

Tunisia leading the fight against 'odious debts'

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Tunisia in the headlines... again

Tunisia has featured perennially in the headlines in economic development reports as one of the African leading economies in terms of economic performance and political stability over the past decades. It has consecutively ranked among the most competitive [1] and diversified economies in the continent.¹ It enjoyed moderate but steady growth (averaging 4.5% over the last ten years), which is a major achievement in a continent where growth is highly volatile. Poverty rates are low, education levels high, infrastructure and services are plentiful and of good quality. To most external observers, there was also substantial agreement that Tunisia enjoyed political stability under the last two regimes (under Habib Bourguiba and Zine El-Abidine Ben Ali).

But starting from January 2011, Tunisia took the limelight for completely different reasons. The country witnessed an unprecedented regime change, a genuine revolution. Unlike so many other regime changes in African history, the change in Tunisia was led by unarmed civilians claiming their right to political freedom and a decent economic life. This set off the Arab Spring that would subsequently sweep through North Africa and the Middle East, toppling strong regimes in Libya and Egypt. The events proved that one can suppress people's demands for some time, and even a long time, but that no regime can silence the people forever.

Since mid-2012 Tunisia is back in the headlines again. This time, the country is catching the media's attention because of the tough stance taken by the new Government regarding the debts inherited from the Ben Ali regime.^{2,3} President Moncef Marzouki has demanded an audit of Tunisia's external debts, to establish whether the funds benefited the people of Tunisia by financing bona fide development programs. The audit would thus distinguish between debts which are legitimate and therefore should be honored, and those which served the interests of the former rulers and their associates and therefore should be repudiated.

In signaling such a stand about external debts, the new Tunisian government is setting a historic precedent in Africa that would serve the interests of not only the people of indebted African nations but also those of Africa's creditors and donors. In fact Tunisia stands the best chance on the continent of scoring such a historic achievement given the domestic and international context.

In the name of the wellbeing of future generations

Challenging the legitimacy of past public debts is naturally an arduous route for any government, let alone a new national leadership seeking to consolidate post-revolution democracy and peace. Yet it is strong proof of the new leadership's commitment to the wellbeing of the country and its future generations. Although Tunisia is not a heavily indebted country in absolute terms, it still faces relatively heavy costs of servicing past debts in terms of foregone public spending on health, education and rural development as stressed by President Marzouki. The public's expectations of 'revolution dividends' are running high; Tunisian people expect jobs and social services. Therefore the social opportunity costs of paying past debts are indeed very high. Hence it is reasonable for the

new government to seek assurance that the debts to be paid are legitimate. Paying debts that served to line up the pockets of former rulers and their domestic and foreign acolytes would unjustly mortgage the welfare of future generations.

As soon as Ben Ali was deposed, the media was flooded by discoveries of massive amounts of wealth held by himself, his family relatives and close associates both in the country and abroad, including Switzerland, Canada, United Kingdom, Luxembourg, the Middle East (Qatar), and Latin America (Brazil and Argentina). The debt audit requested by the new Government would establish whether this wealth was not fueled by embezzlement of borrowed funds, in which case such loans would be illegitimate and consequently 'odious'. By taking a stand against servicing 'odious' debts, the new Government is choosing to protect the wellbeing of future generations even at the risk of making Tunisia's creditors nervous. But in fact there is no reason why creditors should worry, for the new President has made it crystal clear that legitimate debts will be honored.

Some promising signs of goodwill

Governments in developed countries where stolen wealth is amassed have shown some goodwill in freezing some of the assets in the wake of the fall of the regime in Tunisia, Libya and Egypt. The government of Switzerland blocked € 48.7 million belonging to Tunisian former ruling family and it is cooperating with the Tunisian government in tracking down illicit wealth.⁴ Belgium has declared that it will cancel all the debts that will be found to be odious following the debt audit. European Union Deputies have called for a moratorium on debt payment and an immediate audit of Tunisian debts.⁵

The United Nations are leading efforts to reform lending and borrowing to increase transparency and accountability and ensure that loans are effectively used to finance development. *The Principles on Responsible Lending and Borrowing* seek to accomplish this goal [2].

At the continental level in Africa, a High Level Panel has been set up by the United Nations Economic Commission for Africa under the leadership of former South African President Thabo Mbeki to provide suggestions on ways to stem capital flight and on strategies for repatriation of Africa's stolen assets. The success of these efforts at the continental depends critically on strong commitment by national leadership.

In this respect the case of Tunisia is an opportune 'natural experiment'. The country has a new leadership with no 'excess luggage' and therefore with no intrinsic interest in covering up the misdeeds of past governments. It has a clean state to establish new, transparent relationships with the country's creditors and donors on the one hand and with the Tunisian people on the other hand. In other countries in Africa, the question is whether the incumbent governments are ready and willing to take this historical move and be on the side of the people and the future.

But there is deafening silence in the 'havens'

Despite these positive signs of goodwill internationally and even with determined leadership in Africa, there is still a major challenge, and this is the big elephant in the room, namely the opacity of the shadow international financial system. Tracking down illicit financial flows from Africa and repatriating stolen wealth requires cracking safe havens and breaking down the culture of baking secrecy that facilitates illicit financial. Thus far, banks in offshore financial centers have remained silent. But this is hardly surprising. After all they are in the business of making profit on money. Enforcing responsible behavior by banks requires governments in receiving countries to use their legal systems to enforce the laws on anti-corruption and anti-money laundering.

For Africa to win the fight against illicit financial flows it needs cooperation from governments on the other side of the river. By helping Africa keep more of its resources onshore, the global community will also reap the benefits arising from a more sustainable international financial system.

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P.S.

* <http://triplecrisis.com/tunisia-leading-the-fight-against-odious-debts/>

Footnotes

[1] http://www3.weforum.org/docs/WEF_GCR_Africa_Report_2011.pdf

[2] <http://triplecrisis.com/principles-for-prevention-of-sovereign-debt-crises/>