.

<sup>79</sup> Crisis Group interview, international financial organisation official, Washington, June 2023. See also "Les piques de Nabil Ammar au FMI", *Réalités*, 5 April 2023. All the same, a senior Tunisian official said in September that while talks with the IMF had halted, communication channels remained open, suggesting that negotiations might resume later. Crisis Group interview, September 2023.

<sup>80</sup> "Pour se passer du FMI, Kaïs Saïed veut taxer les riches", *Jeune Afrique*, 2 June 2023.

<sup>81</sup> Seif Soudani, "En Tunisie, la présidence veut un nouvel impôt sur la fortune", *Le Courrier de l'Atlas*, 2 June 2023.

<sup>82</sup> "Kaïs Saïed : Le FMI doit revoir ses propositions pour parvenir à une solution", *Tunis Afrique Presse*, 11 June 2023.

<sup>83</sup> "Kaïs Saïed : Le FMI n'est pas cité dans le Coran", *Kapitalis*, 14 June 2023.

former human resources manager at the central bank, Ahmed Hanachi.<sup>84</sup> (Hanachi was not a widely known figure and the reason he was tapped remains unclear.) Following this change, the cabinet appears to have directed its energies toward carrying out Saïed's economic program, including promoting "communitarian companies" and implementing his 2023-2025 development plan, which aims to increase private investment, boost phosphate production and bolster the industrial sector.<sup>85</sup>

Subsequent steps further suggest Saïed's disinclination to work with Western donors and lenders on their terms.<sup>86</sup> On 12 October, the European Commission confirmed that his government had returned the €60 million it had sent Tunis the previous week. This amount was supposed to be the first instalment of a €127 million tranche under the July memorandum of understanding focusing on migration. Two weeks earlier, Saïed had dismissed the tranche as "charity".<sup>87</sup> Rightly or wrongly, Saïed seemed to believe that Western countries and the IMF would end up agreeing to finance his agenda, particularly the communitarian companies. As one of his supporters has noted, Saïed is convinced that since "he is in the vanguard of history", the West will eventually see things his way.<sup>88</sup>

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<sup>84</sup> "Le nouveau chef du gouvernement prête serment", *Tunis Afrique Presse*, 2 August 2023.

<sup>85</sup> Crisis Group interview, international financial organisation official, Washington, June 2023. See also "Plan 2023-2025 et Vision Tunisie 2035", Ministère de l'économie et de la planification, République Tunisienne, January 2023; and "Les piques de Nabil Ammar au FMI", *Réalités*, 5 April 2023.

<sup>86</sup> "Tunisie: L'espoir d'un prêt du FMI de plus en plus improbable", *Agence France Presse*, 26 July 2023.

<sup>87</sup> See "Accord UE-Tunisie sur l'immigration: le président tunisien refuse la 'charité' européenne", *Info-Migrants*, 3 October 2023. See also "Accord UE-Tunisie : Tunis renvoie une partie de l'argent versé par la Commission européenne", *Info-Migrants*, 13 October 2023.

<sup>88</sup> Crisis Group interview, Saïed supporter, Tunis, August 2023.

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## IV. To Deal or Not to Deal: Choices and Consequences

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With its foreign debt exploding and affordable sources of external credit drying up, Tunisia is essentially facing two choices – agree to a new IMF deal or refuse one. As time goes by, President Saïed does not appear to be sold, or anywhere near it, on an agreement. Some believe that he may even be angling to put the country into default for political reasons. But the possibility of a new IMF arrangement, however remote, should not yet be ruled out.

### A. First Option – A Revised IMF Agreement

Despite Saïed's rhetoric and the suspension of talks, a revised IMF deal is unlikely but not yet impossible. As more than a year has passed since the October 2022 staff-level agreement, revising the credit offer would require updating the macro-economic indicators (such as the unemployment rate and growth projections) used to set the terms. If a deal is to be reached, the Fund will need to make other changes to its terms to satisfy at least some of Tunisia's concerns. That should be feasible. Already, to soften Saïed's opposition, Western partners and the IMF have signalled their willingness to amend the loan proposal to blunt the reforms' social impact. Tunisia's international partners are keenly aware of its economic predicament resulting from high energy prices and the global interest rate hike, as well as a decade of slow growth and political instability.<sup>89</sup> They also know that implementation of the IMF's 2016-2019 Extended Fund Facility arrangement contributed to the depreciation of the dinar and a rise in domestic energy prices.<sup>90</sup>

Yet any IMF deal will require efforts to address Tunisia's budget deficit, which in turn means painful cuts in civil service wages, gradual reductions of energy subsidies and partial or complete privatisation of state-owned companies. All of these reforms are politically and socially sensitive.<sup>91</sup> It is unlikely that the IMF would deem the possible additional revenues raised from new or higher taxes sufficient, notwithstanding Saïed's June 2023 proposal noted above.<sup>92</sup> Among other things, increasing the fiscal burden is likely to be challenging, given that in recent years the authorities have

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<sup>89</sup> "Uncovered: The Role of the IMF in Shrinking the Social Protection – Case Studies from Tunisia, Jordan and Morocco", Friedrich Ebert Stiftung, December 2022.

<sup>90</sup> Crisis Group telephone interviews, economists, September 2023. See also "Uncovered", op. cit.; and Colin Powers, "Chronicles of a Death Foretold: Democracy and Dedevelopment in Tunisia", Noria Research, April 2022.

<sup>91</sup> Crisis Group telephone interviews, economists and businessmen, September 2023. Contrary to what Saïed's supporters have repeatedly said, the IMF did not require ending food subsidies as a precondition of approving the loan, but rather cutting fuel subsidies. It was the Tunisian government that proposed to gradually reduce food subsidies. Crisis Group interviews, international financial organisation official, diplomats, Washington, June 2023. Indeed, many Tunisian economists and social affairs ministry officials believe that cash transfers to the poorest would be fairer and more efficient than subsidies, contributing to what one economist referred to as "setting free the productive potential of the national economy and increasing salaries". Crisis Group telephone interview, economist, September 2023. See also "Evaluation de la performance d'assistance sociale en Tunisie", CRES/World Bank, May 2017.

<sup>92</sup> Crisis Group telephone interview, June 2023. See also Alissa Pavia, "Tunisia was right to reject the IMF deal", *Foreign Policy*, 19 April 2023; and "Pour se passer du FMI, Kaïs Saïed veut taxer les riches", *Jeune Afrique*, 2 June 2023.

already raised taxes on the formal economy and streamlined tax collection, leaving little room for improvement. Furthermore, any attempt to hike taxes would risk scaring off foreign investors and fuel new social tensions.<sup>93</sup> As discussed below, there may be other ways to supplement state revenues, but none seems a sure bet, and spending cuts would surely be inevitable.

Economists favourably disposed to an IMF deal contend that a revised agreement with some but fewer spending cuts than contemplated by the October 2022 deal would be the best way forward, as long as the government complements it with measures to boost business activity, promote a strong economic recovery that would reduce the debt-to-GDP ratio and buttress solvency in the long run.<sup>94</sup> A donor conference and a new investment plan that is more detailed than the one for 2023-2025 could achieve this goal, they say.<sup>95</sup> In addition, they argue, boosting business activity and investment in tandem would make recourse to the IMF more palatable for Saïed and the population.<sup>96</sup>

Still, Saïed would almost surely have to weather some blowback. Belt-tightening and discontent would likely follow reforms pursuant to a revised loan, though the precise social impact would depend on several variables – what is in the agreement, how fully the government adheres to it and how much other revenue the government can generate, as well as a host of macro-economic factors. The president's popularity could decline.<sup>97</sup> There could also be protests. Though the UGTT has been weakened by internal discord and corruption cases, it would probably still be able to organise demonstrations to defend its vision of Tunisia's economic sovereignty – perhaps seeing dissent as a way to win back popular support that has been waning amid the scandals.<sup>98</sup> Protests, in turn, would likely trigger a repressive response by the security forces.<sup>99</sup>

To some extent, the level and thrust of public unhappiness could depend on how Saïed chooses to direct it. He might, for example, try to scapegoat others in his government – something that will be easier to do if his negotiators are able to persuade the IMF to move forward with a deal absent his personal endorsement.<sup>100</sup> Alternatively, he might encourage Tunisians to direct their ire at Western donors. Indeed, unless Saïed softens his anti-Western rhetoric, any government spending cuts, even if far smaller than the ones required by the October 2022 deal, could trigger angry and potentially violent demonstrations outside Western diplomatic missions, international NGO locations and Western-funded civil society group offices. As a Tunisian

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<sup>93</sup> Crisis Group telephone interview, Tunisian economist, June 2023. See also Moktar Lamari, "Kaïs Saïed veut taxer les plus riches : est-ce vraiment la panacée ?" *Kapitalis*, 2 June 2023.

<sup>94</sup> Crisis Group telephone interviews, Tunisian economists, September 2023.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid.

<sup>97</sup> Crisis Group interviews, economists and journalists, Tunis, Marseille, Paris and by telephone, January-May 2023.

<sup>98</sup> Crisis Group interviews, trade unionists, Paris, September 2023. See also "Un parti défie l'UGTT et menace de balancer tous ses dossiers de corruption !", *Tunisie Numérique*, 16 June 2022.

<sup>99</sup> Crisis Group interviews, economists and journalists, Tunis, Marseille, Paris and by telephone, January-May 2023. See also "25<sup>e</sup> Congrès de l'UGTT : Milices, dissensions et divisions", *Le Temps*, 16 February 2022.

<sup>100</sup> Crisis Group interviews, economists and journalists, Tunis, Marseille, Paris and by telephone, January-May 2023.

academic explained, "If the economic and social situation deteriorates, the West is the obvious target".<sup>101</sup>

None of the above means that Tunis should not accept an IMF loan. The politics of meeting its terms would likely be challenging, but an IMF deal could help Tunisia grow out of its current debt predicament and stabilise its fiscal and external accounts. IMF funds come with better conditions than otherwise available – the Fund has already made clear its willingness to ease its proposed terms further – and a deal would reassure foreign creditors. On balance, the impact would likely be net positive. The same cannot be said of a default.

### B. *Second Option – No Deal*

While an IMF deal remains, however tentatively, on the table, Tunisia probably will not take it. For the moment, it appears more likely that Saïed will hold fast to his opposition to Western financial support that would require him to institute economic reforms at odds with his nationalist project.

Some of the president's supporters contend that Tunisia does not need an IMF agreement, saying it could only be damaging, and that there are other ways the country can service its debt without it.<sup>102</sup> In February, a local economic research centre often critical of international financial institutions' role argued that Tunisia can and should diversify its foreign exchange sources, so as to challenge the IMF-led "cartel" of Western governments and rating agencies, which it accused of abusing their dominant position to control the country's access to liquidity.<sup>103</sup>

In making their case against looking to the IMF for a bailout, IMF critics and others note several other ways the country might gain access to cash. First, they rightly point out that tourism revenues almost doubled in 2023, compared to the previous year, and that remittances from Tunisians living abroad grew by 40 per cent over the course of the year. These income streams yielded monies that together are sufficient to meet the 2023 debt repayments, although the unpredictability of remittance streams makes it hard to rely on them as a bulwark of financing.<sup>104</sup>

Secondly, they note that Tunisia indeed has cultivated several other actual and potential revenue sources among bilateral and multilateral partners. By the end of 2022, it had secured loans from the Afreximbank (at an interest rate close to 10 per cent) and the African Development Bank to the tune of \$600 million. It has also secured a \$300 million loan from Algeria. The next May, the government sold \$440 million in foreign-currency treasury bills to Tunisian banks. In June, parliament took out another \$500 million loan from the Afreximbank, and in July, Saudi Arabia pro-

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<sup>101</sup> Crisis Group telephone interview, March 2023.

<sup>102</sup> Crisis Group interviews, Saïed supporters and economists, Tunis, Marseille and by telephone, January-April 2023.

<sup>103</sup> "Sortir du FMI, partie 1 : Diversifier, Alternatives", *Observatoire tunisien de l'économie*, no. 1, 17 February 2023. Many IMF deal opponents consider Tunisia's crisis to be a problem of liquidity rather than solvency. In their view, Tunisia is solvent: it is able to keep meeting its external obligations, needing only to generate sufficient liquidity to repay its debt.

<sup>104</sup> Crisis Group telephone interviews, Saïed supporters, September 2023. See also "Recettes touristiques en Tunisie : une augmentation de 54,4% au premier semestre", *Tunis Afrique Presse*, 7 July 2023; and "Daily monetary and financial indicators", Central Bank of Tunisia, 8 September 2023.

vided Tunisia with a \$400 million loan as well as a \$100 million grant.<sup>105</sup> Some economists speculate that, in order to further increase its influence in Tunisia and stabilise its neighbour, Algiers may double its 2024 aid budget from the \$300 million it gave in 2023 or provide even more financial support unofficially, while granting payment facilities for gas, which would reduce Tunisian state expenditures significantly.<sup>106</sup>

Thirdly, Saïed supporters say the solution to meeting Tunisia's debt burden without recourse to the IMF could come from boosting the country's natural resources exports. They state that, in line with the 2023-2025 development plan, the country will double its annual phosphate production to 8 million tonnes, a level it last reached in 2010.<sup>107</sup> They also argue that Tunisia should be able to drastically reduce its overall import bill and increase oil production.<sup>108</sup> Indeed, since 2022 imports have gradually decreased, also thanks to restrictions introduced by the government.<sup>109</sup> Others are betting on a series of hydrocarbon discoveries, citing a 2012 U.S. Geological Survey report, which noted that large, untapped reserves may lie the maritime zone between Tunisia and Libya; these however would take years to monetise.<sup>110</sup> Still others have suggested that Tunisia use dollar-denominated Bilateral Swap Agreements with other countries, such as Japan, or pursue centralised regional financial arrangements by which groups of governments mutually pledge support to countries experiencing difficulties in their neighbourhood.

As a strategy for staying out of default, however, these measures range from uncertain to fanciful. Discussion about new lenders or donors remains mainly aspirational; there is no way to know whether remittances will remain as high as in 2023; and hopes that phosphate and hydrocarbon revenues will provide a way out do not seem tethered to realistic timelines for boosting the country's exports. With around \$3.9 billion foreign liability repayments scheduled for 2024 (including a euro-denominated bond maturing in February, equivalent to \$900 million) and \$1 billion in January 2025, it is not clear how the government will be able to secure sufficient funds to meet these liabilities absent a new IMF facility.<sup>111</sup> Moreover, even if Tunisia might still be

<sup>105</sup> See "L'Arabie Saoudite octroie 500 millions de dollars à la Tunisie", *Jeune Afrique*, 21 July 2023.

<sup>106</sup> Crisis Group interviews, Tunisian economists, Tunis, May-November 2023. See also Pierre Desorgues, "Tunisie : un rapprochement avec Alger au parfum de dépendance ?", *TV5 Monde*, 18 January 2023.

<sup>107</sup> "Plan 2023-2025 et Vision Tunisie 2035", Ministère de l'économie et de la planification, République Tunisienne, January 2023. See also "Crise du phosphate : la Tunisie passe du statut de producteur à celui d'importateur", *Anadolu Agency*, 2 November 2020.

<sup>108</sup> Tunisia produces around 30,000 barrels of oil per day. But Saïed supporters claim it can gain control of the El Bouri offshore oil field (30,000 barrels per day), which has belonged to Libya since the 1980s, when Tunisia lost it in international arbitration; they suggest that Tunisia might get the field back by diplomatic means or through international litigation. Crisis Group telephone interviews, Saïed supporters, April 2023. See also Frida Dahmani, "Kaïs Saïed veut disputer à la Libye le gisement pétrolier d'El Bouri", *Jeune Afrique*, 22 March 2023.

<sup>109</sup> Imen Nouira, "Restriction des importations : que cherche à faire le gouvernement ?", *Business News*, 12 October 2022.

<sup>110</sup> Crisis Group interviews, Saïed supporters, Tunis, Marseille and by telephone, January-April 2023. See also Christopher Schenk, et al., "Project Assessment of Undiscovered Conventional Oil and Gas Resources of North Africa", U.S. Geological Survey, 2012.

<sup>111</sup> Crisis Group telephone interviews, economists, September 2023. See also Snaije and Ghilès, "Tunisia's Choice", op. cit. See also "Rapport sur le projet de budget de l'Etat pour l'année 2024",

able to make these repayments thanks – for example – to an increase in tourism revenues and remittances, it is unclear if it could remain solvent in the following years, given the structural economic problems that continue to undermine its growth potential.

In addition to denying Tunisia the IMF funding itself, a no-agreement scenario would severely limit the amount of other foreign exchange reserves available to the country. Tunisia would not be eligible for continuation of EU macro-financial assistance, which is conditional on a credit arrangement with the IMF and carrying out the attendant reforms. Further, the European Commission would be unable to borrow money on financial markets at a subsidised rate based on an IMF credit guarantee and lend it to Tunisia on favourable terms. By contrast, the EU was able to borrow €600 million on behalf of Tunisia in 2021 and 2022.

Moreover, unless revenues from oil and phosphate exports, worker remittances and tourism were to somehow rebound beyond the rosier expectations, or global interest rates decline significantly and reduce Tunisia's external debt repayments, the no-agreement scenario would compound the current crisis, exacerbating inflation and shortages of basic goods in the market. Without new foreign loans, faced with a sharp increase in domestic debt and vulnerable to external shocks, the country could face a very high risk of default as early as 2024 or 2025. Faced with increasingly stark choices between debt servicing and domestic spending, the president could opt for a strategic default, ie, a decision to stop making repayments followed by negotiations to restructure the country's external debt.

### C. *The Consequences of Default: How Bad Would It Be?*

#### 1. Economic consequences

In addition to arguing that it should be possible to avoid default without a new IMF facility, Saïed's supporters – and some like-minded economists – also argue that a foreign debt default might not be so bad. Specifically, they argue that the socio-economic impact of this kind of default, followed by a debt restructuring, would be limited and thus tolerable.<sup>112</sup>

First, in the event of a default, said several Tunisian and European economists, the government could tap into foreign currency reserves that were previously earmarked for debt repayment.<sup>113</sup> Total reserves reached 117 days of imports by September, their highest level since 2022, mainly thanks to the August Saudi loan.<sup>114</sup> With this money the government could buy a period of social peace during which it could import essential goods and negotiate a more advantageous debt restructuring plan.<sup>115</sup>

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Ministère des finances, République tunisienne, October 2023 [Arabic]; and "Fitch Affirms Tunisia at 'CCC-', Fitch Ratings, 8 December 2023.

<sup>112</sup> Crisis Group interviews, Tunisian economists and financial analysts, Tunis, Paris and by telephone, 2022-2023.

<sup>113</sup> Crisis Group interviews, Tunisian and European economists, Tunis, Paris and by telephone, 2022-2023.

<sup>114</sup> "Le crédit saoudien fait monter les réserves en devises à 109 jours soit leur niveau le plus haut depuis septembre 2022", Tustex, 18 August 2023. See also "Daily monetary and financial indicators", Central Bank of Tunisia, 8 September 2023.

<sup>115</sup> Crisis Group interviews, Tunisian economists, Tunis, Marseille and by telephone, January-May 2023.

Secondly, overall, pro-Saïed observers and economists believe that defaulting on foreign debt would not automatically or immediately lead to a sharp drop in the exchange rate and thereby bankrupt Tunisian banks. They say that despite their low rating, these banks, highly exposed to domestic debt, are much less exposed to foreign debt than, for example, Lebanese banks, which have gone bust amid Lebanon's financial crisis. In March, foreign-currency government bonds made up less than 20 per cent of Tunisian banks' assets (versus 57 per cent in Lebanon), compared with 51 per cent of dinar-denominated treasury bills and local currency bonds. Moreover, according to this line of argument, even if a major devaluation is still likely, the risk of an uncontrollable exchange rate slide is limited, because the dinar is not a freely convertible currency.<sup>116</sup>

Nevertheless, these views seem to short-sell or overlook a number of considerations that suggest foreign debt default could well spin out of control.

Notwithstanding efforts to minimise the issue, ballooning domestic debt levels are highly concerning. As several Tunisian economists point out, many major private and state-owned companies, such as the grain office, are largely indebted to domestic banks in ways that may not be fully visible to foreign actors. Over the past several months, the finance ministry has failed to compensate private and state-owned enterprises that produce subsidised basic goods. Absent these government transfers, local companies have continued to finance their operations by borrowing more funds from Tunisian banks.<sup>117</sup> A default on foreign debt could spread to domestic debt if the state is no longer able to borrow and service the latter, and prefers not to print money to cover its needs because of the risk of hyperinflation (discussed below).<sup>118</sup> Failure to make payment on the debt held by state-owned enterprises and other state entities (estimated to be almost 30 per cent of GDP) could "destabilise the banking sector", a former senior civil servant said, potentially provoking a run on the banks, with unforeseeable consequences.<sup>119</sup>

The risk of an inflationary spiral would also be high. Even absent a collapse in the exchange rate Tunisia might experience currency devaluation due to a loss of investor confidence, leading to increased import costs and potential inflation. As indicated above, if the Central Bank were to print more money in order to compensate for the loss of credit in the aftermath of the default, it could contribute to inflation, while the loss of access to foreign capital would intensify economic uncertainty, potentially triggering speculative activities and further inflationary pressures.<sup>120</sup> Pressure to

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<sup>116</sup> "Tunisia: Request for Purchase Under the Rapid Financing Instrument – Press Release; Staff Report; and Statement by the Executive Director for Tunisia", IMF, 14 April 2020.

<sup>117</sup> Crisis Group interviews, Tunisian economists and financial analysts, Tunis, Paris and by telephone, 2022-2023.

<sup>118</sup> "Tunisian Banks Face Liquidity Risks from Delayed IMF Deal", Fitch Ratings, 6 March 2023. See also "Lebanon an Economy on the Brink of Collapse", *Eco Emerging*, 2020; and "Face à une conjoncture dégradée, les banques tunisiennes prises entre le Marteau et l'enclume", *Jeune Afrique*, 12 October 2023.

<sup>119</sup> Crisis Group interview, former senior civil servant, Tunis, June 2023.

<sup>120</sup> The dismantling of the central bank's independence seems to have already begun. In August, the Sovereign National Current Bloc, a pro-government parliamentary grouping, tabled a bill to amend the central bank's statutes so as to authorise it to finance the government budget. Seif Soudani, "Vers un amendement controversé de la Banque centrale de Tunisie", *Le Courrier de l'Atlas*, 24 August 2023. On 8 September, Saïed criticised the institution's current statutes, which enshrine its

print money is likely to be especially acute if doing so is necessary to pay public-sector wages, since a failure to do so would risk sending millions of disgruntled people into the streets.<sup>121</sup> For this reason, the government will likely do what is necessary to continue to pay them, inflationary consequences notwithstanding.

In addition, a default would automatically lead to a sovereign rating downgrade to “D”, signalling that Tunisia can no longer honour its debt commitments on time.<sup>122</sup> A downgrade would make Tunisian import and export companies unable to get commercial credit and cause the country to lose access to bilateral and multilateral aid. The resulting credit crunch, a Tunisian businessperson predicted, would cause production to plummet, the economy to slide into recession and unemployment to rise.<sup>123</sup>

Finally, the idea that Tunisia could ride out these risks while it moves quickly toward a debt restructuring also seems fanciful. For one thing, this scenario presupposes that the government – which thus far has shown little interest in conversations about restructuring (including with the IMF, which has suggested that they might be a way to pre-empt default) – dramatically changes its tune.<sup>124</sup> For another thing, it presumes that the government would tap into foreign reserves after a default, even though it would still need to build up buffers to manage the debt restructuring phase and its aftermath.

## 2. Other consequences

The economic effects of a default could in turn trigger a cascade of consequences on the social and security fronts. First, economic shocks could anger Saïed supporters, who might take to the streets. The crowds could turn against migrants and other scapegoats, such as pro-Western Tunisians, Westerners and Tunisian Jews.<sup>125</sup> At the vanguard of these efforts might be vigilantes who have already attacked sub-Saharan migrants or those who fought jihadists as part of the Arab Nationalist Guard, a militia backing the Assad regime, during the Syrian civil war. Members of pro-Saïed coordination groups (*tansiqiyat*) might also get involved, though they have never resorted to violence before.<sup>126</sup> Many of these coordination groups are connected to deputies

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independence, in a meeting with the central bank governor. “Alors qu’un grand débat a été ouvert sur son indépendance : Saïed se rend à la Banque centrale”, *Réalités Online*, 8 September 2023. Yet so far it seems that the central bank governor, Marouane Abassi, has managed to push back against these attempts, presumably thanks to support from the army and Tunisia’s Western partners. If approved, the amendment would reduce the government’s interest costs. Several experts warned that this amendment could be the first step toward ending the central bank’s independence. Once the bank is under government control, it would be coerced into buying government bonds. Crisis Group telephone interviews, Tunisian economists, September 2023. See also Samir Brahimi, “L’indépendance de la Banque centrale de Tunisie : un débat à recentrer”, *Business News*, 12 June 2023.

<sup>121</sup> Crisis Group interviews, Tunis and Sfax residents, 2019-2022.

<sup>122</sup> “What is a D credit rating?”, Capital.com; and “Rating Definitions”, Fitch Ratings.

<sup>123</sup> Crisis Group telephone interview, April 2023. See also Jerome Roos, *Why Not Default: The Political Economy of Sovereign Debt* (Princeton, 2019).

<sup>124</sup> Crisis Group interviews, Tunisian economists and financial analysts, Tunis and by telephone, January-September 2023.

<sup>125</sup> Crisis Group interviews, Tunis, Kairouan and Sfax residents, civil society activists, Tunis and by telephone, January-November 2023. See also Crisis Group Commentary, “The Gaza War Reverberates across the Middle East”, 4 November 2023.

<sup>126</sup> The Arab Nationalist Guard is a Nasserist paramilitary group operating in Syria on the regime’s side. See “Tunisia’s ‘Arab nationalists’ fight with Assad in Syria: Official”, *Zaman al-Wasl*, 14 February

elected at the end of January, as well as regional governors, local administrators and security personnel.<sup>127</sup>

Secondly, the breakdown of the formal economy could create new incentives to engage in illicit activities, possibly violent ones, as happened in the first half of the 2010s.<sup>128</sup> Smuggling in border regions could be particularly lucrative. Black-market trade in synthetic pills, cannabis resin, cocaine and their derivatives is already on the rise, noted a former interior ministry official.<sup>129</sup> The ripple effects of a default could also fuel petty corruption within the security forces – already a widespread reality – and growth in the illegal migration industry.<sup>130</sup>

Thirdly, say former government officials, there would be a heightened risk of clashes over the control of increasingly scarce resources. For example, the security of supply chains – warehouses and delivery trucks – could be in danger, particularly in peripheral working-class neighbourhoods and rural areas.<sup>131</sup> Land could also become the cause of local tensions. Individuals exploiting state-owned land could find themselves facing off against members of “communitarian companies” keen to promote their agricultural activities in the same areas, as was the case in the Kairouan region in early 2023.<sup>132</sup>

Fourthly, there is some risk – albeit remote – that in the face of a downward economic spiral the U.S.-trained officer corps in the Tunisian military could decide that the country needs a reset.

Finally, instability in Tunisia, in whatever form it takes, is likely to drive further irregular migration to Europe. In 2022, 14,000 sub-Saharan migrants and 18,000 Tunisians left clandestinely for Italy, and many more have departed in 2023 to date.<sup>133</sup> Several villages have already seen their population of young men decline significantly as a result of this phenomenon.<sup>134</sup> Yet, since 2020, according to an NGO employee, migration has also included young women and entire families, including those with regular salaries, which shows that the desire to leave Tunisia is widespread even among the middle classes.<sup>135</sup>

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2017. The *tansiqiyat* are spontaneous pro-Saïed groups. They aim to replace political and trade union organisations by conveying local and regional grievances to the president, lodging complaints against civil servants suspected of corruption and organising demonstrations in support of Saïed. Crisis Group interviews, Tunis, Kairouan and Sfax residents, civil society activists, Tunis and by telephone, January–November 2023.

<sup>127</sup> Crisis Group interviews, Tunis, Kairouan and Sfax residents, civil society activists, Tunis and by telephone, January–November 2023.

<sup>128</sup> Crisis Group telephone interviews, journalists and former senior government officials, April 2023. See also Crisis Group Middle East and North Africa Report N°148, *Tunisia's Borders: Jihadism and Contraband*, 28 November 2013.

<sup>129</sup> Crisis Group telephone interview, former interior ministry official, February 2023.

<sup>130</sup> See “Abuse, Corruption and Accountability: Time to Reassess EU and US Migration Cooperation with Tunisia”, Refugees International, 16 November 2023.

<sup>131</sup> Crisis Group interviews, former senior government officials, Tunis, March 2022.

<sup>132</sup> Crisis Group interviews, Tunis, Kairouan and Sfax residents, Tunis and by telephone, January–April 2023.

<sup>133</sup> See “Statistiques migration 2023”, FDTES, 9 November 2023. See also “L’Italie et la Tunisie signent un accord sur l’accueil de travailleurs migrants tunisiens”, *Info-Migrants*, 24 October 2023.

<sup>134</sup> Crisis Group interviews, Tunis, Kairouan and Sfax residents, Tunis and by telephone, January–April 2023.

<sup>135</sup> Crisis Group interview, NGO official, Tunis, May 2022.

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## V. Preserving Domestic Stability

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Tunisia faces serious risks of violence due to the president's inflammatory rhetoric, his stridently nationalist agenda and state repression of his opponents against the backdrop of deteriorating living conditions for most of the population. In this dangerous mix, a default that causes cascading economic effects has the potential to fuel widespread unrest.

As Crisis Group has previously observed, Western donors have only imperfect choices when it comes to policy toward Tunisia.<sup>136</sup> There are important principled and practical reasons to press for both economic and governance reforms that Saïed has resisted. For the reasons discussed, it is hard to imagine the country finding durable stability without a serious reform effort, and donors need to continue making that clear. Still, applying too much pressure risks a backlash. Because Saïed and his supporters have set their cap against perceived outside meddling, whatever slim chance there may still be to persuade Tunis to strike a deal with the IMF could be lost if outside actors push too hard. The best way forward will therefore require donors to engage in a bit of a balancing act. The following steps might be involved:

- ❑ **A better IMF deal.** Tunisia's Western partners should urge the IMF to offer a revised, more palatable agreement to Saïed, and work with the IMF to try to bring Tunis on board with the arrangement. To increase the chances that the president will accept it, the agreement should offer Tunisia greater flexibility in making structural reforms, such as a more gradual and limited dismantling of fuel subsidies than what the October 2022 agreement entailed.

The IMF should also take other measures to limit the social costs of an agreement. For example, the IMF should consider reviewing its current debt metrics, by shifting from debt-to-GDP to debt service-to-GDP ratio. Insisting that Tunisia significantly reduce its debt-to-GDP ratio – implying deep spending cuts with considerable recessionary effects – would result in more aggressive fiscal austerity measures due to the country's considerable debt and could stir social unrest. By contrast, decreasing the debt service-to-GDP indicator would result in smaller spending cuts and tax hikes; it would enable the government to focus on a smaller component of total debt.<sup>137</sup>

In the same vein, the IMF should also slash surcharges on its financing mechanisms (ie, the extra cost of 200 basis points that the IMF adds to a loan's interest rate once a country exceeds its borrowing quota) to Tunisia to reduce the burden of debt repayments and thus allow for the country's gradual economic recovery.

- ❑ **A continued focus on human rights and democracy.** Even as Western donors chart a pragmatic course for engagement with Tunis when it comes to

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<sup>136</sup> See Crisis Group Commentary, "Steering Tunisia Away from Default", 4 October 2023.

<sup>137</sup> A former IMF research director argued that choosing the appropriate debt metric depends on the country's political and economic conditions. As a debt-distressed country mired in a low-growth trap, Tunisia is unlikely to benefit from applying metrics more suitable for other economies with lower debt burdens or more promising growth prospects. In turn, this approach risks making the debt problem intractable, eventually raising the risk of a default. Olivier Blanchard, "Deciding when Debt Becomes Unsafe", IMF, March 2022.

IMF conditionality, they should not allow discussion of human rights and democratic governance to be crowded off the agenda. While Washington has continued to press for improvements in this realm, the EU (led by Italy) has been increasingly inclined to press Tunis mainly on curbing migration. Yielding to Tunisia's authoritarian drift not only conflicts with the values of many donor states but could undercut prospects for setting the country on a stable course to the extent that grievance builds among those denied an opportunity for a meaningful political voice.

Donors should therefore continue to encourage governance reforms and protection of human rights, framing them as recommendations that can help shore up domestic stability, and be forthright in condemning anti-migrant discourse and violence. In particular, they should call on Saïed to rein in new vigilante groups, who often appear to act outside the security services' control, and to curb violence toward sub-Saharan migrants and other vulnerable groups. Of course, Tunis may resist these suggestions, no matter how they are framed; still, placing the focus on stability rather than principles and values may evoke a less negative reaction and create more space for modest progress.

- ❑ **Expansion of the G7 Plus platform.** Western governments should expand the Group of Seven Plus (ie, the G7, the European Union, Belgium and Spain) consultation mechanism on Tunisia to include political, economic and social issues. This forum, created in 2015, entails regular meetings of G7+ ambassadors, security experts and Tunisian government officials, with a view to better coordinating international cooperation.<sup>138</sup> Currently the focus of the forum is on security matters. A broader remit could allow for more opportunities at troubleshooting or, at least, information sharing.
- ❑ **Cross-regional coordination.** Also in the interest of better coordination, Western governments should set up a formal or informal mechanism for regular consultation with the African Union (including perhaps on the margins of the G20 where it has recently become a member) and potentially other regional organisations such as the Arab League and Gulf Cooperation Council concerned with the deteriorating economic, social and political situation in Tunisia. If these groups can arrive at common positions, they may be able together to influence the behaviour of states, such as Algeria, that are right now helping to insulate Tunis from international pressure. Even if Algeria remains an outlier, there would be value in minimising divergences across these groups, and paving the way for a less dissonant international approach.
- ❑ **Preparations for no-deal scenarios.** The U.S. and EU member states will need to prepare for the possibility that Saïed continues to reject an IMF agreement, notwithstanding efforts to make the terms more palatable. In this event, as discussed, the risk of default on Tunisia's debt will increase significantly. If the country does default, Western countries and international financial institutions will need to offer a helping hand. The emergency assistance that would be required

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<sup>138</sup> This mechanism consists of regular meetings of diplomats from G7 countries plus the EU, various experts and Tunisian officials, with a view to better coordinating international cooperation vis-à-vis Tunisia. Frank Peinaud, "Le G7 élargi en Tunisie, un modèle de coopération multilatérale sécuritaire inédit", *B2 Le quotidien de l'Europe géopolitique*, 24 August 2018.

under these circumstances would be for different purposes than the sort of financing available should the IMF loan be concluded: the idea would be to provide support for basic necessities such as wheat and medicine in order to prevent a humanitarian crisis, which could erupt into violent unrest.

## **VI. Conclusion**

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Faced with the risk of an economic meltdown and turmoil in Tunisia, the IMF and the country's donors and other partners should continue encouraging President Saïed to stave off default by working with the IMF to conclude a revised deal. They should also encourage the Fund to show as much flexibility as it can responsibly offer in order to come to terms, recognising that too much stringency may both make the deal impossible for Tunis to accept politically and potentially dangerous should belt-tightening measures create social unrest. But although the arguments in favour of a deal far outweigh those against, outside actors should be prepared for the possibility that President Saïed will take his chances with default, banking on the prospect that public anger will focus more on the West than on him.

Even as they try to coax Tunisia and the IMF toward a deal, donors should be prepared for their efforts to fall flat, and be ready to provide emergency assistance to help the country deal with the potentially cascading impact of default. They should also continue to preserve space on their agenda for encouraging human rights and governance reform, arguing that these measures can help make the state more stable and resilient, even if Tunis prefers to distance itself from the underlying principles as it asserts its sovereignty and autonomy from the West.

**Tunis/Brussels, 22 December 2023**

## Appendix A: Map of Tunisia



## Appendix B: About the International Crisis Group

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The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early-warning bulletin, providing a succinct regular update on the state of play in up to 80 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, [www.crisisgroup.org](http://www.crisisgroup.org). Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is co-chaired by President & CEO of the Fiore Group and Founder of the Radcliffe Foundation, Frank Giustra, as well as by former Foreign Minister of Argentina and Chef de Cabinet to the United Nations Secretary-General, Susana Malcorra.

Comfort Ero was appointed Crisis Group's President & CEO in December 2021. She first joined Crisis Group as West Africa Project Director in 2001 and later rose to become Africa Program Director in 2011 and then Interim Vice President. In between her two tenures at Crisis Group, she worked for the International Centre for Transitional Justice and the Special Representative of the UN Secretary-General in Liberia.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in seven other locations: Bogotá, Dakar, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Addis Ababa, Bahrain, Baku, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Jerusalem, Johannesburg, Juba, Kabul, Kyiv, Manila, Mexico City, Moscow, Seoul, Tbilisi, Toronto, Tripoli, Tunis, and Yangon.

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Crisis Group also holds relationships with the following foundations and organisations: Carnegie Corporation of New York, Friedrich Ebert Stiftung, Global Challenges Foundation, Henry Luce Foundation, John D. and Catherine T. MacArthur Foundation, National Endowment for Democracy, Open Society Foundations, The David and Lucile Packard Foundation, Ploughshares Fund, Robert Bosch Stiftung, Rockefeller Brothers Fund, Stand Together Trust, Stiftung Mercator, and Wellspring Philanthropic Fund.

**December 2023**

## Appendix C: Reports and Briefings on the Middle East and North Africa since 2020

### Special Reports and Briefings

*COVID-19 and Conflict: Seven Trends to Watch*, Special Briefing N°4, 24 March 2020 (also available in French and Spanish).

*A Course Correction for the Women, Peace and Security Agenda*, Special Briefing N°5, 9 December 2020.

*Ten Challenges for the UN in 2021-2022*, Special Briefing N°6, 13 September 2021.

*7 Priorities for the G7: Managing the Global Fallout of Russia's War on Ukraine*, Special Briefing N°7, 22 June 2022.

*Ten Challenges for the UN in 2022-2023*, Special Briefing N°8, 14 September 2022.

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