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European Commission

Ex-post Evaluation on: MFA Operations to the Southern Neighbourhood Countries of Tunisia and Jordan (2016-2019)

Final Report - Annexes

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September 2021

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EUROPEAN COMMISSION

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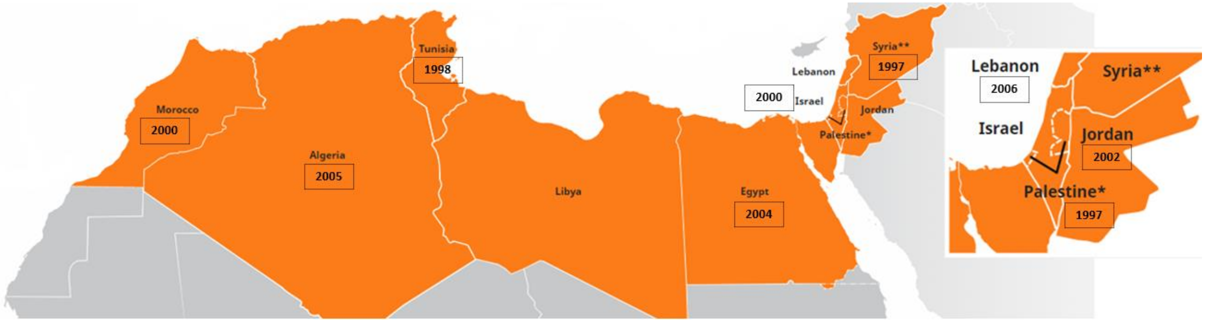
A1.1 Fiche on the EU's Southern Neighbourhood

The EU initiated with the Southern Neighbourhood a privileged partnership back in 1995 with the launch of the Euro-Mediterranean Partnership (also called Barcelona process). The objectives were covering political, economic and cultural aspects.

As from **2004**, EU cooperation with the Southern Neighbourhood took place in the framework of the **European Neighbourhood Policy (ENP)**, launched following the accession of ten new countries to the EU. The ENP provides a framework for the relationship between the EU and its Eastern and Southern neighbours. Its overall objective is to promote stability, security and well-being in the region, in the mutual interest of the EU and its neighbours. From the Southern Neighbourhood, the ten partner countries are : **Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine*, Syria and Tunisia.**

The neighbouring policy is building upon pre-existing bilateral agreements between the EU and its partners (called Partnership and Cooperation Agreements or more recently **Association Agreements**). Those bilateral agreements are implemented in a differentiated manner depending on the countries, through commonly agreed Action Plans, which set out the objectives and priorities to be pursued during the next 3-5 years as well as concrete benchmarks and timetables for their achievement. Once commitment to shared values is achieved, the EU supports the encouragement of effective implementation of political, economic, social and institutional reforms in partner countries, and more broadly the fulfilment of the ENP objectives, through financial support as well as political and technical cooperation. Areas of cooperation can include notably good governance, socio-economic development, migration and support to refugees, climate change, environment, energy and security.

Figure 1. Countries from the Southern Neighbourhood and year in which Association Agreements were entered into force



Source: EU Neighbourhood (https://www.euneighbours.eu/en)

*Note 1: ** Syria: The Association Agreement with Syria was suspended to the ongoing conflict. However, the country is eligible for cooperation under the ENI, that may be resume once the situation improves.*

Note 2: The Association Agreement is a legal framework that governs bilateral cooperation in matters of political, trade, social, cultural and security issues. The legal basis for the conclusion of the association agreements is provided by art. 217 TFEU (former art. 310 and art. 238 TEC-1958).

Note 3: This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

The ENP is mostly a **bilateral** policy, with funds channelled through the European Neighbourhood Instrument (ENI), (which will become the Neighbourhood, Development and International Cooperation Instrument (NDICI) in the future). It is complemented by regional, neighbourhood-wide and Cross-Border cooperation programmes. For the

Southern Neighbourhood however, there is no equivalent to the Eastern Partnership[1] under the ENP itself. The **Union for the Mediterranean** (UfM), launched in **2008** to revive the Euro-Mediterranean Partnership, de facto fulfills this role of forum through which to develop cooperation and multilateral dialogue with the Southern Neighbourhood, but as a separate intergovernmental organisation and with a slightly different geographical coverage[2].

Since the Arab Spring, the EU has strengthened its efforts towards the promotion of a deep and sustainable democracy and an inclusive economic development in the region. In response to the Syrian crisis and the reverberations it has, the EU has also reinforced its political, financial and technical support in the region. In total, for the period 2007-2020, the EU has allocated **EUR 20.5 billion** to its Southern Neighbours[3].The EU Regional Trust Fund in Response to the Syrian Crisis, the **'Madad Fund'**[4], has notably been launched to provide support to Syrian refugees, internally displaced persons (IDPs) and local communities in Lebanon, Jordan, and Egypt. In parallel, **mobility partnerships** have been concluded with Morocco, Tunisia and Jordan[5], while negotiations on visa facilitation agreements and readmission agreements are hold with Morocco, Tunisia, Jordan and Lebanon. Other regional and bilateral initiatives on migration and mobility are being funded under the EU Emergency Trust Fund for Africa, the **North Africa window**, in Algeria, Egypt, Libya, Morocco and Tunisia.

Over the recent years, the EU has also aimed at strengthening trade links with the MENA region. It received from the Council of the European Union negotiating directives for Deep and Comprehensive Free Trade Areas (DCFTAs) with Morocco, Jordan and Tunisia. The total value of goods exchanged between the EU and the region was doubled between 1999 and 2019. It now represents more than €185 million annually[6]. Now there are wide disparities across the region in terms of the depth of their trade links to the EU and in general has stronger links with Maghreb countries. While Tunisia depends on the European market for around 70% of their goods exports, the EU is not a main partner for Jordan (it represents 3% of its exports)[7].

In February 2021, twenty-five years after the beginning of the Barcelona process, the EU has just reiterated the strategic importance of its Partnership with the Southern Neighbourhood[8].

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[1] a framework for the relationship between the EU and the countries in Eastern Europe and the Southern Caucasus as a whole launched in 2009

[2] In addition to the 10 referred to by the EU as the Southern Neighbourhood, the UfM covers as well, Albania, Bosnia and Herzegovina, Mauritania, Monaco, Montenegro and Turkey.

[3] https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eu-southern-neighbourhood-partnership_en.pdf

[4] EU Regional Trust Fund in Response to the Syrian crisis. Available at: https://ec.europa.eu/trustfund-syria-region/content/home_en

[5] Mobility partnerships, visa facilitation and readmission agreements. Available at: https://ec.europa.eu/home-affairs/what-we-do/policies/international-affairs/southern-mediterranean_en

[6] The EU and its Southern Neighbourhood (February 2021). Available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eu-southern-neighbourhood-partnership_en.pdf

[7] 2019 Data on bilateral trade from the European Commission, Directorate General Trade.

[8] See Joint Communication: Renewed partnership with the Southern Neighbourhood - A new agenda for the Mediterranean Joint Communication: Renewed partnership with the Southern Neighbourhood - A new agenda for the Mediterranean. Available at: https://eeas.europa.eu/headquarters/headquarters-homepage/92844/joint-communication-southern-neighbourhood_en

Table 1. Evolution of main economic indicators of ENP countries in the MENA Region

	GDP per capita (2019) $	GDP growth (2010-2016) %	GDP growth (2017-2018) %	GDP growth (2019-2020) %	Unemployment (2019) %	Youth unemployment (2019) %	Volume of bilateral trade with EU in billion euro, 2017	Percentage of total goods exports to EU-27, 2019	Tourism sector total contribution to GDP (as a percentage of GDP)	EU official development assistance as a percentage development assistance received 2017-2018 *	Official development assistance as a percentage of gross national income, 2018	Inflation (end of period) 2019 (% change)	General government net lending/borrowing 2019 (% GDP)	Public deficit 2019 (%)	General government gross debt 2019 (% of GDP)
Algeria	3898	21.40%	2.72%	-5.46%	11.5	30	39.9	56	6	88	0.1 (2017)	2.43%	-5.64%	-5.64%	46.28%
Egypt	3044	20.45%	9.61%	3.55%	11	31	27.9	31	9	40	0.8	9.36%	-7.41%	-7.41%	83.80%
Israel	43603	23.54%	7.19%	-5.88%	4	7	44.7	21.1	6	0	0	0.60%	-3.91%	-3.91%	59.98%
Jordan	4426	16.70%	4.06%	-5.00%	15	35	5.3	3	16	31	6	0.68%	-5.98%	-5.98%	78.02%
Lebanon	7661	11.93%	-1.09%	-25.00%	6	17.5	9.6	8.8	18	50	2.5	6.96%	-10.50%	-10.50%	174.48%
Libya	6055	-82.09%	93.34%	-66.65%	18.5	50.5	15.2	57		72	0.6	4.56%	2.19%	2.19%	0.00%
Morocco	3332	22.92%	7.35%	-6.97%	9	22	45.6	63	12	58	0.7	1.03%	-4.13%	-4.13%	65.78%
Tunisia	3293	10.61%	4.69%	-7.04%	16	36	23.9	70	14	68	2.1	6.08%	-3.89%	-3.89%	72.33%
Palestine	3198				26	42	0.4	0.6		39	13.2				

Source: IMF data and Centre for European Reform (2020) *'Rethinking the EU's approach towards its southern neighbours'* July 2020. Available at https://www.cer.eu/sites/default/files/pbrief_neighbourhood10.7.20.pdf

Note: EU official developmental assistance is counted here as the sum of ODA from EU institutions and EU Member States

A1.2 Fiche on the Factors affecting EU leverage

Generally speaking and looking at the factors affecting leverage, the EU leverage should be higher in Tunisia as opposed to Jordan.

Regional trends in Official Developmental Assistance (ODA)

In the Southern Neighbourhood region, Tunisia is the aid recipient who is most reliant on EU institutions, who contribute one third of total ODA received by Tunisia and ranked first among top donors. Jordan receives lower amounts from the EU in absolute terms and as an aid recipient, it is also less dependent on EU institutions. EU institutions come fourth in the case of Jordan (after the US, Germany and the United Arab Emirates). Now, the macro significance of ODA is much higher in Jordan (see Table 2).

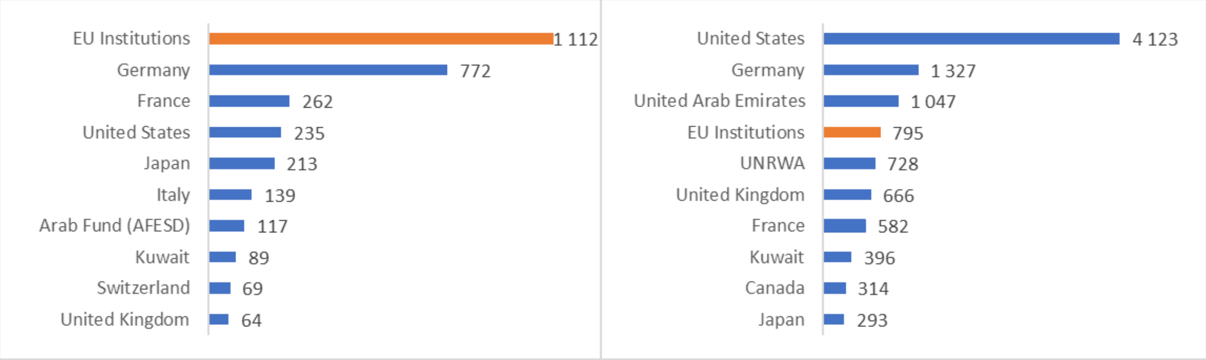
Table 2. ODA in the Southern Neighbourhood

Recipient(s)	Official developmental assistance from EU Institutions (yearly average for 2016-2019), Disbursement data in constant prices (2019 USD millions)	Official developmental assistance from EU Institutions as a share of total ODA received 2016-2019	Official developmental assistance from Team Europe (EU Institutions + Member States) as a share of total ODA received 2017-18	Official developmental assistance as a percentage of gross national income, 2016-2019 average
Morocco	587	25%	58%	1,4%
Tunisia	432	32%	68%	2,1%
Egypt	422	14%	40%	0,5%
Jordan	210	7%	31%	6,6%
Lebanon	175	12%	50%	2,4%
Libya	58	19%	72%	0,7%
Algeria	57	23%	88%	0,1%

Source: OECD, Aid (ODA) disbursements to countries and regions [DAC2a]

Note: ODA from EU Institutions refers to ODA from the European Commission and the EIB. It does not include ODA from Member States.

Figure 2. Top providers of Official Development Assistance to Tunisia (left) and Jordan (right) (disbursements), Total over 2016-2019, USD million



Source: OECD, Aid (ODA) disbursements to countries and regions [DAC2a]

Note: ODA from EU Institutions refers to ODA from the European Commission and the EIB. It does not include ODA from Member States.

Includes bilateral and multilateral inflows. Note that projects executed by multilateral organisations on behalf of donor countries are classified as bilateral flows, since it is the donor country that effectively controls the use of the funds. This explains the low presence of multilateral organisations in the top 10 above. Only aid activities financed from multilateral organisations' regular budgets are recorded under their own name.

Regional trends in Foreign Direct Investment (FDI)

Net FDI inflows are relatively on par in Tunisia and Jordan (Table 3). Latest data however indicate that the share of overall FDI contributed by the EU is (slightly) higher in Tunisia than Jordan (see the table below). More widely, within the MENA region, there are other more important recipients of EU FDI, specifically: Egypt, the United Arab Emirates, Saudi Arabia, Turkey and Israel[291].

The top investor countries in Tunisia and Jordan also differ (Figure 2). In Tunisia, as per the latest FDI statistics, the UAE is the biggest investor, followed by France, Qatar and several other EU Member States, namely: Italy, Germany, Spain, Portugal and the Netherlands. In Jordan, Saudi Arabia, Kuwait and the UAE are among the biggest investors. Compared to Tunisia, the EU constitutes a less prominent investor in Jordan. Only France features among the top FDI contributors.

Table 3. FDI net inflows in the Southern Neighbourhood

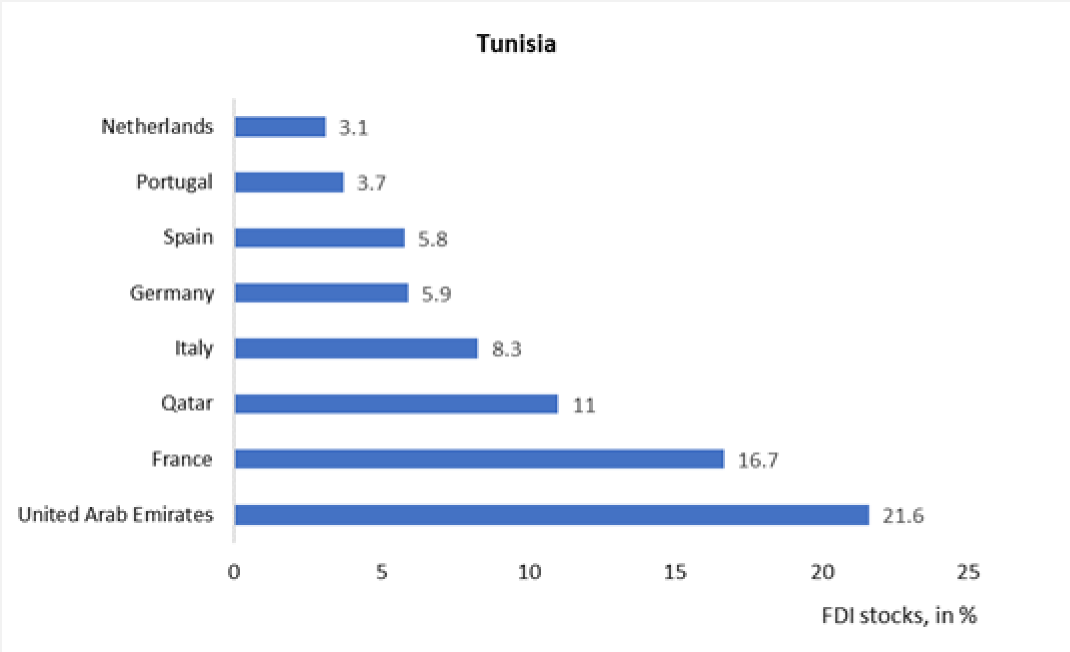
Recipient(s)	Net FDI inflows in billion USD current prices (yearly average for 2016-2019)	Net FDI inflows as a percentage of GDP (yearly average for 2016-2019)	EU FDI in the Southern Neighbourhood - in billion US$ (2019)
Morocco	2.52	2.2%	1.8
Tunisia	0.81	2.0%	0.8
Egypt	8.17	3.0%	3.2

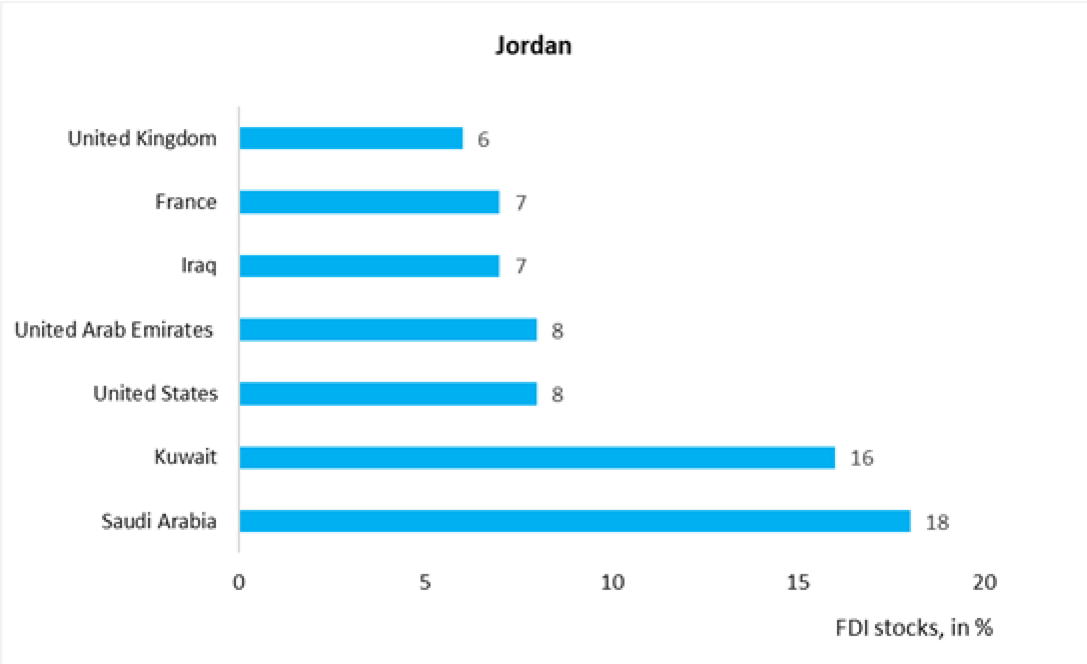
Recipient(s)	**Net FDI inflows in billion USD current prices (yearly average for 2016-2019)**	**Net FDI inflows as a percentage of GDP (yearly average for 2016-2019)**	**EU FDI in the Southern Neighbourhood - in billion US$ (2019)**
Jordan	1.34	3.2%	0.6
Lebanon	2.49	4.7%	n/a
Libya	n/a	n/a	1.4
Algeria	1.43	0.8%	1.3

Sources:

World Bank data; European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/index_en.htm; https://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/index_en.htm; https://ec.europa.eu/trade/policy/countries-and-regions/countries/egypt/index_en.htm; https://ec.europa.eu/trade/policy/countries-and-regions/countries/egypt/index_en.htm; https://ec.europa.eu/trade/policy/countries-and-regions/countries/jordan/index_en.htm; https://ec.europa.eu/trade/policy/countries-and-regions/countries/lebanon/index_en.htm; https://ec.europa.eu/trade/policy/countries-and-regions/countries/libya/index_en.htm; https://webgate.ec.europa.eu/isdb_results/factsheets/country/overview_algeria_en.pdf

Figure 3. Top investor countries, measured by % of FDI stocks held in Tunisia and Jordan respectively (2019)





Sources: santandertrade.com - see: https://santandertrade.com/en/portal/establish-overseas/tunisia/foreign-investment; OECD. 2020. 'OECD Review of Foreign Direct Investment Statistics: Jordan.' Available at: www.oecd.org/investment/OECD-Review-of-Foreign-Direct-Investment-Statistics-Jordan.pdf;

Regional trends in remittances

Over the period 2016-19, Egypt received the highest level of income from remittances in the MENA region, followed by Lebanon and Morocco (Table 4). Tunisia was among the lowest remittance-receiving countries. In addition, compared to Jordan, it received about USD 2.5 billion less in remittances. Nonetheless, Tunisia's share of remittances originating from the EU-27 was much higher compared to Jordan.

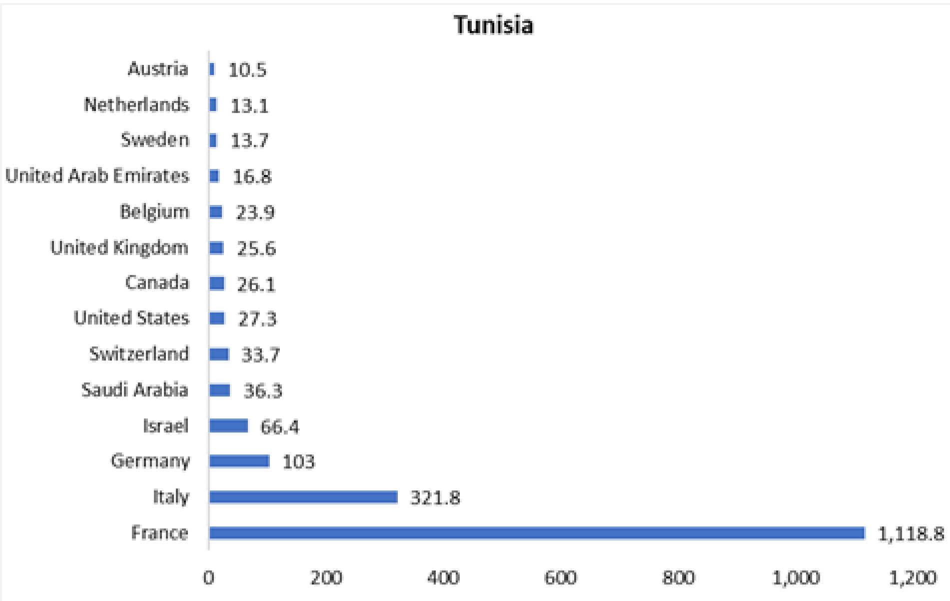
The top remittance-sending countries for Tunisia are mainly in the EU, including: France, Germany, and Italy. In Jordan, remittances predominantly come from the GCC countries, including: Saudi Arabia, the UAE, and Qatar.

Table 4. Remittance flows in the Southern Neighbourhood

Recipient(s)	Remittances received in *million* USD current prices (yearly average for 2016-2019)	Remittances paid in *million* USD current prices (yearly average for 2016-2019)	Net remittances in million USD current prices (yearly average for 2016-2019)	% of remittances originating from the EU-27
Morocco	6,772	123	6,649	88.6%
Tunisia	1,916	27	1,889	88.9%
Egypt	23,906	402	23,504	< 30%
Jordan	4,417	613	3,804	< 30%
Lebanon	7,264	4,490	2,774	n/a
Libya	n/a	727	n/a	n/a
Algeria	1,888	115	1,773	91.6%

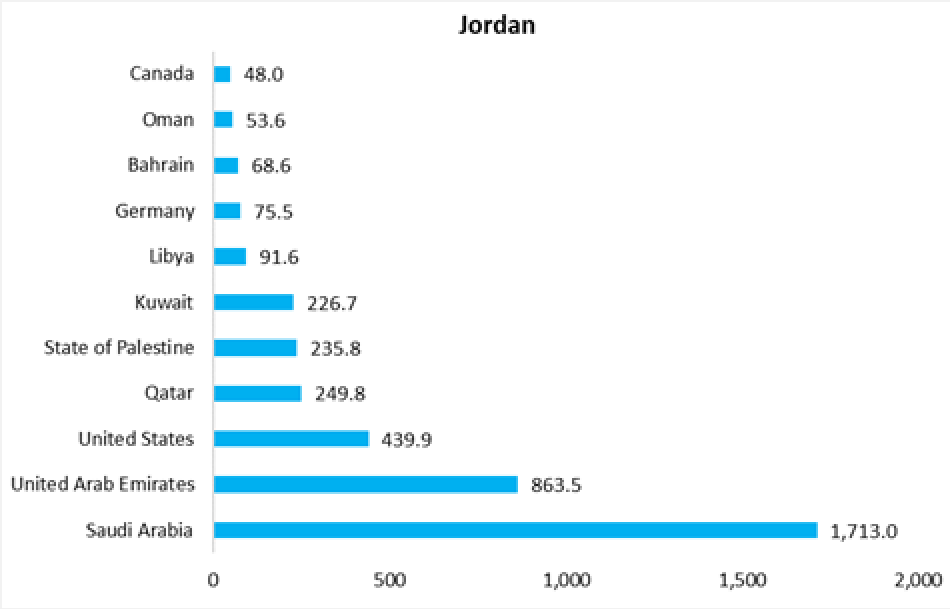
Sources: European Migration Network. 2020. 'Inform # 4 – The Impact of Covid-19 on remittances in EU and OECD countries.' Available at: https://ec.europa.eu/home-affairs/sites/default/files/00_eu_inform4_remittances_2020_en.pdf; European Commission. 2021. 'Remittances in North Africa: sources, scale and significance.' Available at: file:///C:/Users/30205/Downloads/jrc123516_remittances_in_north_africa_04_02_2021_final.pdf; xpressmoney.com. 2018. 'From Jordanians To Jordan – A Remittance Story.' Available at: https://www.xpressmoney.com/blog/industry/from-jordanians-to-jordan-a-remittance-story/

Figure 4. Top remittance-sending countries - Tunisia



Source: countryeconomy.com - latest data (2017) - see: https://countryeconomy.com/demography/migration/remittance/tunisia

Figure 5. Top remittance-sending countries - Jordan



Source: countryeconomy.com - latest data (2017) -
see: https://countryeconomy.com/demography/migration/remittance/jordan

Regional trends in trade

The EU is one of the most important trading partners of the MENA region. Specifically, trade volumes with the EU are the highest in Tunisia, Morocco, Libya and Algeria, though the lowest in Jordan.

Table 5. Trade flows in the Southern Neighbourhood

Recipient (s)	**Value of total exports - in billion USD (yearly average for 2016-2019)**	**Value of total imports - in billion USD (yearly average for 2016-2019)**	**% of exports going to the EU-27**	**% of imports originating from the EU-27**	**% of trade with EU**
Morocco	26.8	47.2	64%	51%	56.0%
Tunisia	14.6	21.1	70.9%	48.3%	57.9%
Egypt	27.3	74.6	21.8%	25.8%	24.5%
Jordan	7.8	19.8	2.1%	20.6%	14.7%
Lebanon	4.9	n/a	9.7%	38.0%	30.3%
Libya	25.0	12.0	n/a	n/a	51.0%
Algeria	32.6	46.6	n/a	n/a	46.7%

Source: World Integrated Trade Solution; European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/morocco/index_en.htm; European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/index_en.htm#:~:text=The%20EU%20is%20Tunisia's%20largest,with%20the%20world%20in%202020l; European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/egypt/index_en.htm#:~:text=The%20EU%20is%20Egypt's%20biggest,%E2%82%AC24.5%

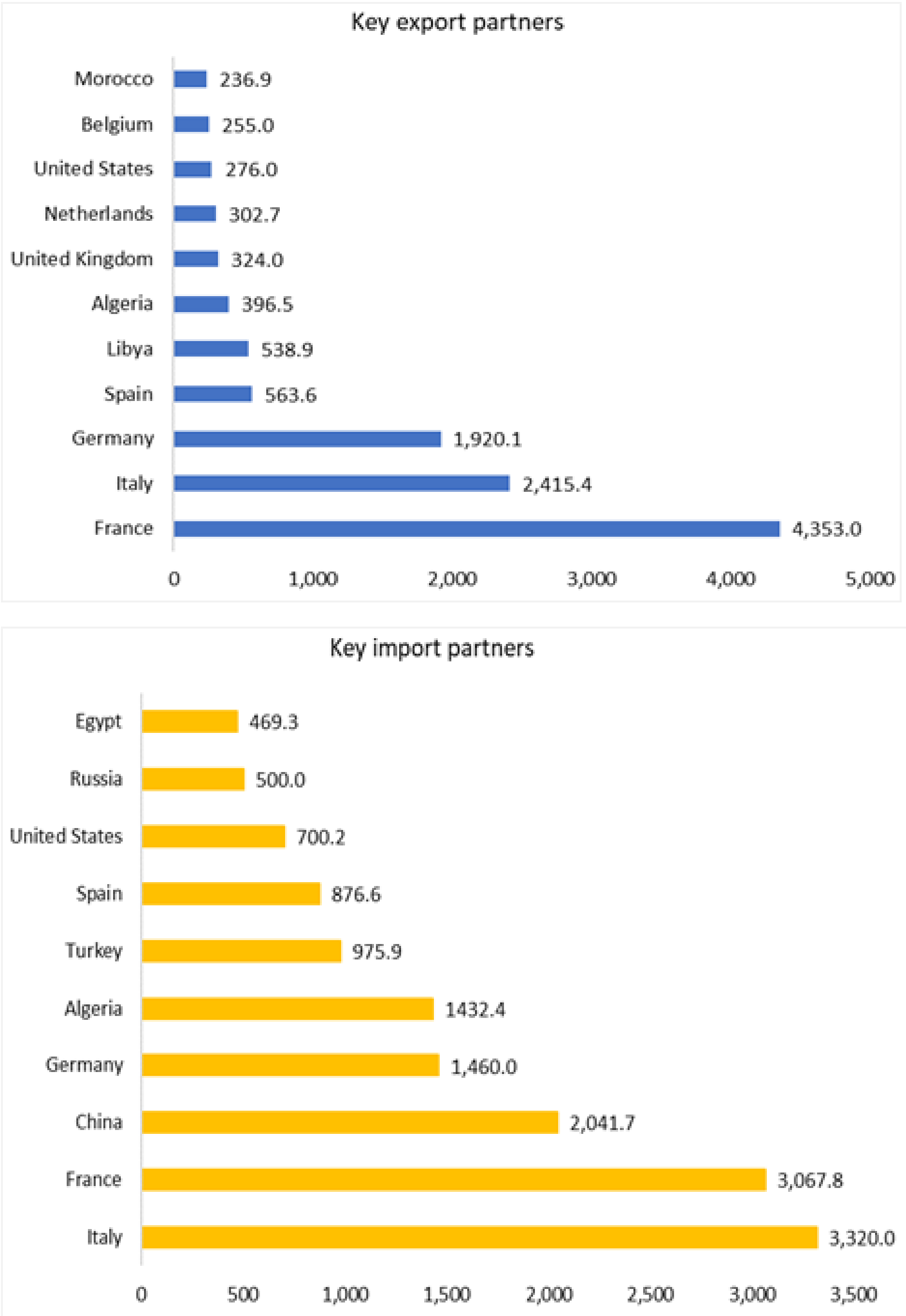
20billion%20in%202020; European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/jordan/index_en.htm#:~:text=Trade%20picture,exports%20went%20to%20the%20EU; European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/algeria/index_en.htm#:~:text=Trade%20picture,(46.7%25%20in%202019); European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/lebanon/index_en.htm#:~:text=Trade%20picture,exports%20went%20to%20the%20EU.; European Commission - see: https://ec.europa.eu/trade/policy/countries-and-regions/countries/libya/index_en.htm#:~:text=The%20EU%20is%20Libya's%20biggest,trade%20in%20goods%20in%202020

The EU is an important trading partner of Tunisia's. A majority of its exports go to various EU Member States, namely: France, Italy, Germany, and Spain (Figure 6). Similarly, Tunisia imports heavily from the EU (Italy, France, and Germany), though China, Algeria and Turkey are also key import partners.

The volume of trade between Jordan and the EU is less important when compared to Tunisia. Jordan's main trade partners are: the United States, Saudi Arabia, India, Iraq, the UAE, Turkey and Egypt.

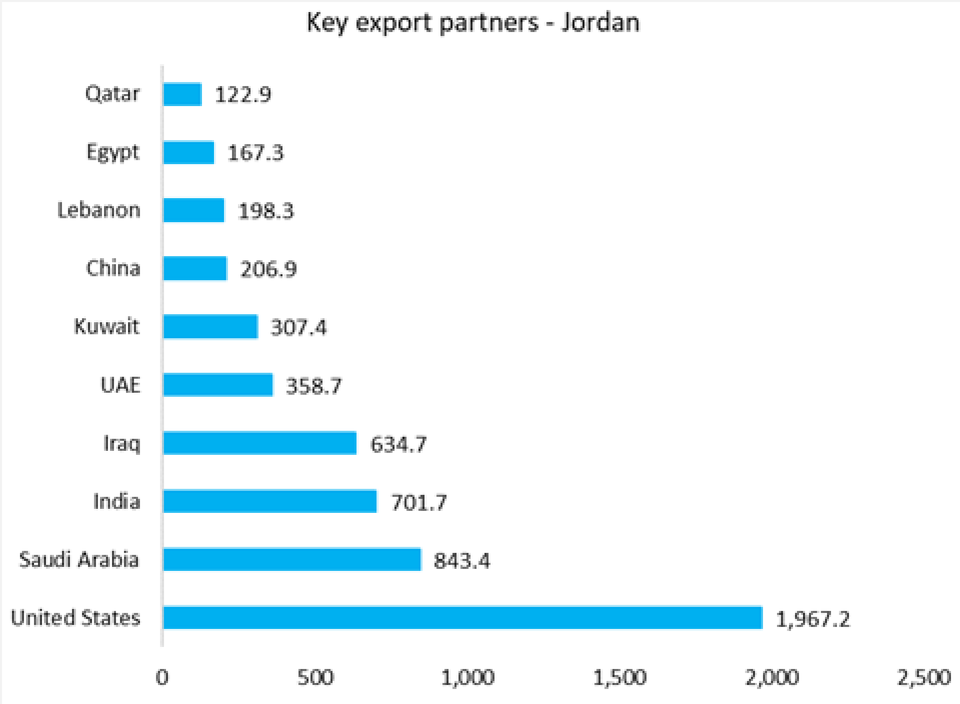
The Council of the European Union adopted negotiating directives for a Deep and Comprehensive Free Trade Area (DCFTA) with both Jordan and Tunisia but negotiations started only with Tunisia290, as Jordan showed limited interest in starting the negotiations (a scheme consisting of the relaxation of the rules of origin was instead put in place).

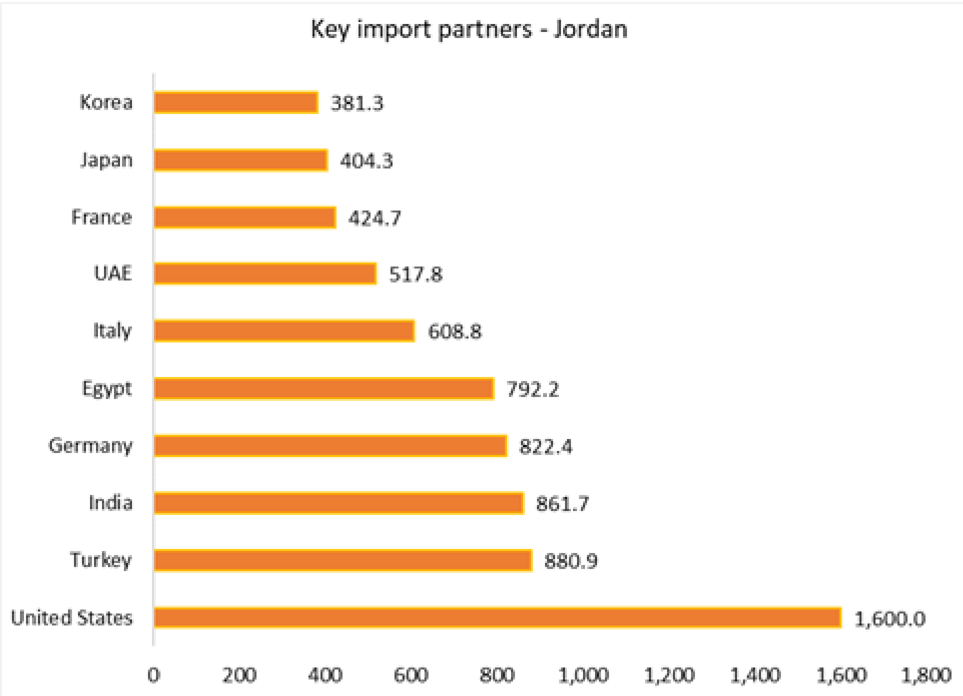
Figure 6. Top trading partners (measured by value of exports and imports, in million USD) - Tunisia



Source: World Integrated Trade Solution - World Bank

Figure 7. Top trading partners (measured by value of exports and imports, in million USD) - Jordan





Source: World Integrated Trade Solution - World Bank

A1.3 Tunisia – country profile

Geographical location

The Republic of Tunisia is bordered by Algeria (to the west and southwest), Libya (to the southeast), and the Mediterranean Sea (to the north and east). Tunisia is the smallest of the North African states, stretching over 165,000 square kilometers (just under one-tenth of the total amount of land occupied by Algeria, the largest of its neighboring countries).

Figure 8. Tunisia geographic location

Source: CIA World Factbook.

Demographic profile

In 2017, Tunisia's population was estimated at 11.4 million people, highly urbanized (67%)[9] and concentrated in its capital city Tunis (1.1 million or 2.3 million including metro area), and a few other major coastal cities including Sfax, Sousse, Kairouan, Bizerte and Gabès.

A vast majority of modern Tunisians are of Arab-Berber descent[10] and Muslims. Arabs presently make up for 98% of the Tunisian population. Berbers, on the other hand, account for a much smaller proportion of the population– an estimated one%.

Economic and social structure

Tunisia has a market-oriented economy with a historical dependency of reliance on natural resources (notably crude oil and phosphate), agriculture and manufacturing. Over the past few decades, the country's economy has shifted to a more service-driven model

[9] World Bank, 2018. Tunisia. Available at: https://data.worldbank.org/country/tunisia

[10] Source: CIA World Factbook (2016)

which now accounts for more than half (53%) of the country's active workforce[11]. Tunisia's leading and fast-growing services sub-sectors include tourism[12], medical tourism and information and communications technology (ICT). Despite being a small oil producer, the country is highly dependent from oil and food imports and generally displays a large trade deficit [13]. Its three main export industries are the mechanical and electrical engineering industries (45%), electronic industry (29%) and textiles and clothing industry (21%)[14]. The EU, and in particular France and Italy, remains Tunisia's key trading partner.

Political context

Before the Arab Spring – which kick-offed in Tunisia before trickling down other countries –, the political system in Tunisia bordered on dictatorship, especially under the rule of the former President Zine Abidine Ben Ali. The regime was finally overthrown in 2011 and Tunisia's democratic transition, although still in progress, holds the distinction of being the sole one to emerge and succeed in the Arab world[15]. In addition to which, the most progressive Constitution in the Arab world was adopted in 2014 after the first free elections in 2011.

Despite its successes, the country still faces internal and external challenges. It has seen nine governments since the Arab Spring in 2011 and very substantial challenges remain including security threats posed by a succession of terrorist attacks since 2015 targeting tourism spots, the ongoing conflict in Libya, extremism in the region especially in the Sahel area, illegal migration, weak governance, and instability at political, social and legal level.

Table 6. Summary of key indicators

Population (in 2019)	11,43 million people
GNI per capita (in 2017)	USD 3.520
World Bank classification (2017)	Lower middle-income country.
Human Development Index (2019):	
Value	0.735
Rank	95 out of 189
Total official developmental assistance as a percentage of gross national income, 2018	70%
Global competitiveness Index (rank) (out of 137, 2017)	95th

[11] Tunisia: Distribution of employment by economic sector from 2010 to 2020, Statista. Available at: https://www.statista.com/statistics/524581/employment-by-economic-sector-in-tunisia/

[12] It took some years until 2018 for the foreign currency earnings from tourism to return to the levels of the previous years after the series of terrorist attacks in 2015. Institut National de la Statistique Tunisie (accord to the Office National du Tourisme Tunisien). Available at: http://www.ins.tn/fr/themes/tourisme#sub-399

[13] The trade deficit increased to 24,6% (or 1.9 billion TND) in 2019. Balance Commerciale (million dinars), Institut National de la Statistique Tunisie. Available at: http://www.ins.tn/fr/themes/commerce-ext%C3%A9rieur#sub-244

[14] Principaux produits exportés par groupement sectoriel d'activité (million dinars), Institut National de la Statistique Tunisie. Available at: http://www.ins.tn/fr/themes/commerce-ext%C3%A9rieur#sub-244

[15] Financial Times, May 2018. Tunisia's political gains have yet to bring prosperity. Available at: https://www.ft.com/content/181c04ec-2931-11e8-9274-2b13fccdc744

Population (in 2019)	**11,43 million people**
World Bank Doing Business (rank)	88th
Percentage of total goods exports to EU-27, 2019	2.1%
The World Justice Project Rule of Law (rank) (out of 113 countries in 2017)	54th
Transparency International Corruption Perception Index (rank), (out of 180 countries in 2017)	74th

Table 7. *Evolution of main economic indicators of Tunisia in the period 2010-2020*

Tunisia	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real Sector											
Real GDP (% change)	3.5%	-1.9%	4.1%	2.8%	2.9%	1.2%	1.2%	1.9%	2.7%	1.0%*	-8.8%[16]
Nominal GDP (USD billion)	44.054	45.81	45.044	46.248	47.634	43.172	41.801	39.806	39.771	38.797	n/a
Inflation (end of period) (% change)	4.4%	3.2%	4.6%	5.3%	4.6%	4.4%	3.6%	5.3%	7.3%	6.7%*	5.6%[17]
Unemployment rate (% labour force)	13.05%	18.89%	16.72%	15.33%	15.30%	15.40%	15.50%	15.30%	15.46%	16.0%*	16.7%[18]
Fiscal Sector											
Public deficit (%)	0.9%	-2.8%	-5.0%	-4.5%	-6.7%	-5.3%	-5.9%	-6.2%	-4.8%	4.1%*	-11.5%[19]
Public debt (% of GDP)	40.3%	44.5%	44.5%	44.3%	50.0%	55.4%	62.3%	70.9%	77.5%	71.8%*	87.6%[20]
External Sector											

[16] Official data from INS (National institute of statistics of Tunisia)

[17] World Bank data (see: https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?locations=TN)

[18] World Bank data (see: https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=TN)

[19] IMF country report

[20] IMF country report

Tunisia	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Current account balance (% of GDP)	-5.60%	-8.45%	-9.13%	-9.66%	-9.84%	-9.70%	-9.31%	-10.25%	-11.17%	-8.47%	-6.80%[21]
Exports of good and services (% change)	6.51%	-3.94%	1.63%	-0.73%	-2.94%	-2.82%	2.02%	3.21%	3.47%	-5.06%	n/a
Import of good and services (% change)	15.43%	-3.78%	8.41%	-1.49%	2.97%	-2.56%	5.16%	3.42%	0.95%	-8.57%	n/a
FDI (Net Inward) (% of GDP)	3.03%	0.94%	3.45%	2.29%	2.15%	2.25%	1.49%	2.04%	2.49%	2.09%	n/a
FDI (Net Outward) (% of GDP)	0.17%	0.05%	0.03%	0.05%	0.05%	0.07%	0.58%	0.14%	0.09%	0.06%	n/a
Gross official reserves (months of imports)	4.4	3.3	3.7	3.1	3.1	3.8	3.2	3.1	2.6	3.8	n/a

* Projected data

** Official data from INS (National institute of statistics of Tunisia)

Source: IMF, WB and INS

[21] Tunisia: current account deficit continues to narrow in November to 7.9% of GDP' Available at https://en.africanmanager.com/tunisia-current-account-deficit-down-to-5-8-at-the-end-of-october/

A1.4 Jordan – Country profile

Geographical location

Jordan is a relatively small country situated at the junction of the Levantine and Arabian areas of the Middle East. Jordan occupies an area of approximately 96,188 square kilometres, making it similar in size to Austria or Portugal. However, only Western Jordan has a Mediterranean climate while about 75% of the country has a desert climate with less than 200 mm. of rain annually.

Figure 9. Jordan geographic location

Source: CIA World FactBook

Demographic profile

The Kingdom has a population of approximately 10 million, mostly urban (90%) and concentrated in its capital city Amman and a few other major cities (e.g. Zarqa and Irbid) located in the north close with the Syrian border[1]. Its population is quite young with the 15-29 years represents 28,5% of the total population and the median age stands at 22.4 years old in 2017[2].

Most of Jordanians are native, but the country has been a destination for subsequent waves of refugees. Jordan hosts the largest number of refugees in the world in per capita terms[3]. Its population includes Syrians 13.3%, Palestinians 6.7%, Egyptians 6.7%, Iraqis 1.4% and other ethnic groups (2.6%, notably Armenians and Circassians)[4].

The vast majority of Jordanians are Muslim 97.2% (predominantly Sunni) but there is also a vibrant and well-integrated Christian minority (representing 2.2% of the population).

Economic structure

The Jordanian economy is among the smallest in the region given its limited domestic market. Despite its insufficient supplies of water and oil notably, the country has a GDP per capita standing at USD 4.234 in 2017[5] and is classified as by World Bank as an upper middle-income country. It is a major producer of phosphate and potash and benefits of significant sources of foreign exchange from the expatriate workforce, mainly in the

Gulf countries, and tourism. The Jordanian economy is services oriented (72% of the total workforce).

Political context

Jordan is a parliamentary constitutional monarchy, ruled by the King Abdullah II since 1999. The bicameral National Assembly consists of the Senate (65 seats) and the Chamber of Deputies (130 seats).

Table 8. Summary of key indicators

Population (in 2017)	10 million people
GNI per capita (in 2017) World Bank classification (2017)	USD 9.960 Upper middle-income country.
Human Development Index (2019): Value Rank	 0.735 95 out of 189
Total official developmental assistance as a percentage of gross national income, 2018	6
Global competitiveness Index (rank, 2017)	65th
World Bank Doing Business (rank)	118th
Percentage of total goods exports to EU-27, 2019	3
The World Justice Project Rule of Law (rank) (out of 113 countries in 2017)	42th
Transparency International Corruption Perception Index (rank), (out of 180 countries in 2017)	59th

Table 9. *Evolution of main economic indicators of Jordan in the period 2010-2020*

Jordan	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Real Sector											
Real GDP (% change)	2.3	2.7	2.4	2.6	3.4	2.5	2	2.1	1.9	2.0	-2.0[22]
Nominal GDP (USD billion)	27.13	29.52	31.63	34.45	36.84	38.58	39.89	41.40	42.93	44.50	n/a

[22] Source: IMF Data Mapper (see: https://www.imf.org/en/Countries/JOR)

Inflation (end of period) (% change)	5.6	3	6.3	3	1.6	-1.7	1.2	3.5	3.8	0.7	0.4[23]
Unemployment rate	12.5	12.9	12.2	12.6	11.9	13.1	15.3	18.3	18.6	19.1	18.5[24]
Fiscal Sector											
Public deficit (%)	9.6	7.7	12.7	9.3	10.2	7.1	5.0	3.2	4.2	4.9	7.4
Public debt (% of GDP)	67.1	64.6	80.2	85.8	89.0	93.4	95.1	95.3	94.4	97.4	110.3
External Sector											
Current account balance (% of GDP)	-6.9	-10	-14.9	-10.2	-7.1	-9	-9.7	-10.6	-6.9	-2.3	-6.8
Exports of goods and services (% of GDP)	48.2	47.7	46.2	42.5	43.6	37.8	33.93	34.53	35.15	36.35	23.72[25]
Import of goods and services (% of GDP)	69.0	73.9	74.3	72.0	69.7	60.0	54.72	55.63	53.37	49.98	41.65[26]
FDI (Net Inward) (% of GDP)	6.4	5.2	4.9	5.4	5.6	3.4	3.8	4.9	2.2	1.8	n/a
FDI (Net Outward) (% of GDP)	0.105	0.104	0.017	0.045	0.226	0.003	0.008	0.016	-0.018	0.097	n/a
Gross official reserves (months of imports)	8.45	6.51	4.40	6.55	7.32	8.30	8.146	12.0	10.7	10.8	13.0[27]

Source: IMF, World Bank, the Jordanian Ministry of Finance and the Central Bank of Jordan. There exist a few discrepancies between data reported by the Jordanian Ministry of Finance, the World Bank and the IMF on a few indicators .

Source: IMF, World Bank, the Jordanian Ministry of Finance and the Central Bank of Jordan. There exist a few discrepancies between data reported by the Jordanian Ministry of Finance, the World Bank and the IMF on a few indicators .

[23] IMF Data Mapper (see: https://www.imf.org/en/Countries/JOR)

[24] Source: World Bank data (see: https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=JO)

[25] Source: World Bank data (see: https://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?locations=JO)

[26] Source: World Bank data (see: https://data.worldbank.org/indicator/NE.IMP.GNFS.ZS?locations=JO)

[27] Source: World Bank Data (see: https://data.worldbank.org/indicator/FI.RES.TOTL.MO)

Annex 2 Indexes

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
Corruption Perception Index	Tunisia	2012	CPI score 0 to 100)	41	Transparency International
	Tunisia	2013	CPI score 0 to 100)	41	Transparency International
	Tunisia	2014	CPI score 0 to 100)	40	Transparency International
	Tunisia	2015	CPI score 0 to 100)	38	Transparency International
	Tunisia	2016	CPI score 0 to 100)	41	Transparency International
	Tunisia	2017	CPI score 0 to 100)	42	Transparency International
	Tunisia	2018	CPI score 0 to 100)	43	Transparency International
	Tunisia	2019	CPI score 0 to 100)	43	Transparency International
World Bank Governance Indicators					
Voice and Accountability	Tunisia	2012	Percentile Rank (0 to 100)	43.66	WBGI
	Tunisia	2013	Percentile Rank (0 to 100)	45.07	WBGI
	Tunisia	2014	Percentile Rank (0 to 100)	55.17	WBGI
	Tunisia	2015	Percentile Rank (0 to 100)	55.67	WBGI
	Tunisia	2016	Percentile Rank (0 to 100)	56.16	WBGI
	Tunisia	2017	Percentile Rank (0 to 100)	52.71	WBGI
	Tunisia	2018	Percentile Rank (0 to 100)	53.69	WBGI
	Tunisia	2019	Percentile Rank (0 to 100)	56.65	WBGI

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
Rule of Law	Tunisia	2012	Percentile Rank (0 to 100)	51.17	WBGI
	Tunisia	2013	Percentile Rank (0 to 100)	49.30	WBGI
	Tunisia	2014	Percentile Rank (0 to 100)	52.88	WBGI
	Tunisia	2015	Percentile Rank (0 to 100)	55.29	WBGI
	Tunisia	2016	Percentile Rank (0 to 100)	54.81	WBGI
	Tunisia	2017	Percentile Rank (0 to 100)	55.77	WBGI
	Tunisia	2018	Percentile Rank (0 to 100)	56.25	WBGI
	Tunisia	2019	Percentile Rank (0 to 100)	55.77	WBGI
Regulatory Quality	Tunisia	2012	Percentile Rank (0 to 100)	46.45	WBGI
	Tunisia	2013	Percentile Rank (0 to 100)	40.76	WBGI
	Tunisia	2014	Percentile Rank (0 to 100)	39.42	WBGI
	Tunisia	2015	Percentile Rank (0 to 100)	37.98	WBGI
	Tunisia	2016	Percentile Rank (0 to 100)	33.17	WBGI
	Tunisia	2017	Percentile Rank (0 to 100)	36.06	WBGI
	Tunisia	2018	Percentile Rank (0 to 100)	32.69	WBGI
	Tunisia	2019	Percentile Rank (0 to 100)	35.58	WBGI
Government Effectiveness	Tunisia	2012	Percentile Rank (0 to 100)	54.98	WBGI
	Tunisia	2013	Percentile Rank (0 to 100)	52.13	WBGI
	Tunisia	2014	Percentile Rank (0 to 100)	48.08	WBGI

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Tunisia	2015	Percentile Rank (0 to 100)	49.04	WBGI
	Tunisia	2016	Percentile Rank (0 to 100)	44.23	WBGI
	Tunisia	2017	Percentile Rank (0 to 100)	50.48	WBGI
	Tunisia	2018	Percentile Rank (0 to 100)	48.56	WBGI
	Tunisia	2019	Percentile Rank (0 to 100)	48.56	WBGI
Political Stability and Absence of Violence/Terrorism	Tunisia	2012	Percentile Rank (0 to 100)	22.27	WBGI
	Tunisia	2013	Percentile Rank (0 to 100)	18.96	WBGI
	Tunisia	2014	Percentile Rank (0 to 100)	18.57	WBGI
	Tunisia	2015	Percentile Rank (0 to 100)	16.67	WBGI
	Tunisia	2016	Percentile Rank (0 to 100)	11.43	WBGI
	Tunisia	2017	Percentile Rank (0 to 100)	13.81	WBGI
	Tunisia	2018	Percentile Rank (0 to 100)	17.14	WBGI
	Tunisia	2019	Percentile Rank (0 to 100)	17.14	WBGI
Control of Corruption	Tunisia	2012	Percentile Rank (0 to 100)	56.87	WBGI
	Tunisia	2013	Percentile Rank (0 to 100)	56.87	WBGI
	Tunisia	2014	Percentile Rank (0 to 100)	55.77	WBGI
	Tunisia	2015	Percentile Rank (0 to 100)	55.77	WBGI
	Tunisia	2016	Percentile Rank (0 to 100)	53.37	WBGI

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Tunisia	2017	Percentile Rank (0 to 100)	53.85	WBGI
	Tunisia	2018	Percentile Rank (0 to 100)	56.25	WBGI
	Tunisia	2019	Percentile Rank (0 to 100)	52.88	WBGI
Global Competitiveness Index					
Global Competitiveness Index	Tunisia	2011-2012	Value/Score (Scale ranges from 0 to 7)	4.19	World Economic Forum Global Competitiveness Index
	Tunisia	2012-2013	Value/Score (Scale ranges from 0 to 7)	4.23	World Economic Forum Global Competitiveness Index
	Tunisia	2013-2014	Value/Score (Scale ranges from 0 to 7)	4.20	World Economic Forum Global Competitiveness Index
	Tunisia	2014-2015	Value/Score (Scale ranges from 0 to 7)	4.25	World Economic Forum Global Competitiveness Index
	Tunisia	2015-2016	Value/Score (Scale ranges from 0 to 7)	4.23	World Economic Forum Global Competitiveness Index
	Tunisia	2016-2017	Value/Score (Scale ranges from 0 to 7)	4.29	World Economic Forum Global Competitiveness Index
	Tunisia	2017-2018	Value/Score (Scale ranges from 0 to 7)	4.30	World Economic Forum Global Competitiveness Index
Ease of doing business					
Ease of doing business	Tunisia	2012	Ease of Doing Business score (0 to 100)	68.1	World Bank Doing Business Indicators
	Tunisia	2013	Ease of Doing Business score (0 to 100)	68.3	World Bank Doing Business Indicators
	Tunisia	2014	Ease of Doing Business score (0 to 100)	67.4	World Bank Doing Business Indicators
	Tunisia	2015	Ease of Doing Business score (0 to 100)	67.3	World Bank Doing Business Indicators

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Tunisia	2016	Ease of Doing Business score (0 to 100)	64.6	World Bank Doing Business Indicators
	Tunisia	2017	Ease of Doing Business score (0 to 100)	65.5	World Bank Doing Business Indicators
	Tunisia	2018	Ease of Doing Business score (0 to 100)	65.3	World Bank Doing Business Indicators
	Tunisia	2019	Ease of Doing Business score (0 to 100)	67.2	World Bank Doing Business Indicators
Fragile States Index					
Fragile States Index	Tunisia	2012	FSI Score (Total: 0–120)	74.2	Fragile States Index (The Fund for Peace)
	Tunisia	2013	FSI Score (Total: 0–120)	76.5	Fragile States Index (The Fund for Peace)
	Tunisia	2014	FSI Score (Total: 0–120)	77.5	Fragile States Index (The Fund for Peace)
	Tunisia	2015	FSI Score (Total: 0–120)	75.7	Fragile States Index (The Fund for Peace)
	Tunisia	2016	FSI Score (Total: 0–120)	74.6	Fragile States Index (The Fund for Peace)
	Tunisia	2017	FSI Score (Total: 0–120)	74.2	Fragile States Index (The Fund for Peace)
	Tunisia	2018	FSI Score (Total: 0–120)	72.1	Fragile States Index (The Fund for Peace)
	Tunisia	2019	FSI Score (Total)	70.1	Fragile States Index (The Fund for Peace)
Corruption Perception Index					
Corruption Perception Index	Jordan	2012	CPI score 0 to 100)	48	Transparency International
	Jordan	2013	CPI score 0 to 100)	45	Transparency International
	Jordan	2014	CPI score 0 to 100)	49	Transparency International
	Jordan	2015	CPI score 0 to 100)	53	Transparency International
	Jordan	2016	CPI score 0 to 100)	48	Transparency International

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Jordan	2017	CPI score 0 to 100)	48	Transparency International
	Jordan	2018	CPI score 0 to 100)	49	Transparency International
	Jordan	2019	CPI score 0 to 100)	48	Transparency International
World Bank Governance Indicators					
Voice and Accountability	Jordan	2012	Percentile Rank (0 to 100)	26.76	WBGI
	Jordan	2013	Percentile Rank (0 to 100)	24.88	WBGI
	Jordan	2014	Percentile Rank (0 to 100)	26.60	WBGI
	Jordan	2015	Percentile Rank (0 to 100)	25.62	WBGI
	Jordan	2016	Percentile Rank (0 to 100)	27.09	WBGI
	Jordan	2017	Percentile Rank (0 to 100)	26.60	WBGI
	Jordan	2018	Percentile Rank (0 to 100)	28.08	WBGI
	Jordan	2019	Percentile Rank (0 to 100)	28.57	WBGI
Rule of Law	Jordan	2012	Percentile Rank (0 to 100)	62.91	WBGI
	Jordan	2013	Percentile Rank (0 to 100)	62.91	WBGI
	Jordan	2014	Percentile Rank (0 to 100)	68.75	WBGI
	Jordan	2015	Percentile Rank (0 to 100)	67.79	WBGI
	Jordan	2016	Percentile Rank (0 to 100)	61.06	WBGI
	Jordan	2017	Percentile Rank (0 to 100)	61.06	WBGI
	Jordan	2018	Percentile Rank (0 to 100)	61.06	WBGI

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Jordan	2019	Percentile Rank (0 to 100)	58.17	WBGI
Regulatory Quality	Jordan	2012	Percentile Rank (0 to 100)	56.87	WBGI
	Jordan	2013	Percentile Rank (0 to 100)	56.87	WBGI
	Jordan	2014	Percentile Rank (0 to 100)	54.81	WBGI
	Jordan	2015	Percentile Rank (0 to 100)	54.81	WBGI
	Jordan	2016	Percentile Rank (0 to 100)	54.33	WBGI
	Jordan	2017	Percentile Rank (0 to 100)	57.69	WBGI
	Jordan	2018	Percentile Rank (0 to 100)	56.73	WBGI
	Jordan	2019	Percentile Rank (0 to 100)	57.21	WBGI
Government Effectiveness	Jordan	2012	Percentile Rank (0 to 100)	55.92	WBGI
	Jordan	2013	Percentile Rank (0 to 100)	53.55	WBGI
	Jordan	2014	Percentile Rank (0 to 100)	59.13	WBGI
	Jordan	2015	Percentile Rank (0 to 100)	59.13	WBGI
	Jordan	2016	Percentile Rank (0 to 100)	59.13	WBGI
	Jordan	2017	Percentile Rank (0 to 100)	57.69	WBGI
	Jordan	2018	Percentile Rank (0 to 100)	57.21	WBGI
	Jordan	2019	Percentile Rank (0 to 100)	56.73	WBGI
Voice and Accountability	Jordan	2012	Percentile Rank (0 to 100)	26.76	WBGI
	Jordan	2013	Percentile Rank (0 to 100)	24.88	WBGI

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Jordan	2014	Percentile Rank (0 to 100)	26.60	WBGI
	Jordan	2015	Percentile Rank (0 to 100)	25.62	WBGI
	Jordan	2016	Percentile Rank (0 to 100)	27.09	WBGI
	Jordan	2017	Percentile Rank (0 to 100)	26.60	WBGI
	Jordan	2018	Percentile Rank (0 to 100)	28.08	WBGI
	Jordan	2019	Percentile Rank (0 to 100)	28.57	WBGI
Rule of Law	Jordan	2012	Percentile Rank (0 to 100)	62.91	WBGI
	Jordan	2013	Percentile Rank (0 to 100)	62.91	WBGI
	Jordan	2014	Percentile Rank (0 to 100)	68.75	WBGI
	Jordan	2015	Percentile Rank (0 to 100)	67.79	WBGI
	Jordan	2016	Percentile Rank (0 to 100)	61.06	WBGI
	Jordan	2017	Percentile Rank (0 to 100)	61.06	WBGI
	Jordan	2018	Percentile Rank (0 to 100)	61.06	WBGI
	Jordan	2019	Percentile Rank (0 to 100)	58.17	WBGI
Global Competitiveness Index					
Global Competitiveness Index	Jordan	2011-2012	Value	4.19	World Economic Forum Global Competitiveness Index
	Jordan	2012-2013	Value/Score (Scale ranges from 0 to 7)	4.23	World Economic Forum Global Competitiveness Index

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Jordan	2013-2014	Value/Score (Scale ranges from 0 to 7)	4.20	World Economic Forum Global Competitiveness Index
	Jordan	2014-2015	Value/Score (Scale ranges from 0 to 7)	4.25	World Economic Forum Global Competitiveness Index
	Jordan	2015-2016	Value/Score (Scale ranges from 0 to 7)	4.23	World Economic Forum Global Competitiveness Index
	Jordan	2016-2017	Value/Score (Scale ranges from 0 to 7)	4.29	World Economic Forum Global Competitiveness Index
	Jordan	2017-2018	Value/Score (Scale ranges from 0 to 7)	4.30	World Economic Forum Global Competitiveness Index
Ease of doing business					
Ease of doing business	Jordan	2012	Ease of Doing Business score (0 to 100)	57.6	World Bank Doing Business Indicators
	Jordan	2013	Ease of Doing Business score (0 to 100)	57.6	World Bank Doing Business Indicators
	Jordan	2014	Ease of Doing Business score (0 to 100)	57.5	World Bank Doing Business Indicators
	Jordan	2015	Ease of Doing Business score (0 to 100)	57.9	World Bank Doing Business Indicators
	Jordan	2016	Ease of Doing Business score (0 to 100)	56.7	World Bank Doing Business Indicators
	Jordan	2017	Ease of Doing Business score (0 to 100)	57	World Bank Doing Business Indicators
	Jordan	2018	Ease of Doing Business score (0 to 100)	59.9	World Bank Doing Business Indicators
	Jordan	2019	Ease of Doing Business score (0 to 100)	61.3	World Bank Doing Business Indicators
Fragile States Index					
Fragile States Index	Jordan	2012	FSI Score (Total: 0−120)	74.8	Fragile States Index (The Fund for Peace)
	Jordan	2013	FSI Score (Total: 0−120)	75.7	Fragile States Index (The Fund for Peace)

Indicator	Country	Year	Indicator type (with the scale indicated)	Value	Source
	Jordan	2014	FSI Score (Total: 0–120)	76.7	Fragile States Index (The Fund for Peace)
	Jordan	2015	FSI Score (Total: 0–120)	76.9	Fragile States Index (The Fund for Peace)
	Jordan	2016	FSI Score (Total: 0–120)	78.0	Fragile States Index (The Fund for Peace)
	Jordan	2017	FSI Score (Total: 0–120)	78.7	Fragile States Index (The Fund for Peace)
	Jordan	2018	FSI Score (Total: 0–120)	76.8	Fragile States Index (The Fund for Peace)

Indicator Definitions:

Corruption Perception Index*:* Based on how corrupt a country's public sector is perceived to be by experts and business executives.

World Bank Governance Indicators:

1. Voice and Accountability: measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

2. Political Stability and Absence of Violence/Terrorism: measures the likelihood that the government will be destabilized by unconstitutional or violent means, including terrorism.

3. Government Effectiveness: measures the quality of public services, the capacity of the civil service and its independence from political pressures; and the quality of policy formulation.

4. Regulatory Quality: measures the ability of the government to provide sound policies and regulations that enable and promote private sector development.

5. Rule of Law: in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence.

6. Control of Corruption: considers the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

Global Competitiveness Index: Assesses the ability of countries to provide high levels of prosperity to their citizens by considering the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.

Fragile States Index: Considers a states' vulnerability to conflict or collapse.

*Note: Ease of doing business methodological calculation differ between 2010-14, 2015, and 2017-20.

Annex 3 Disbursing IMF programmes in the Sourthern Neighbourhood

Table 10. Disbursing IMF programmes in the Sourthern Neighbourhood since 1990

Country name	Type	Date of arrangement	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Morocco					
	PLL (Precautionary and Liquidity Line)	Dec 17, 2018	Apr 07, 2020	2,150.80	2,150.80
Tunisia					
	Rapid Financing Instrument	Apr 10, 2020	Apr 15, 2020	545.2	545.2
	Extended Fund Facility	May 20, 2016	Mar 18, 2020	1,952,253	1,161,713
	Standby Arrangement	Jun 07, 2013	Dec 31, 2015	1,146,000	1,002,750
Jordan					
	Extended Fund Facility	Mar 25, 2020	Mar 24, 2024	926.37	205.86
	Rapid Financing Instrument	May 20, 2020	May 27, 2020	291.55	291.55
	Extended Fund Facility	Aug 24, 2016	Mar 23, 2020	514.65	223.015
	Standby Arrangement	Aug 03, 2012	Aug 02, 2015	1,364,000	1,364,000
	Standby Arrangement	Jul 03, 2002	Jul 02, 2004	85.28	10.66
	Extended Fund Facility	Apr 15, 1999	May 31, 2002	127.88	127.88
	Extended Fund Facility	Feb 09, 1996	Feb 08, 1999	238.04	202.52
	Extended Fund Facility	May 25, 1994	Feb 09, 1996	189.3	130.32
	Standby Arrangement	Feb 26, 1992	Feb 25, 1994	44.4	44.4
Egypt					
	Standby Arrangement	Jun 26, 2020	Jun 25, 2021	3,763,640	2,605,600
	Rapid Financing Instrument	May 11, 2020	May 13, 2020	2,037,100	2,037,100
	Extended Fund Facility	Nov 11, 2016	Jul 29, 2019	8,596,570	8,596,570
	Standby Arrangement	Oct 11, 1996	Sep 30, 1998	271.4	0
	Extended Fund Facility	Sep 20, 1993	Sep 19, 1996	400	0
	Standby Arrangement	May 17, 1991	May 31, 1993	234.4	147.2

Source: IMF website

Notes:

Morocco has benefitted from 3 other Precautionary and Liquidity Line programmes since 2012, under which no disbursement has been made.

Egypt has benefited from 2 other programmes in the nineties, under which no disbursement has been made.

Latest disbursing IMF programmes date back to the nineties in the case of Algeria, the seventies in the case Israel, the sixties in the case of Syria.

Lebanon has not benefited from assistance except under the Emergency Post-Conflict Assistance

Annex 4 List of completed interviews

	Institution	Contact person	Role
	Tunisia		
	EU side		
1	DG ECFIN	Juan Jose Almagro Herrador	Desk Tunisia from mid-2018
2	DG ECFIN	Felipe de la Mota	Desk Tunisia until the end of 2016
3	DG NEAR / former ECFIN	Alessia Squarcella	Desk Tunisia from 2017 (signature of the MoU) until early 2019
4	EEAS/EUD OPS	Wim Ulens Marco Stella	Attaché at the Economic section - joined the EUD in 2017 Head of Economic section at EU Delegation to Tunisia - joined in September 2020
5	EEAS/EUD OPS	Sophie Vanhaeverbeke Wim Ulens	Head of Cooperation at EU Delegation to Tunisia since 2017 Attaché at the Economic section - joined the EUD in 2017
6	EU Delegation	Carl Daspect	Attaché de Cooperation (investment climate and sustainable financing), EU Delegation to Tunisia
7	DG NEAR/EEAS/EUD OPS	Gérald Audaz	Tunisia desk until 2017 then head of Economic section at EU Delegation to Tunisia until September 2020.
8	EEAS	Jose Antionio Torres Lacasa	Desk Tunisia – started in September 2019
	IFIs and other donors		
9	IMF	Jérôme Vacher	IMF Resident Representative
10	IMF	Robert Blotevogel	Former IMF Resident Representative
11	IMF	Bjoern Rother	Former Mission Chief

	Institution	Contact person	Role
12	WB	Tony Verheijen Shireen Mahdi	Country manager Country economist
13	USAID	Hassen Masmoudi Elaine Grigsby	Senior Economic Growth Specialist Senior Economist
14	KfW	Sven Neunsinger	Country director
15	AICS (Italian Agency for Development Cooperation)	Mr. Andrea Senatori:	Director - AICS Tunis Regional Office -Tunisia, Libya, Morocco, and Algeria
	National authorities		
16	MDICI (Ministry of International cooperation)	Sameh Ben Fguira	Director of the external relations (European Union) at the MDICI
17	MDICI (Ministry of Development, Investment and International cooperation)	Raja Boulabiar	General Director of Forecasting
18	Central Bank of Tunisia	Faouzi Arfaoui Kawthar Derbel	Director - Financing and external relations department In charge of multilateral financing
19	Cour des Comptes – Court of Auditors	Najib Gtari Akram Mouhli	Respectively President of the CdC and its deputy director.
20	MDICI (Ministry of Development, Investment and International cooperation)	Sonia Ayachi	Manager of the “Unit for Management by Objective” (UGO) in charge of leading the work of streamlining investment entry authorizations
21	Ministry of Employment and Vocational Trainings & ANETI	Hichem Boussaid Imen Ghelala Mounir Dakhli Najet Galaoui Naima Ben Hadj Mohamed	In charge of international cooperation Working on the implementation and the monitoring of the Forsati programme and the Contrat de dignité "Karama".

	Institution	Contact person	Role
22	Ministry of social affairs & CRES	Maha Mezrioui Hedi Bouker Imen Mouaddeb	In charge of social assistance programmes
	Jordan		
	EU side		
23	DG ECFIN	Joern Griesse	Former Deputy Head of the ECFIN Unit for Jordan, currently in another ECFIN unit (F.1)
24	DG ECFIN	Stylianos Dendrinos	Former ECFIN Desk officer/Economist for Jordan, currently at the EU Delegation to the Kyrgyz Republic).
25	EEAS/EUD	Giulia Pietrangeli	EU Delegation to Abu Dhabi (formerly with EUD in Jordan)
26	EEAS	Francesco Presutti	Jordan Desk Officer of the EEAS
27	EEAS	Betty Vargyas-Rijnberg	EU Delegation to Jordan
28	EUD	Sirpa Tulla	Head of Economic, Infrastructure and Trade Facilitation Section
29	EEAS	Laafia Ibrahim	Head of Cooperation – EU Delegation to Egypt (previously EU Del to Jordan)
	IFIs		
30	IMF	Chris Redl, Anastasia Guscina, Monica Petrescu, Serpil Bouza, & Ali Abbas	IMF Headquarters
31	World Bank	Jad Raji Mazahreh	Senior Governance Specialist (FM/PFM) based in Amman, Jordan
32	GIZ	Johannes Laepple	Project Manager (focus on Employment and Tran in the Mediterranean)

	Institution	Contact person	Role
33	AfD	Luc Le Cabellec	Regional Director for Irak and Jordan
	National authorities		
34	Ministry of Planning and International Cooperation	M. Emad Shanaah	Director of the International Cooperation Department
35	Audit Bureau	Dr Bilal Okasheh	Assistant Secretary General-Technical Affairs
36	Ministry of Water & Irrigation	Mohammad aldewairi	Secretary General Assistant for strategic Planning
37	Ministry of Public Works and Housing	Eng.Mahmoud H.Khliefat	Director of the Government Tenders Department
38	Ministry of Social Development	Khawla Abu Sarara	Director of Study
39	Ministry of Finance	Ahmad Hmaidat	Director, Public Debt Department
40	Ministry of Finance	Ahmad Annuz	Head of Middle office (Statistical & Strategies Division)-Public Debt Department
41	Ministry of Vocational Training	Emad Suqor Ibraheem Tarawneh RAFAT M. ALSAWAFIN Raed Alhammad	Training supervisor Director General Assistant for technical Affairs Director of planning and institutional excellence
42	Income & Sales Tax Department Ministry of Finance	Raad Asfour	Principal International taxation Income & Sales Tax Department Ministry of Finance
43	Water Authority of Jordan	Khaled M. Aladghem Tamer Al-masri	Head of Department Budget
44	Central Bank of Jordan	Dr. Nidal Al Azzam Feras Bseiso Rami Alhadid Mohammad Khreisat	Director of Research Department Senior Economist Executive Director Assistant

	Institution	Contact person	Role
		Rajeh Alkhdour	Assistant Manager Assistant Executive Director
	Regional perspective / other		
45	DG ECFIN	Temprano Arroyo Heliodoro	Adviser on international issues to the DG ECFIN director Former head of the unit responsible for the MFAs
46	DG ECFIN	M. Santiago Loranca	Former head of the unit responsible for the MFAs
47	EBRD	Heike Harmgart	Managing Director for the Southern and Eastern Mediterranean
48	Permanent Representation of Sweden to the EU	Elinor Edvardsson	Financial counsellor
49	Association of the Mediterranean Chambers of Commerce (ASCAME)	Luis Miranda Molas	Corporate and Institutional Manager
50	BusinessMed	Jihen Boutiba Mrad Asma Chebbi Nadine Kilani Marco Cunetto Moez Assala	General director In charge of EU projects

Annex 5 Headline summary from interviews

Key takeaways from interviews – Tunisia

EU side

Relevance

Priority needs were clear – problems are well known, they exist for a long time

Trade related conditions dropped on purpose, following the experience of MFA I (unrealistic to expect progress and sensitivity around DCTFA topics)

Tunisian authorities encountering difficulties with conditions requiring the approval of the Parliament

Coherence

High complementarity with other types of support – MFA I, budget support.

Parallel EU support / continuity in many reform areas but not all (EU typically not involved in ALMP policies, or VAT policies)

Intense donor coordination efforts – reinforced since the 2018 high level mission to Tunisia, which evolved into the joint matrix supporting a joint Covid response (EU not formally part of this joint matrix but supporting the objectives and still aligning its support)

Effectiveness

Positive impacts in terms of easing the external financing constraints /cushioning the social impact of the crisis – even if the situation was equally bad in 2019, or even worsening, compared to 2017.

Fiscal consolidation efforts in 2018/19 but to some extent artificial (issue with SOEs)

All financing from donors was critical and was not enough to prevent borrowings on the market with high interest rates.

Importance of domestic banks for financing of external needs

Lack of tangible progress on the ground w.r.t to the reform progress in general

Reforms areas which clearly moved forward:

- Step change achieved with the independence of the court of auditors and the EU had to adopt a firm stance
- SSN - progress in this area was slow but that is aligned with peers' experience

Reforms areas which did not move forward where results were more mixed

- Lack of tangible progress in relation to investment climate despite initial commitments
- Tax reform – piecemeal approach

EU leverage high in theory but hard to translate into actual outcomes

Efficiency

Slow reactivity of the TU side e.g. during the negotiation process despite the good dialogue. For illustrative purposes, see time required to approve MFA III

Coordination among TU stakeholders is difficult.

Awareness from the start that implementation would be difficult (based on experience with MFA I)

Poor administration capacity

Ownership of the programme among those in charge

Collusion of private and public interests. Vested interests may block/slow down the implementation of some conditions.

Given that TU is the only democracy in the Neighbourhood, there is flexibility of the EU side. Interest in helping TU become a success story. However to some extent, the high donor involvement has downsides and is counterproductive for the reform process

Waiver granted justified for several reasons (condition dropped by the IMF, actual progress made, low significance of the reform in terms of fiscal impact, sensitivity given the social/political issues)

Added value

Support to Tunisia, to democracy. Positive effects in terms of investor confidence to have institutional support from "non-dubious" countries

Fast approval as MFA I was still ongoing = sign of strong support

Fact that MFA is a loan sometimes not well perceived in TU's civil society, while the conditions are very concessional

Public acceptance issues especially for the related IMF programme (seen as a diktat) but MFA programme has lower visibility

National authorities

Relevance

Increase in size of the operation (compared to MFA I) valued and justified given the repercussions of the terrorist attacks; delays in disbursement mechanically lower the significance of the operation (500 m for almost 3 years instead 1)

Very concessional nature of the loan welcome. New option of reimbursing early also welcome

Conditions in line with country's priorities

Number of conditions was reasonable given the size – but conditions were maybe spread across too many different areas

Conditions involving the Parliamentary passage of laws problematic – ARP's actions are beyond the government's control. Besides in the present case the subject matter of the law (independence of the Court of Auditors) was a complex one and time was needed to discuss the law – beyond the scope of an MFA with limited timeframe

Coherence

Good coordination between donors

Continuity across the successive MFA operations valued

While coordination of donors is valued, perfect alignment with IMF conditions goes maybe a step too far (since IMF conditions can be renegotiated while MFA conditions cannot, since the time horizons / deadlines remain still different across donors)

Effectiveness

On the macro side – hard to quantify the impacts of the MFA (e.g. on FDIs) but the channels of transmission are there

In the absence of MFA, mix of alternatives used: domestoic financing, Eurobonds, bilateral and multilateral donors

On the reforms side – positive fiscal impacts are expected on top of the benefits in the concerned reform areas

Efficiency

Flexibility from EU side / waiver welcome – acknowledgement there was a willingness to disburse. Difficulties with VAT reform could not have been better anticipated. The reform was part of the government's own plans and difficulties appeared during the implementation phase only.

Smoother processes given that the operation was not a first of its kind

Smooth coordination and efforts to ensure buy-in of ministries

Does not see the added value from the automatic links with the IMF programme. The IMF has no neighbourhood policy

Added value

Sign of support to Tunisia and its democracy

Reinforces EU – Tunisia relations. Fast approval as MFA I was still ongoing = sign of strong support

Helps for the crowding in of other donors, helps for the image of Tunisia abroad

IFIs and other donors

Relevance

Adequate size – one can never cover all the needs and one needs to strike a balance between making meaningful contribution and not fuelling dependence

All relevant conditions. Maybe more conditions trying to address the rent seeking economy could have been included

formulation of MFA condition mostly seen as adequate although some comments were made that the vague formulation of some of the MFA conditions is not well suited for TU (need to be clear to ensure these are fulfilled)

Coherence

Good coordination – see 2018 high level mission, Compact for Africa, 2020 joint matrix – at least the donor community was speaking with one voice even if in the present case it was not enough to deliver results

on the use of cross conditions IMF / MFA – can help ensure a higher donor leverage on sensitive issues such as civil service reform

Effectiveness

On the macro side, the situation deteriorated, but also reflects external factors (e.g. rise in oil prices). Short lived improvements in the fiscal situation in 2019, but negative impacts of COVID-19 as from 2020

The support from international community managed to avoid outright crisis but did not fundamentally strengthen economic policymaking, build more sustainability or reduce financing needs going forward

On the reform side, still discussing with the authorities the same issues over and over. Lack of significant progress and/or no widely shared perception that things have changed. Not a complete lack of progress though, work is being done but progress is insufficient and leads to a form frustration, “Tunisia fatigue” among donors

Some progress in relation to financial sector / CBT, social protection and some reorientation of spending (using increase in tax revenue to increase social spending), reduction of tax exemptions, e-procurement

Lack of progress in relation to investment climate

Efficiency

Problems well known to political leaders who share the same diagnosis than the international community, but coalition government with no economic reform agenda and lacking political support

Lack public ownership / buy in and resistance from those benefiting from the rent-based economy, strong influence of the labour unions who have veto power over some key reforms (wage bill, SOEs)

Clear lack of communication from the side of the government on the need for reform and expected benefits – donors should insist on that as well

Absorption capacity issue with Tunisia – see gap between commitments and disbursements

Donor community pressure to support Tunisia, to be flexible with Tunisia (because it is the only country undertaking political transition; to help make sure that the message sent to the outside is not that Tunisia has democracy but has no jobs and no future for young people – as this is quite an uncomfortable message to send; not to leave Tunisia under the influence of Qatar / Saudi Arabia; because donors are worried about issues such as migration, terrorism).

Donors – including IMF - more flexible with Tunisia than with other countries even when conditions were not achieved. Some evidence to support this: IMF provided 100% budgetary support to Tunisia while usually a share is allocated to the beefing up of the reserves at the Central bank; the United States abstained when the IMF voted to approve the one of the loan tranches (this information on the US abstention can be found in the press)

Awareness that there is a risk that the high donor involvement be counterproductive for the reform process – in case flexibility transforms into complacency. At the same time, flexibility helps to stay engaged, not to lose the influence. Also there was real progress, and real constraints in Tunisia.

Added *value*

Catalytic effect of donor support – including to access financial market

Support to pro-reformers in the country. In a context where there is polarisation of views, a reform that is on the table can still face resistance and need a push.

Key takeaways from interviews – Jordan

<u>EU side:</u>

Relevance:

The conditions were relevant especially in the Jordanian context (e.g., Audit Bureau, PFM, and Social Safety Net).

With the benefit of hindsight, there was a need for better clarification on the timeframe within which impacts are expected to be achieved. The MFA conditions typically measure inputs and are not output based.

For some, the number of conditions seems adequate and a good mix of technical objectives as well as those having more of a political goal. For others, the size of the loan was not sufficient for the number of conditions. Given that this was a loan, it was over-ambitious. If it was a grant more requirements could have been included.

The conditions were strongly aligned with national priorities and the economic conditions (especially, in the areas of Tax policy, public investment, and external audit etc.)

The MFA aimed at partially fulfilling the external financing gap as the instrument does to help Jordan in a difficult moment. It also tried to promote some of the key reforms in the country.

The size of the loan was an increase regarding MFA I and was considered substantial at that time.

Coherence:

There was strong alignment with national actions and priorities

The conditions were meant to be aligned with MFA I conditions. The aim was to build upon already existing discussions and negotiations and reinforce them with the MFA II.

Some conditions were strongly aligned with other donor programmes. For instance, reforms in relation to the audit bureau were also supported by the IMF and USAID.

Effectiveness:

The amount is not sufficient to say that there were significant financial impacts. But it helped in financing needs to fill in the gaps.

The MFA II helped with easing financial constraints and through this, it helped to keep the economy stable.

The amounts of MFA I and II were small for the Jordanian economy. In that sense, it would be exaggerated to say it had a huge impact. At the same time, the IMF programs in Jordan traditionally rely on third-party contributions, as well. Overall, the EU, MFA contributes in that framework and is a facilitator for the IMF.

A constraint was that the instrument is more of an emergency crisis instrument so it cannot be extended longer than 2.5 years and accommodate medium to long-term structural reforms.

Efficiency:

The government would have undertaken reforms in these areas because these were also IMF requirements. The MFA was complementing it.

Although there was strong national ownership, with the high turnover in government officials, the MFA helped push the reform agenda and increase the impetus for reform.

Some conditions recorded clear progress but their implementation could have been more ambitious. For instance, in terms of tax revenues yielded and in progressivity applied.

The capacity to respond and implement was slow for technical reasons in some reform areas (e.g., the NUR)

For conditions such as the Audit Bureau, the coordination aspects and decision-making processes were seen to be time-consuming.

EU Value Added:

The MFA II showed that Jordan was committed to reform, but it did not turn Jordan into a country whose economy was fit for competing on the international market.

MFA normally features as a conversation topic in EU political dialogues. It is big enough in terms of amount amongst the other forms of EU support and has higher visibility.

Due to the amount of funding, especially the current programme (MFA III), the MFA makes bilateral cooperation stronger.

The operation sort to help the country mitigate the economic and social impact from the presence of a large number of Syrian refugees thus enhancing EU solidarity towards a partner country and promoting regional stability.

<u>Jordanian side:</u>

Relevance:

MFA II conditions were built upon previous reform efforts in MFA I (e.g., Audit Bureau, SSN) and were relevant at that time.

The size of MFA II was small compared to budgetary needs and did not contribute significantly to filling the financing gap but aided in securing other international financing sources (bilateral & multilateral).

MFA II conditions were in line with Jordan's priorities and responded to the country's needs.

Coherence:

MFA II complemented IMF, WB, and other donor programmes. This reinforced government ownership in the reform areas.

Effectiveness:

The government and its entities strongly believe in the reforms, MFA II provided the impetus for reform.

Observable medium-term impacts, especially in the implementation of structural reforms (e.g., broadening of tax rates) and on the technical side (e.g., NUR & Audit Bureau)

The EU has given some key national entities (e.g., Audit Bureau) a status of importance in Jordan through its support.

Reforms were achieved within the given timeframe

Efficiency:

Some reforms pushed by the MFA II were too many too fast: with the benefit of hindsight, the EU could have taken more inputs from Jordanian authorities to make sure they were feasible or appropriate in this context (e.g., Taxation given the social impacts).

EU Value Added:

MFA operations strengthen the EU – Jordan strategic relationship and partnership.

EU support had a strong signalling effect on other international donors

MFA II was a good signalling instrument to the private sector and it showed the EU's support as well as the type of policies/reforms implemented in Jordan.

<u>IMF and the donor community:</u>

Relevance:

The set of reforms or indicators that were defined in MFA II were all relevant considering the situation of the country in 2016-2017

Relevant conditions but too high in numbers.

The EU's contribution is not as large as other donors - 200 million over the life of the programme versus 600 or 700 million from the US every year - there is a gap as compared to other donors. The weight of the EU's programme in the overall scheme of things may not have been as great.

Coherence:

In some sectors the indicators that were defined between the EU Commission and the Government of Jordan. This was done without consulting some member states and institutions like AFD or of KfW (e.g., water sector).

Effectiveness:

The EU's programme relied on the existence of an on-track IMF programme but the Fund programme was off track for quite extended periods of time and therefore the EU's assistance could have gotten stuck because this injected uncertainty into the whole process for the EU.

There are some reform areas where the authorities seem to have 'hit the target but missed the point' for instance in relation to work permits for refugees.

Some conditions have been adopted on paper but not fully implemented (e.g., Water sector)

Jordan is happy to commit to reforms on paper but in implementation, there are gaps and low delivery of reforms (continuous downgrade of ambition in for instance water sector)

Efficiency:

A need to clarify conditions with more quantitative targets/criteria.

MFA II helped push the reform agenda amongst national actors and complemented other donor interventions (e.g., WB and USAID in the Water sector).

Other donors watch what the EU does in relation to its actions before considering their involvement in Jordan (a signalling effect).

There are complementarities with other donor interventions especially in the water sector but no coordination at the design stage.

EU Value Added:

MFA had a signalling effect which provided an added value to international donor efforts to Jordan.

In the context of Jordan (a crowded field), the EU's presence or voice may not have been as strong as the EU would feel it would have in another country. This is not only in terms of the physical presence of the EU but also in terms of its financial assistance.

Annex 6 Expert Survey results

Introduction:

As outlined in the methodology, an expert survey was conducted to capture the opinions of experts in Tunisia and Jordan on the possible impacts of MFA II as well as plausible counterfactual scenarios.

The survey questionnaire was made up of 17 questions, divided into four sections: Section A: General Information; Section B: Macroeconomic situation in Jordan and Tunisia over the period 2017-19; Section C: Impact of conditionality attached to the MFA II; and Section D: Social impacts of the MFA II operation.

More specifically, Section A relates to respondents' familiarity with MFA II. Section B explores the macroeconomic situation in the country during the period of study and covers questions on real GDP/economic growth, external sustainability as well as the various alternatives available for each country under study. The impact of MFA II conditionalities are assessed under Section C, while Section D focuses on the social impacts derived from it.

A6.1 Tunisia

The survey was launched on 27 May 2021 and remained open for approximately 3 weeks. Expert panel members were identified based on the contact list established for the previous evaluation carried out by ICF. This was reviewed and enhanced by our local consultant based in Tunisia.

Initially, the closure date was due on 2nd June March 2020, but this deadline had to be extended until 13 June 2021 due to a number of received answers lower than expected. Two reminders were sent, and additional follow-up phone calls were also undertaken by our local experts in Tunisia and Jordan.

A6.1.1 Profile of respondents

We included 86 representatives from the following groups / institutions in the Expert survey:

- Academic experts and Researchers from think tanks;
- Representatives of international organisations based in Tunisia;
- Public sector retirees' (e.g., worked for the Central Bank);
- Business representatives and economists from the private sector (e.g., consultant);

Thirty-seven respondents provided complete answers which resulted in a 43% response rate for the Expert survey. Respondents included academia, representatives from the private sector, retired public servants and consulting.

Table 11 provides the details of the background of respondents by type of organisation.

Table 11. Details of the Experts Panel that were invited and responded.

Type of organisation	Number of respondents
Academics	25
Businesses and their representatives	1
Think tanks	2
Retired from the Tunisian public administration	2
Research Consultancy	3

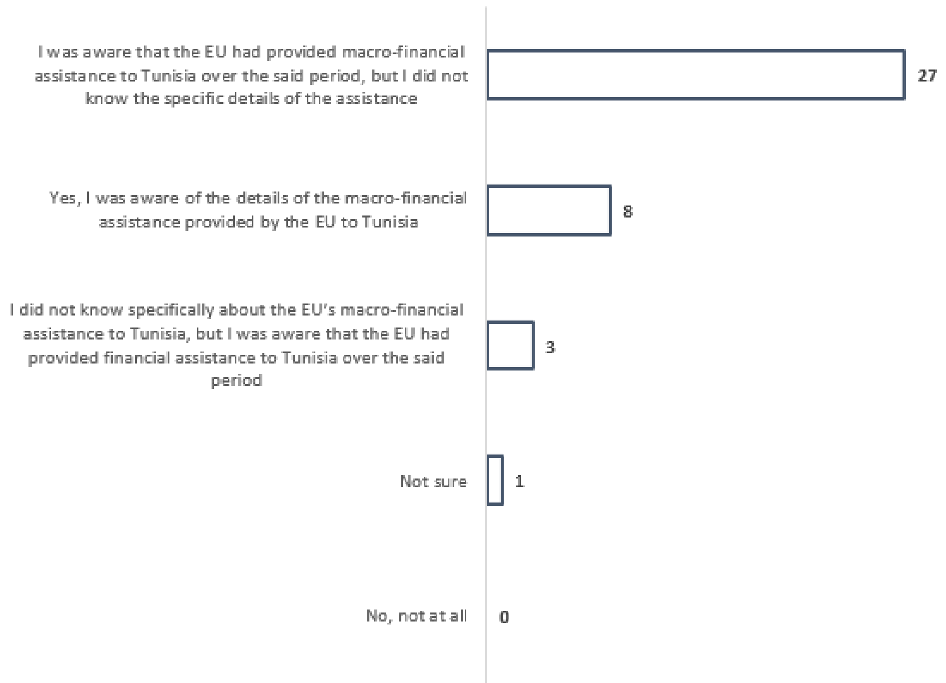
Type of organisation	Number of respondents
International organizations	4
Grand Total	**37**

A6.1.2 Section A: General Information

Figure 10 reveals that the vast majority of respondents (27) were aware of the fact that the EU had provided Macro-Financial Assistance II to Tunisia over the period 2017-19, while for the MFA II there were 17 out of 32. However, only 8 of them were aware of the specific details of the macro-financial assistance provided to Tunisia, against 14 out of 32 for the MFA II. Only 3 persons (only 1 out of 32 for the MFA II) affirmed being not to be sure about the EU's MFA II, but was instead aware that the EU had provided assistance to Tunisia over the said period.

Figure 10. Familiarity of respondents with EU's MFA II to Tunisia

Question A.4. Before receiving an invitation to this questionnaire, were you aware of the fact that the EU had provided Macro-Financial Assistance II to Tunisia over the period 2017-19?



Base: all (n=39)

Note: Two respondents did not finish the survey.

A6.1.3 Section B: Macroeconomic situation in Tunisia over the period 2017-19

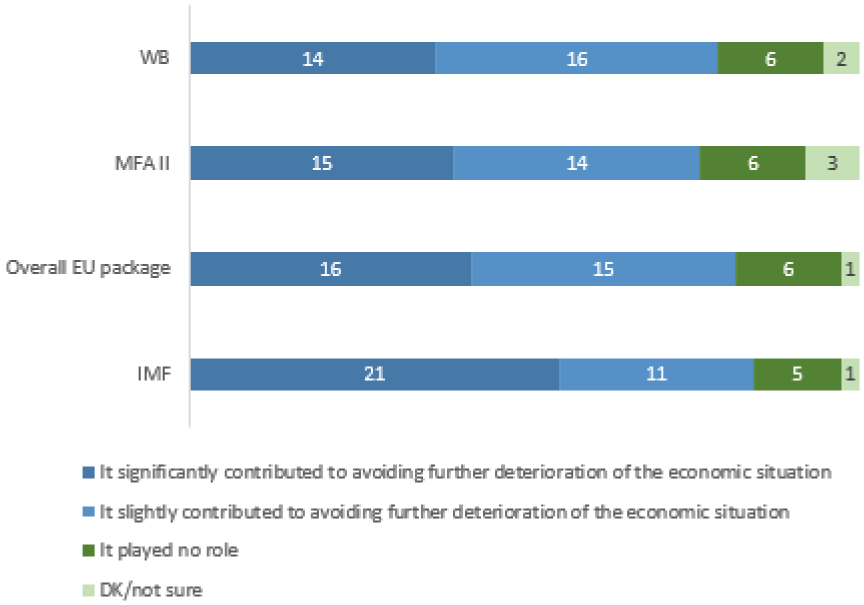
A6.1.3.1 Real GDP / Economic growth

Participants were asked about the impact different foreign donors had in avoiding the further deterioration economy of Tunisia over 2017-19 (see Figure 11). In respondents' views, the IMF seems to be the most contributing financial assistance programme. Regarding IMF, a large majority of respondents considered this assistance "*significantly contributed to avoiding further deterioration of the economic situation*" (21).

Regarding the contribution of other programmes (overall EU package, MFA II or WB loans), the assessment is also generally very positive with 14 to 16 participants (depending on the programme) assessing it contributed significantly to avoiding further deterioration of the economic situation. Compared to the contribution of the IMF programme, the contribution of other programmes is seen as somewhat less significant: more respondents believed it "*slightly contributed to avoiding further deterioration the economic situation".* For 5 or 6 respondents, foreign financial assistance played no role.

Figure 11. Contribution of foreign financial assistance to avoiding deterioration of the Tunisian economy

Question B.5. What role did foreign financial assistance play in avoiding further deterioration of the economic situation of Tunisia over 2017-19?



Base: all (n=38)

Question 6 explores possible economic consequences in the absence of MFA II support (Figure 12). Views are quite divided on this question and do not vary much, regardless of the tranche(s) under consideration.

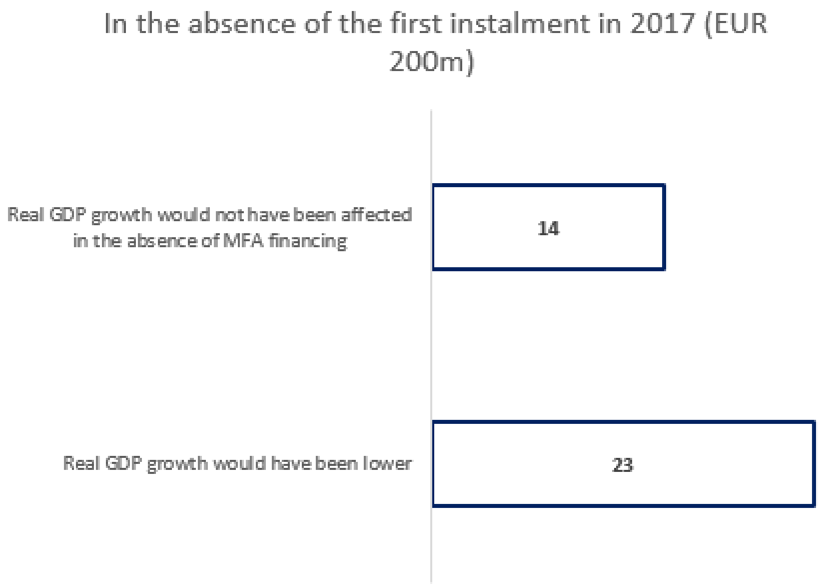
First, respondents are asked about the economic consequences had the first instalment of the MFA II (EUR 200 mln) not been made available to Tunisia in 2017.The majority of participants (23) believed that the "*real GDP would have been lower*"*.* By contrast, 14 out of 37 respondents considered that the "*Real GDP would not have been affected in the absence of MFA financing*" had the first tranche not been made available.

When it comes to the scenario in the absence of the second tranche in 2019 (EUR 300 mln), the majority (21) agreed that the most plausible hypothesis is that the *"Real GDP growth would have contracted much more sharply*". By contrast, 16 out of 37 people believed that the "*real GDP growth would not have been affected"* had the second tranche of MFA II not been disbursed.

Figure 12. Counterfactual scenarios in the absence of the first instalment in 2017

Question B6 - Hypothetically speaking, had the MFA II loan not been made available to Tunisia, how would it have affected economic / real GDP growth over the said period? Please indicate what you think would have been the most plausible outcome in the absence of the MFA loan, separately for 2017 and 2019

In the absence of the first instalment in 2017 (EUR 200 mln)

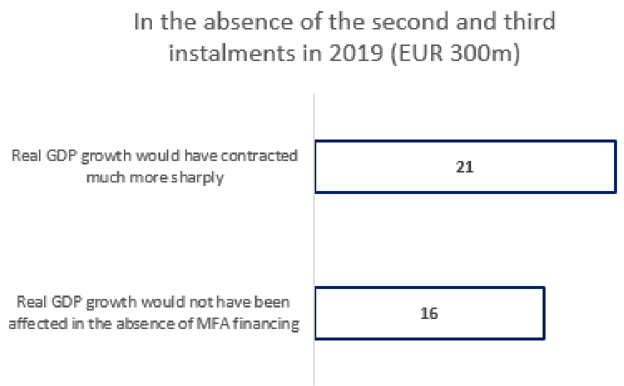


Base: all (n=37)

Figure 13. Counterfactual scenarios in the absence of the second and third instalment in 2019

Question B6 - Hypothetically speaking, had the MFA II loan not been made available to Tunisia, how would it have affected economic / real GDP growth over the said period? Please indicate what you think would have been the most plausible outcome in the absence of the MFA loan, separately for 2017 and 2019

In the absence of the second and third instalment in 2019 (EUR 300 mln)



Base: all (n=37)

Some experts added further details on their answers. In the opinion of some experts, the impact of the MFA II assistance on GDP is not easily assessable and the correlation between international financing and MFA II not obvious. Several respondents considered the financial assistance provided by the EU as relatively small, compared with financing needs. It was noted that MFA II was primarily directed to support the budget deficit, and that effect on the economic growth is not direct and depends on the allocation of the budget / quality of the spending. The low levels of investments were notably pointed out as a major deficiency in that regard.

Moreover, it is clear from some comments that the dependence on foreign assistance is seen as a sensitive issue. It was highlighted that the Tunisian government is now used to receive additional low-cost financing, with the drawback that not enough incentives are provided to the government to implement the structural reforms required to stimulate the economic recovery (e.g., the financial restructuration of the SOEs). Negative effects in terms of the size of the external debt were also noted. In the words of one respondent, in the short run, foreign assistance remains "an emergency door" but in the long one, it is not sustainable. The lack of competitivity of the enterprises, low tourism, and natural resources (phosphates) revenues, low FDIs flow (excepting energy sector) are plunging the country into a downward spiral of indebtedness while persistent social problems and lack of fiscal equity have an impact on tax revenues.

A6.1.3.2 External sustainability

Respondents' views on the impact on Tunisia's sovereign credit rating over the period 2017-19 differ when considering different scenarios: i) without MFA II; ii) without MFA II nor other international assistance. The second scenario (neither MFA nor international assistance) is much more pessimistic. Respectively 31 (or 32) participants said that in 2017 (or in 2019), Tunisia would have had sovereign credit rating downgrade(s). Only 2 participants consider ratings would not have been affected in such a case.

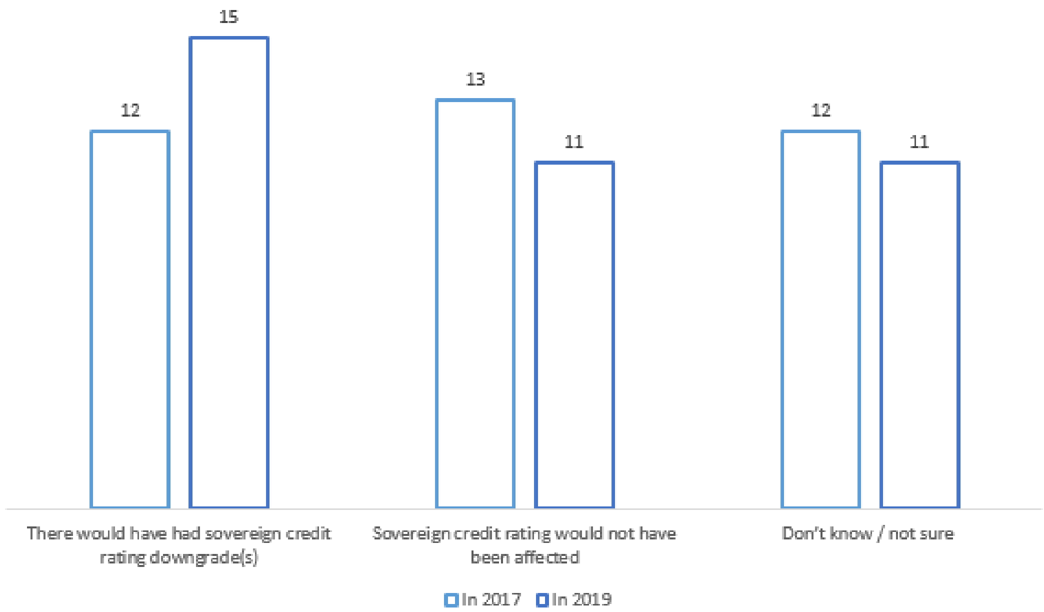
The impact of the MFA assistance only was considered by the experts as more difficult to assess. It is confirmed in the high number of participants (respectively 12 and 11 in 2017 and 2019) indicating that "they don't know or are not sure" on the impact of the MFA II on credit ratings. Those expressing opinions have divided views who do not vary much looking at 2017 or 2019 (slightly more negative in 2019): 12-15 experts think downgrades would have been likely in the absence of MFA II, while 13-11 think ratings would not have been affected.

Generally speaking, experts' views on the evolution of Tunisia's sovereign credit ratings indicated that foreign assistance (grants and loans), particularly in 2019, have contributed to relieve the sovereign credit rating downgrade by reducing the Balance of payment deficit, complete the budget financing plan and to some extent, improve the foreign exchange accumulation at the Central Bank. It was recognised that these operations allow to reassure other creditors by avoiding Tunisia to raise additional funding on international markets (at a higher price). Indeed, Sovereign credit rating is partly determined by financial stability and solvency, ensuring country's ability to repay debt service when due. In this regard, one respondent stressed out that Tunisia had proven its capacity for resilience in the face of the various external shocks suffered since the international financial crisis of 2007-2008, thanks to comparative advantages such as the diversification of its economy, proximity to the European market (first trading partner) and especially the fact that the country has never defaulted vis-à-vis its public and private creditors.

On the other hand, a number of the participants pointed out that sovereign credit rating does not primarily depend on external financial support but mostly on the capacity of an economy to improve conditions for investments; a reform area that was not sufficiently promoted by international donors. Besides, other factors impacted the reputation of the country abroad (political instability and external factors such as the protracted crisis in Libya).

Figure 14. …had the MFA II financing not been available to Tunisia? [provided that the other international assistance remained available]

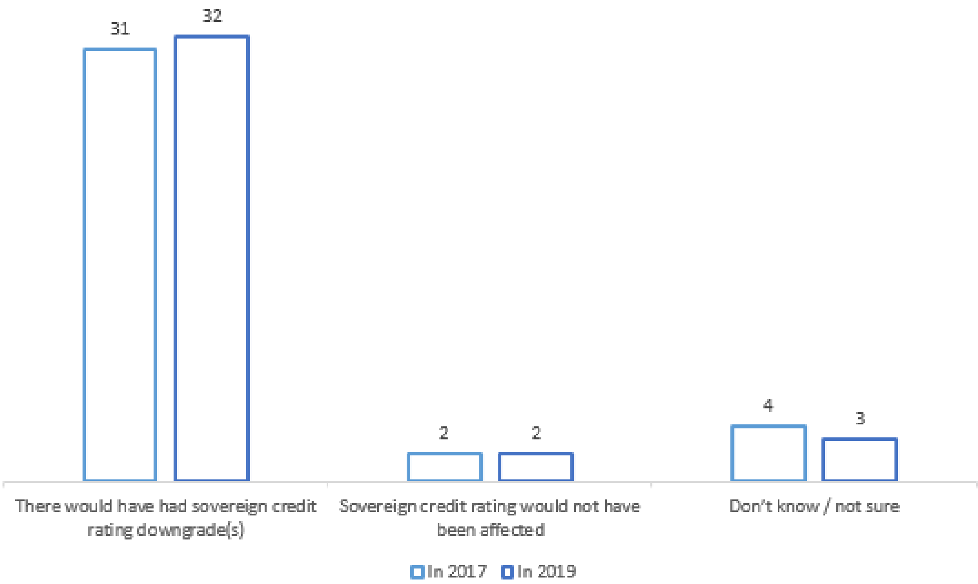
Question B.7. Hypothetically speaking, how Tunisia's sovereign credit rating would have been affected over the said period… [for each scenario in 2017 and 2019 respectively]?


15
12
13
11
12
11
There would have had sovereign credit rating downgrade(s)
Sovereign credit rating would not have been affected
Don't know / not sure
In 2017
In 2019

Base: all (n=37)

Figure 15. …had neither MFA II financing nor the other international assistance been available to Tunisia?

Question B.7. Hypothetically speaking, how Tunisia's sovereign credit rating would have been affected over the said period… [for each scenario in 2017 and 2019 respectively]?



Base: all (n=37)

The subsequent question investigated the likelihood of a sovereign default over the period 2017-19 under two different scenarios: i) without MFA II (see Figure 14; ii) without MFA II nor other international assistance (see Figure 15).

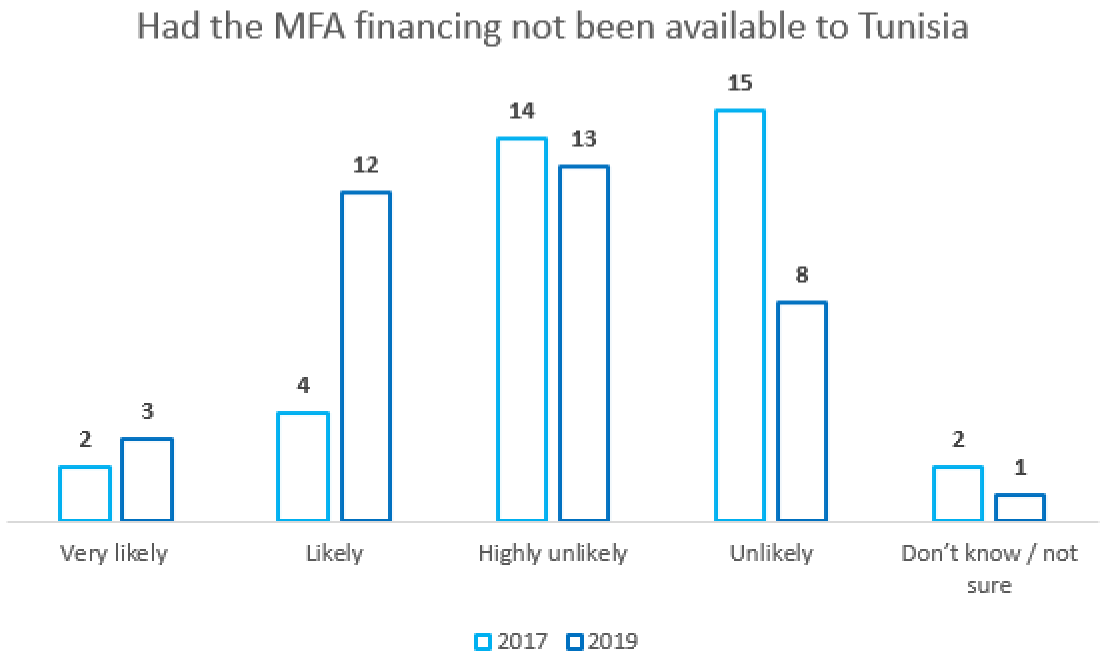
As for the previous question and quite logically, the risk of the sovereign default is seen as much more likely to occur under the second scenario (neither MFA nor international assistance), and even more so for the last disbursements in 2019. The majority (13 or 17 in 2019) affirmed that a sovereign default would have been "*Very Likely*" to occur. In addition, 11 or 12 more stated that the probability of a sovereign default in the absence of MFA II nor other international assistance would have been "*Likely*". At the other end of the spectrum, only respectively 4 and 3 participants, considered this possibility as "*Highly Unlikely*" to happen both in 2017 and 2019.

With reference to the first scenario (without MFA II), views are more divided and there is a large contrast between 2017 and 2019. up to 15 participants believed default would have been "*Likely*" or "*Very likely*" to happen in 2019, against only 6 in 2017. Still in both cases, most of the experts surveyed stated that it would have been "*Unlikely*" to "*Highly unlikely*" that such a situation would come about (more clearly so in 2017).

Figure 16. Likelihood of a sovereign default in the absence of MFA II to Tunisia

Question B8. What, in your view, would have been the likelihood of a sovereign default occurring…

a …had the MFA II financing not been available to Tunisia? [provided that the other international assistance remained available]

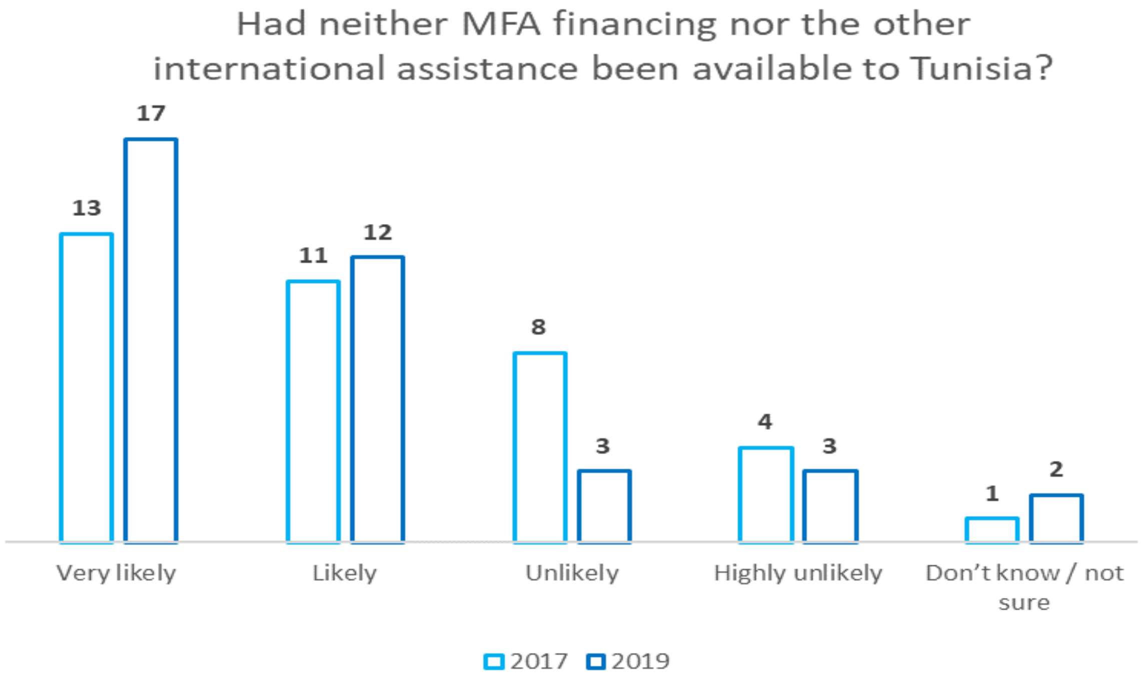


Base: all (n=37)

Figure 17. Likelihood of a sovereign default in the absence of MFA II nor other international assistance to Tunisia

Question B8. What, in your view, would have been the likelihood of a sovereign default occurring…

b …had neither MFA II financing nor the other international assistance been available to Tunisia?



Base: all (n=37)

A6.1.3.3 Alternatives available to Tunisian authorities

Question 9 studies possible alternatives the Tunisian authorities would have had to pursue in the absence of MFA II. Had the first tranche of MFA II not been disbursed in 2017, Figure 19 shows what respondents think that on average score the Tunisian authorities would have opted for:

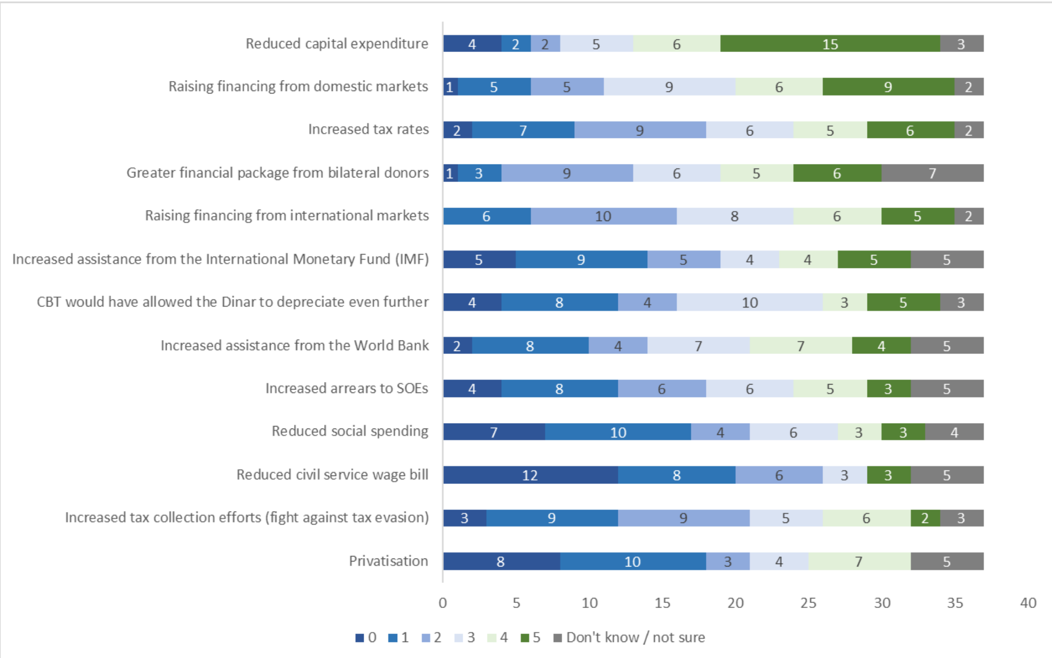
- Reduced capital expenditures (3,5);
- Raising financing from domestic markets (3,2);
- Greater financial package from bilateral donors (3).
- Conversely, the least likely options are:
- Reduced social spending (1.9)
- Privatisation (1,8)
- Reduced civil service's wage bill (1,4)

Regarding the two options regarded as most likely, experts however noted that investment levels were already suffering to a large extent and that raising financing from domestic markets to some extent implied some crowding out effect detrimental for the financing of the Tunisian real economy. More generally, it was highlighted that Tunisian authorities were already making extensive use of all possible options.

In the comment box, one of the respondents has put forward several other possible alternatives which could have been envisaged including securitization of future certain *cash flows (gas pipeline linking Algeria to Italy) and raising financing from the Tunisian Diaspora. The feasibility of such options, and speed at which these could be mobilised however remains a question. Ideas on how to compensate for lower government spending were also included (Issuing investment Bonds to finance some regional development projects; Issuing Social Impact Bonds to alleviate some constraints on the social spending of the State budget; Increasing recourse to PPP to finance infrastructure projects).*

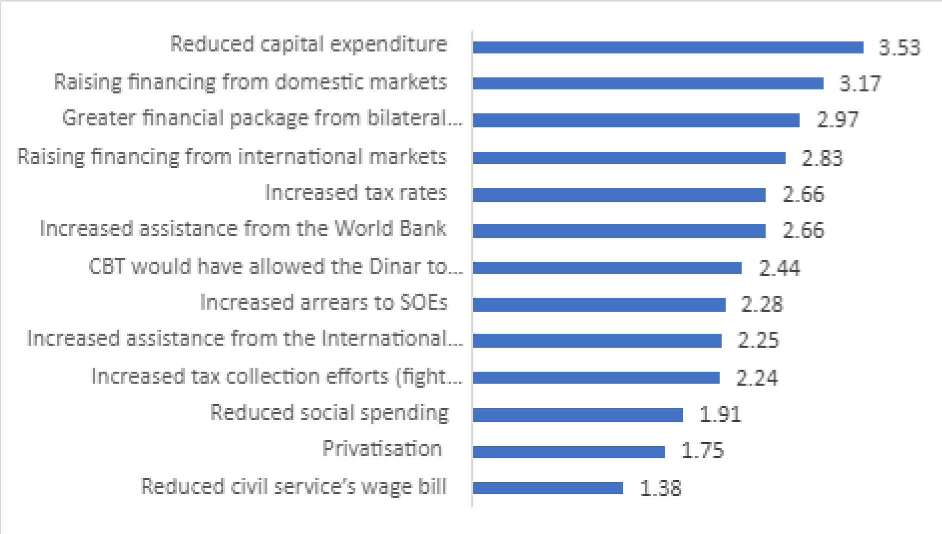
Figure 18. Alternatives Tunisian would have taken in the absence of the first instalment of MFA II in 2017 (EUR 200m)

Question B.9.1 In the absence of the MFA loan, the Tunisian authorities would have had to pursue alternatives. What action(s) would most plausibly have been taken by the Tunisian authorities - had the MFA loans not been available? Please answer separately for 2017 and 2019 using a 0-5 rating scale. Likelihood of alternative action(s) taken by Tunisian authorities with 0= "not at all plausible" to 5 = "very much plausible".



Base: all (37)

Figure 19. Average score of the most plausible alternatives in the absence of the first instalment in 2017 (EUR 200m)

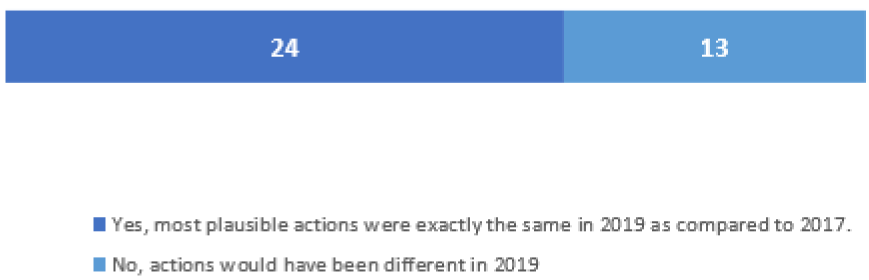


Base: all (n=37)

A subsequent question on whether the actions(s) undertook in 2017 would have been similar in 2019 shows that 24 out of 37 respondents stated that most plausible actions were exactly the same in 2019 as compared to 2017.

Figure 20. Most plausible actions in 2019 compared with 2017.

Question B.9.2 Would action(s) have been exactly the same in 2019 (as compared to 2017)?



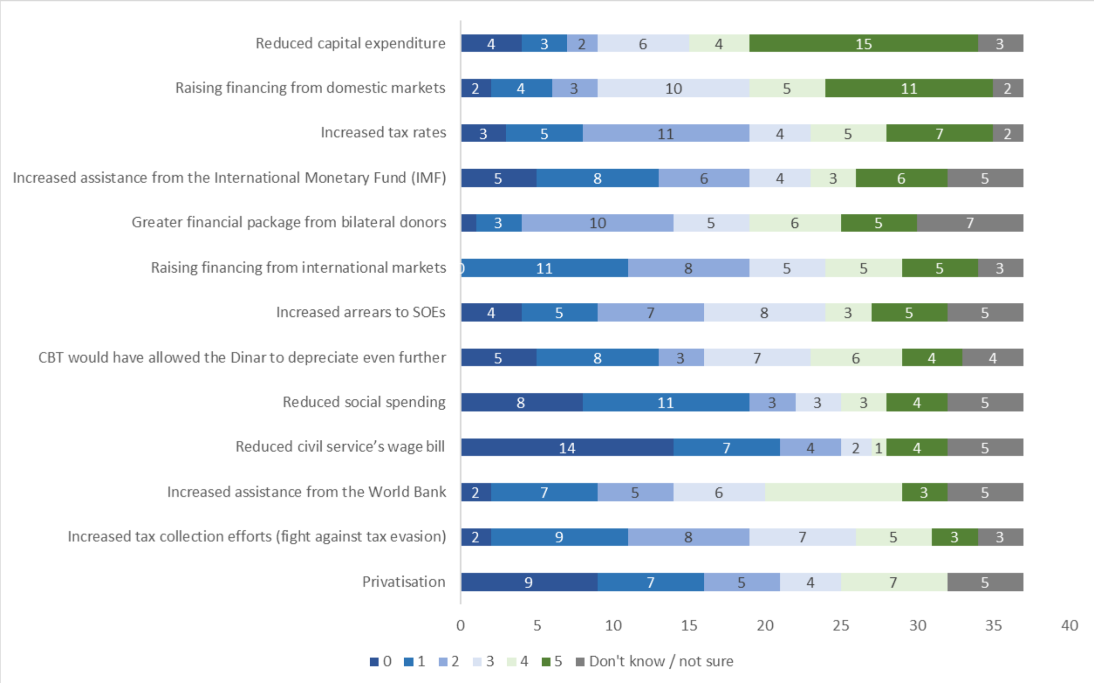
Base: all (n=37)

Looking at the details of the answers (of those thinking options would have been different in 2019), the 2019 scenario in the absence of the second and third tranches does not look too different. Respondents consider that on average score the most plausible alternatives would have been (see Figure 22):

- Reduced capital expenditures (3,4); and
- Raising financing from domestic markets (3,3).
- While the least plausible alternatives would have been:
- Privatisation (1,8)
- Reduced wages bills (1,4)

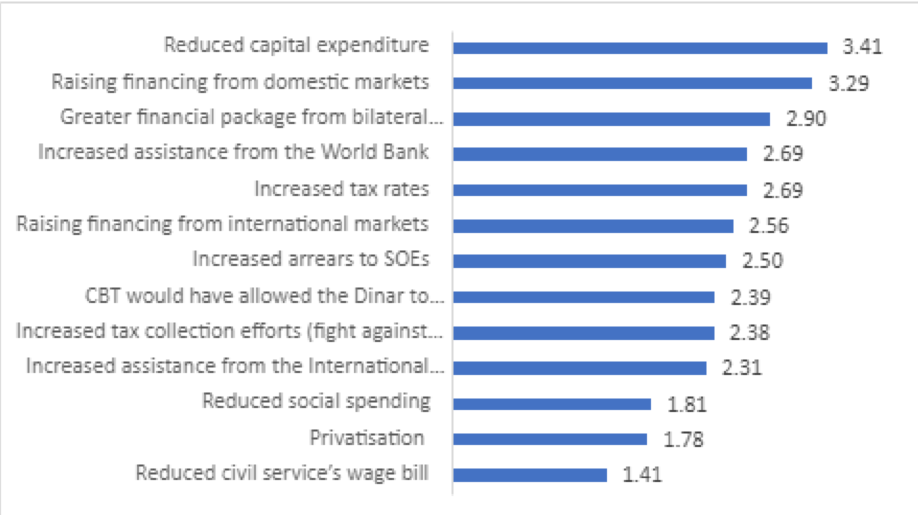
Figure 21. Alternatives Tunisia would have taken in the absence of the second and third instalments of MFA II in 2019 (EUR 300m)

Question B.9.3 In the absence of the MFA loan, the Tunisian authorities would have had to pursue alternatives. What action(s) would most plausibly have been taken by the Tunisian authorities - had the MFA loans not been available? Please answer separately for 2017 and 2019 using a 0-5 rating scale. Likelihood of alternative action(s) taken by Tunisian authorities with 0= "not at all plausible" to 5 = "very much plausible".



Base: (n=13)

Figure 22. Average score of the most plausible alternatives in the absence of the second instalment in 2019 (EUR 300m)



Base: (n=37)

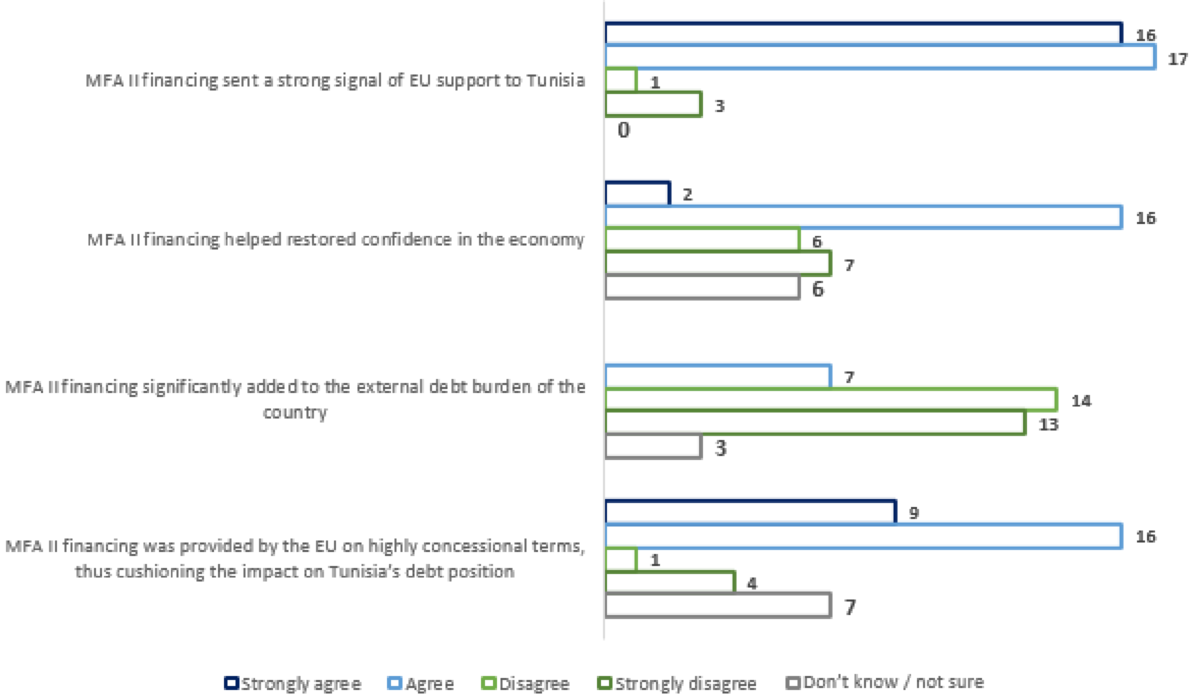
A6.1.3.4 Added value of the MFA II to Tunisia

Afterwards, the added value of the MFA II financing is assessed in respondents' eyes (Table 12). The vast majority of participants agreed (16) or strongly agreed (16) with the statement that "*MFA II financing sent a strong signal of EU support to Tunisia*". Respondents also agreed or strongly agreed that "*MFA II financing helped restored confidence in the economy"*, but less clearly so.

Additionally, most of participants (16 agreed and 9 strongly agreed) have considered that "*MFA II financing was provided by the EU on highly concessional terms, thus cushioning the impact on Tunisia's debt position*". In the same vein, 27 out of 37 respondents disagreed or strongly disagreed with the statement that "*MFA II financing significantly added to the external debt burden of the country*".

Table 12. Added value of the MFA II operation to Tunisia.

Question B.10 Please indicate the extent to which you agree or disagree with the following statements.



Base: all (n=37)

A6.1.4 Section C: Impact of conditionality attached to the MFA II

The aim of this section is to analyse the influence of the conditions tied to MFA II financing in Tunisia on the different reform areas. It seeks to identify what progress was made and whether Tunisian authorities would have made progress in the reform areas without the assistance of the MFA II operation.

On the level of familiarity of surveyed experts with MFA-related reform areas, the responses show that the majority of participants are familiar with Tunisia's overall structural reforms (29); investment climate (26); Financial sector (18); Taxation – VAT reform and Labour markets reforms (16 responses each).

Figure 23. Level of familiarity of experts with reform areas

Question C.11 Which of the following reform areas are you familiar with?

Base: all(n=37)

Generally speaking, the majority of the experts (18 out of 37) believe that in terms of overall structural reforms, Tunisia did not make any progress since 2017 (Figure A1.15 below). Quoted factors (in the comment box) include lack of political stability and absence of public sector reform (going beyond attempts to reduce the wage bill), weight of the trade unions and blockages at the Parliament.

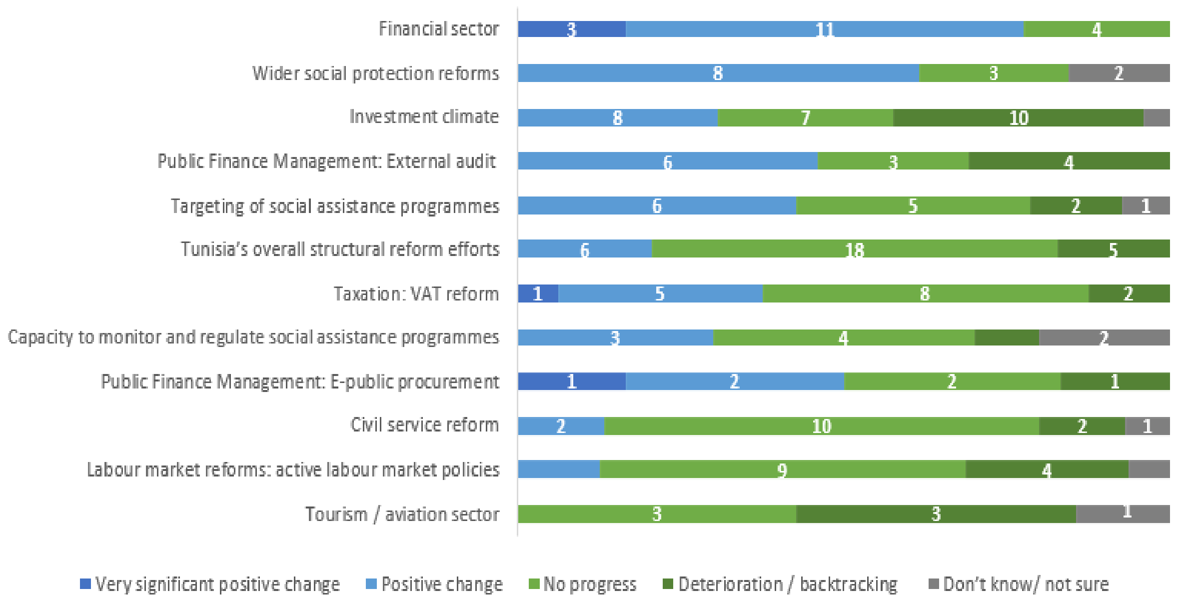
When it comes to specific reform areas that did not experience any changes since 2017, the respondents mentioned: (i) Civil service reform; (ii) Labour market reforms: active labour market policies; (iii) Taxation: VAT reform.

As for financial sector (14 out of 18) and the wider social protection reforms (8 out of 13), most of the respondents agreed that progresses were made since 2017. Public Finance Management: External audit and Targeting of social assistance programmes reform areas were also cited by the experts that progressed since 2017.

On the investment climate, views were mixed. 10 out of 26 respondents flagged a deterioration of the situation while 8 agreed that positive progress had been made since 2017 and 7 declared that no progress occurred. While some respondents pointed to the legal progress in their open comments, others were concerned about the lack of tangible benefits and the deterioration of the overall climate and lack of stability.

Figure 24. Progress in reform areas since 2017

QC.12A What is your opinion of the overall progress made since 2017 in each of the following areas?



Base: (n=26)

Regarding the specific role of MFA conditions, several respondents (4) are positive that Tunisian authorities would have made the same progress in the Financial sector and the Taxation VAT reform areas those areas without MFA II anyways. For the financial sector specifically though, others still thought the EU nudge made a difference: 6 out of 14 answered "*Yes, but at a slower pace*" and 3 of them said "*Yes, but not fully / with some gaps*".

Likewise, among those thinking there was progress in relation to 6 participants (out of 8) agreed that Tunisian authorities would have pushed forward in the investment climate reforms "*but a slower pace*".

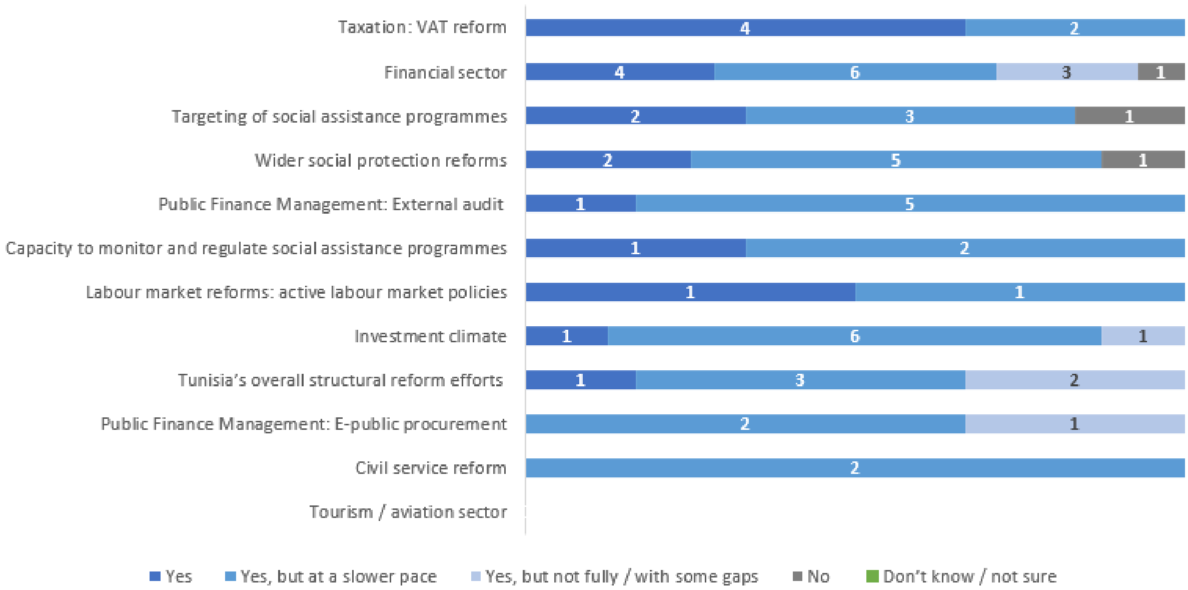
In the same vein, the majority of the experts believed that progress would have gone at a slower pace for Public finance management/External audit (5 out of 6) and Wider social protection reforms (5 out of 8) as well as for Targeting social assistance programmes (3 out of 6); capacity to monitor and regulate social assistance programmes (2 out of 3); E public-procurement and Civil service reform (2 out of 3 and 2 respectively)

According to experts' opinions, much of the progress made would have been carried out even in the absence of MFA II. However, it was often stressed out that the reforms would have been implemented at a slower pace than without the support of the European Union. This can be explained, in words of one respondent, by the nature of the factors hampering reform progress: "*Structural reforms are hampered by blockages of a political nature (government instability, fragmentation within Parliament), corporatist (UGTT, body of civil servants, liberal professions, etc.) or even regionalist (demands in terms of employment, public services, etc. redistribution of wealth ...). [...] Donors, through conditionality, push decision-makers to implement reforms that go beyond vested interests.*".

Overall, as per the next question (add cross ref), the assessment of the role of the EU is rather positive. 17 persons surveyed believed that "*The EU contributed to significant progress being made in key reform areas*". 9 are not sure and 11 think the EU did not contribute to significant progress.

Figure 25. Progress in reform areas in the absence of MFA II

Question C.13 We would like to understand the extent to which there was existing political will and commitment within Tunisian authorities to undertake the reforms supported by the EU. Could you speculate whether the Tunisian authorities would have undertaken reforms in each of the following areas without the nudge from the EU?



Base: (n=14)

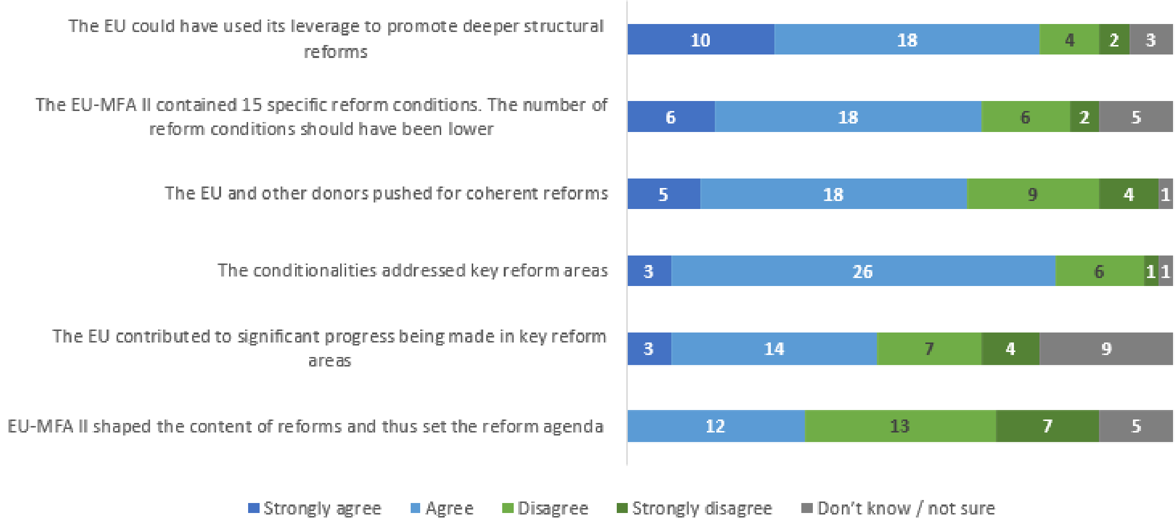
Finally, the section C explores the design of MFA II conditionalities (Figure 26). The large majority of respondents (26 out of 37) agreed that "*The conditionalities addressed key reform areas*". Additionally, 18 out of 37 participants said to agree that "*The EU and other donors pushed for coherent reforms*", in contrast to 9 of them who disagreed with that statement. At the same time, many respondents (21) do not support the statement saying that "*EU-MFA II shaped the content of reforms and thus set the reform agenda",* whereas 12 of them agreed with that same statement.

Interestingly, most of respondents strongly agreed (10) and agreed (18) that "*The EU could have used its leverage to promote deeper structural reforms*". Prompted on the deeper reforms which could have been promoted, 11 respondents spontaneously mention state-owned enterprises. Experts think SOEs should be managed in a more efficient way, receive less compensation from state budget and the least profitable ones could be privatised. In addition, 7 experts mentioned the modernisation of the public administration indicating that beyond the reduction of the wage bill, the reforms could have included decentralization, transparency and accountability, optimization of public service workforce, efficiency of public action, quality and digitization of public services. Other cited reforms by one or two respondents include: (i) Social organisms; (ii) Compensation reforms; (iii) Judicial reforms; (iv) Pension's reform; (v) Energy subsidies or (vi) Debt management.

In parallel though, experts agreed (18) or strongly agreed (6) that "*the number of reform conditions should have been lower*" than the 15 conditions attached to the MFA II.

Figure 26. Realised impact(s) of MFA II

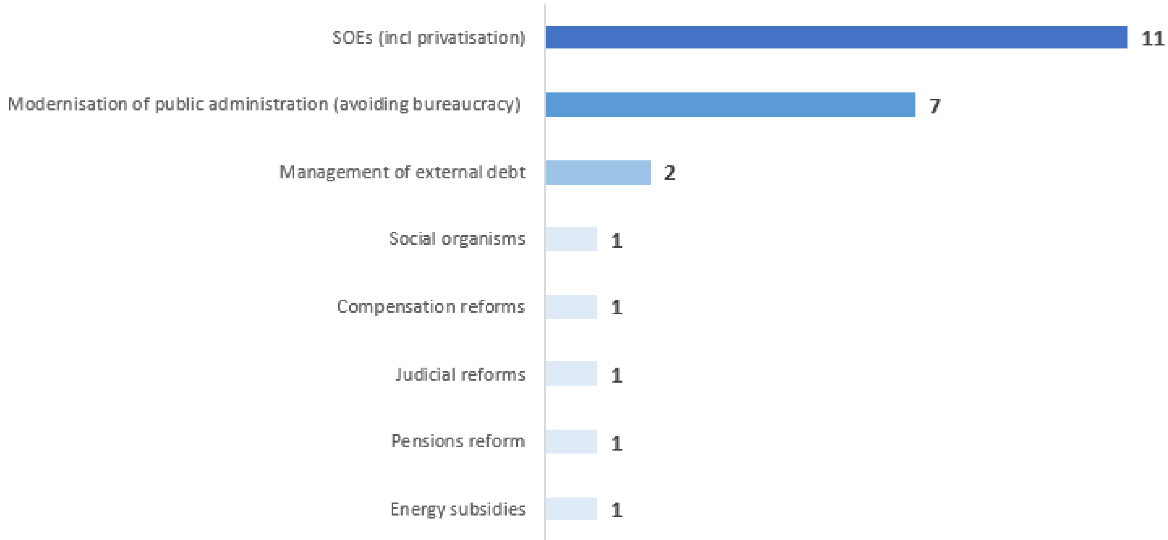
Question C.14 Please indicate the extent to which you agree or disagree with the following statements. When answering this question, please bear in mind that we are *only referring to reforms promoted by the EU-MFA II.*



Base: all (n=37)

Figure 27. EU leverage on deeper structural reforms

Question C.15 You indicated that the EU could have used its leverage to promote deeper structural reforms, please specify which reforms could have been supported by the EU.



Base: Respondents thinking the EU should have used its leverage to promote deeper reforms *(n=28)*

A6.1.5 Section D: Social impacts of the MFA II operation

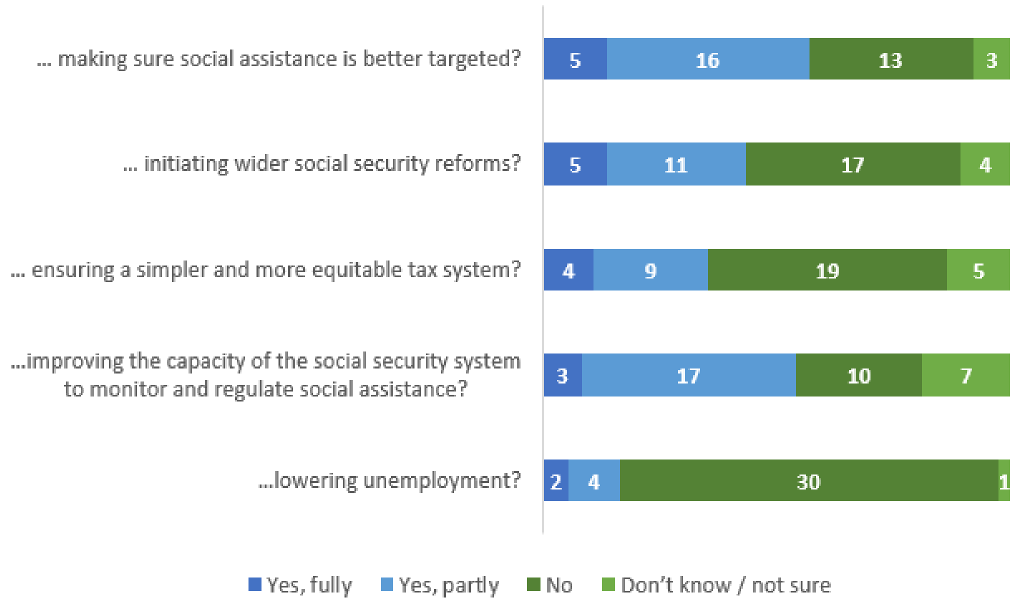
This section covers the social consequences that resulted from the fulfilment of conditionality linked to MFA II financing. In this sense, respondents were asked whether MFA II conditionality was successful in different social areas in Tunisia (Figure 28).

The majority of participants (21 out of 37) considered that MFA II conditionality was successful in making sure social assistance is better targeted. Likewise, according to 20 of them MFA II conditionality was successful in improving the capacity of the social security system to monitor and regulate social assistance.

However, experts had mixed opinions on the statement "initiating wider social security reforms". While 16 out of 37 agreed, 17 believed that the MFA did not initiate wider social security reforms. Besides, 19 respondents highlighted that MFA II conditionality failed to ensure a simpler and more equitable tax system. The wide majority of respondents (30 out of 37) also thought that MFA II conditionality was unsuccessful in lowering unemployment.

Figure 28. Effectiveness of MFA II conditionality in the social area

Question D.16 Was the MFA II conditionality successful in…?

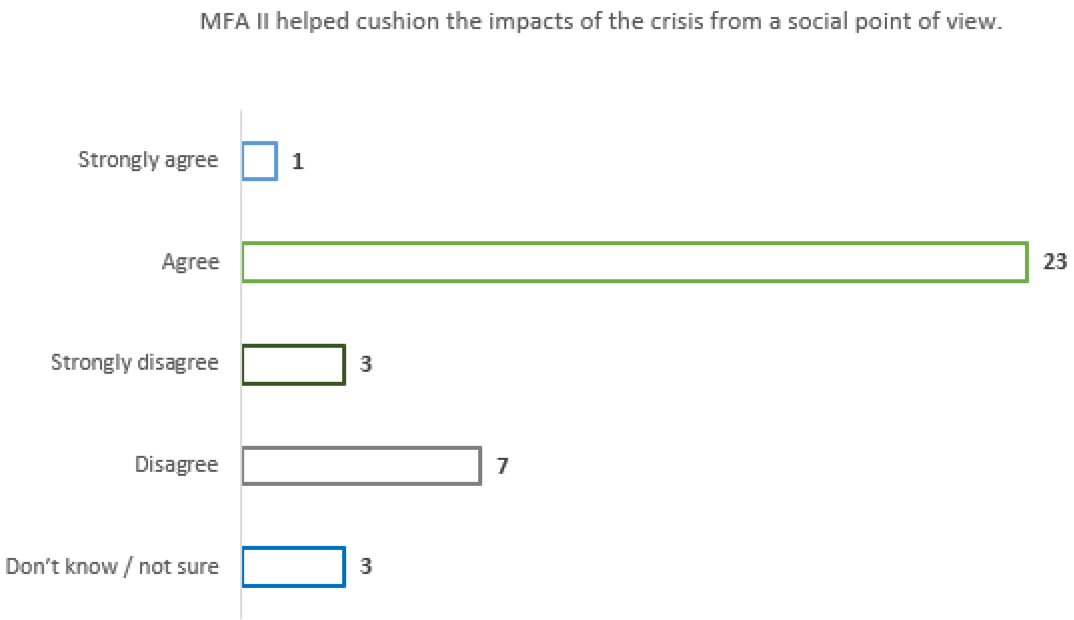


Base: all (n=37)

Lastly, the vast majority of the experts, 24 out of 37 respondents agreed that MFA II helped cushion the impacts of the crisis from a social point of view, but 10 disagreed or strongly disagreed with this statement.

Figure 29. Impact of MFA II operation on the social area

Question D.17 Please indicate the extent to which you agree or disagree with the following statements. When answering this question, please bear in mind that we are only referring to reforms promoted by the EU-MFA II.



Base: all (n=37)

A6.2 Jordan

A6.2.1 Introduction

Out of 32 questionnaires sent, 26 experts from various organisations participated in the survey (a response rate of approximately 81%)[28]. The survey was launched on the 28th of May 2021 and remained open for almost 2 weeks. Initially, the closure date was due on the 4th of June 2021, but this deadline had to be extended until the 9th of June 2021 due to a number of received answers lower than expected.

Experts were mainly identified from previous evaluation carried out on the MFA I and improved by our local experts based in Jordan. From this we included representatives from the following groups/institutions in the survey:

- Academic experts and Researchers from think tanks, academia and the media;
- Independent fiscal policy experts and experienced commentators of Jordanian economic policies.

Table 13 provides the details of the background of respondents by type of organisation.

Table 13. Details of the Experts that were invited and responded

Type of organisation	Number of respondents
Academics	18

[28] Seven (7) incomplete survey responses

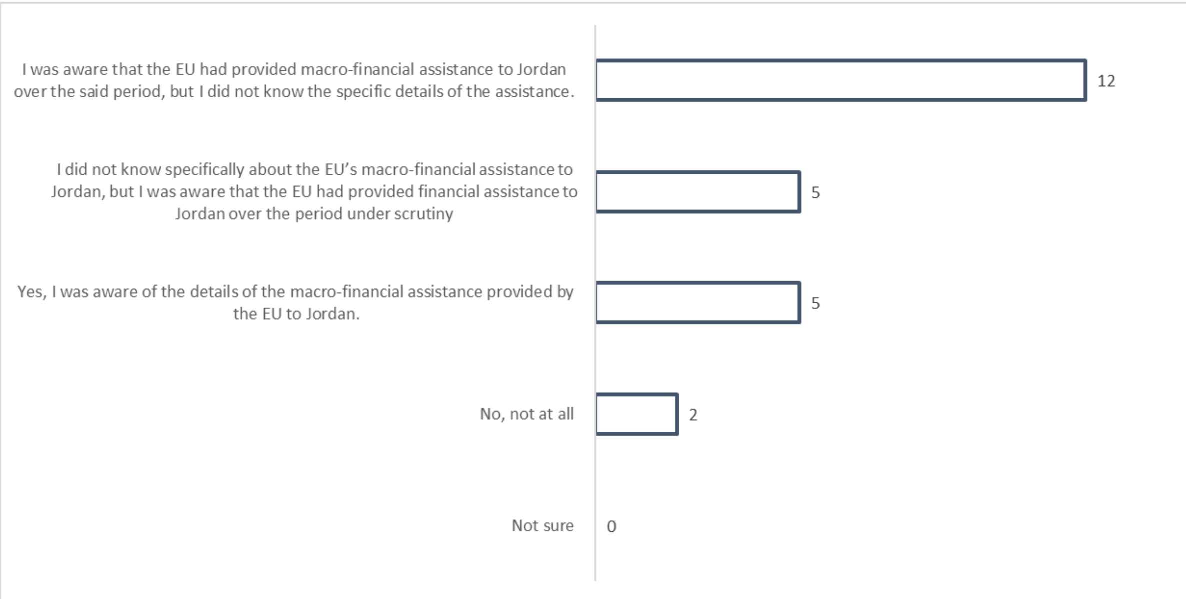
Type of organisation	Number of respondents
Businesses and their representatives	2
Research Consultancy/Think tanks	5
Others (Freelancer)	1
Grand Total	**26**

A6.2.2 Section A: General Information

Figure 10 shows that majority of respondents (22) were aware of the fact that the EU had provided Macro-Financial Assistance to Jordan over the period under discussion. However, only 5 respondents were aware of the specific details of the macro-financial assistance provided to Jordan. Likewise, only two (2) respondents indicated they did not know anything at all about the EU's MFA II.

Figure 30. Familiarity of respondents with EU's MFA II to Jordan

Question 4. Before receiving an invitation to this Expert survey, were you aware of the fact that the EU had provided Macro-Financial Assistance II to Jordan over the period 2017-19??



Base: all (n=24)

A6.2.3 Section B: Macroeconomic situation in Jordan over the period 2017-19

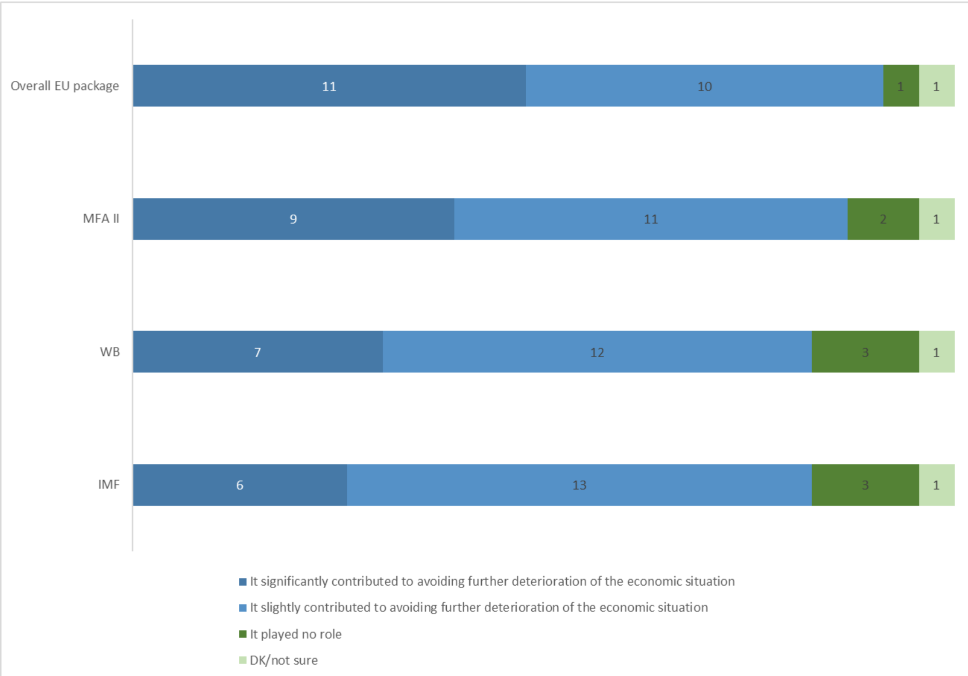
A6.2.4 Real GDP / Economic growth

Participants were asked what role the overseas financial assistance provided to Jordan over the period under discussion played in avoiding further deterioration in the economic situation (see Figure 11). In the respondents' view, the overall EU package and MFA II seems to have been the most contributing financial assistance programme. Eleven (11) respondents indicated that this "*significantly contributed to avoiding further deterioration of the economic situation*". Considered alone, MFA II is given similar appreciation with 9 respondents; whereas an additional 11 respondents indicated that the MFA II "*slightly contributed to avoiding further deterioration of the economic situation".* Likewise, very few respondents felt the overall EU package and MFA played no role in avoiding further deterioration of the economic situation (1 and 2 respectively).

In the opinion of 7 participants, the World Bank's (WB) financial assistance contributed significantly to improving the economic situation – whilst almost half of them believe it slightly contributed (12). With the IMF assistance, 6 respondents were of the view that this *"significantly contributed to avoiding further deterioration of the economic situation"* while majority of respondents indicated that it *"slightly contributed to avoiding further deterioration of the economic situation"* (13). Three (3) respondents indicated that both WB and IMF financial assistance played no role in the improvement of the Jordanian economy.

Figure 31. Contribution of foreign financial assistance to improving the Jordanian economy

Question 5. What role did foreign financial assistance play in avoiding further deterioration of the economic situation of Jordan over 2017-19??



Base: all (n=23)

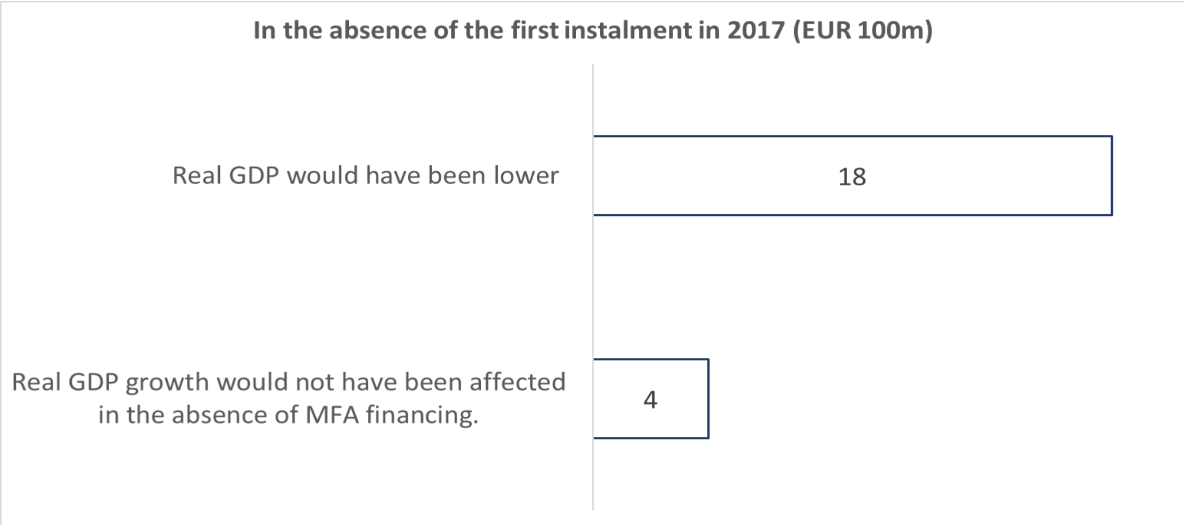
Question 6 explores possible counterfactual scenarios in the absence of the MFA II support (Figure A1.24). Here, respondents were first asked about the economic consequences had the first instalment of the MFA II (EUR 100m) not been made available to Jordan in 2017. Majority of participants (18) indicated that "*real GDP would have been lower*" and four (4) respondents indicated that *"real GDP growth would not have been affected in the absence of MFA financing*". Similarly, 18 out of 22 respondents considered that "*real GDP would have been lower*" had the second tranche not been made available while only four (4) indicated that "*real GDP growth would not have been affected in the absence of MFA financing"*.

From the open responses, some experts were of the view that the financial assistance is sometimes misdirected and poorly coordinated by the relevant government entities or counterpart bodies in the country, suggesting that the budget expenditure allocation is sometimes biased towards some sectors that do not directly lead to GDP growth. Likewise, in the opinion of two experts, the EU and other donors can have a positive effect if the assistance is channelled toward productive sectors or the needs of refugees and hosting communities through investments in infrastructural projects that might play an important role in creating new opportunities. Other opinions also suggest that Jordan's reliance on foreign assistance makes it difficult to see impacts. One respondent suggested that the overall sum of the MFA II (200 million) had limited effects, especially with the debt to GDP ratio and the large number of refugees in Jordan. Another respondent also noted that the Jordanian economy needs more efficient fiscal mobilization efforts and that more attention to tax evasion should be taken into consideration by the Jordanian authorities.

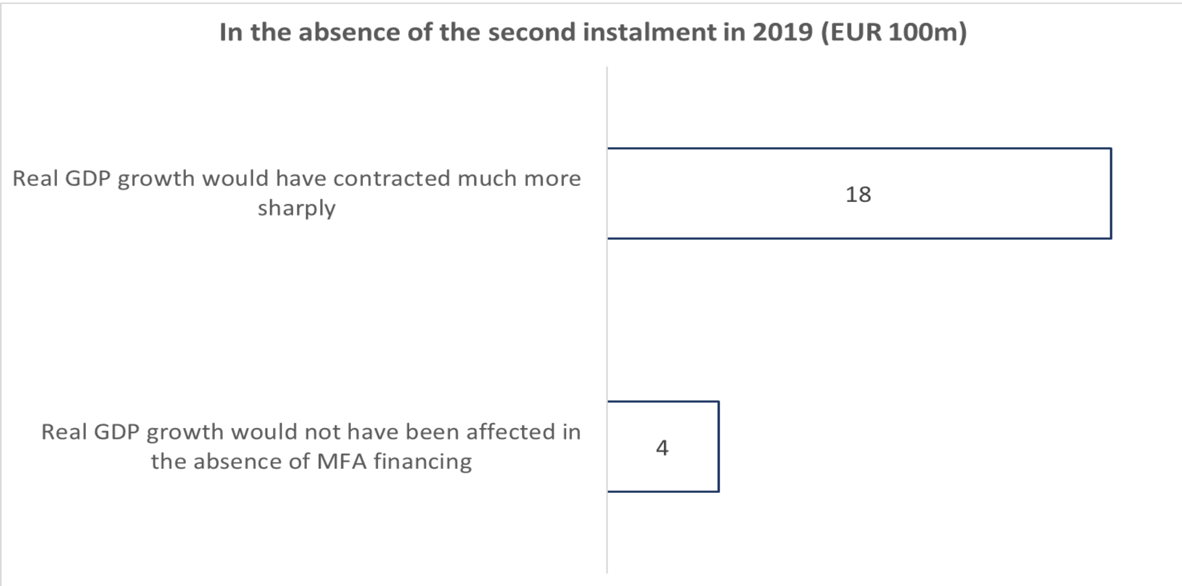
Figure 32. Counterfactual scenarios in the absence of the first and second MFA II instalment in 2017 and 2019

Question 6. Hypothetically speaking, had the MFA II loan not been made available to Jordan, how would it have affected economic / real GDP growth over the said period?

Please indicate what you think would have been the most plausible outcome in the absence of the MFA loan, separately for 2017 and 2019.



Base: all (n=22)



Base: all (n=22)

A6.2.5 External sustainability

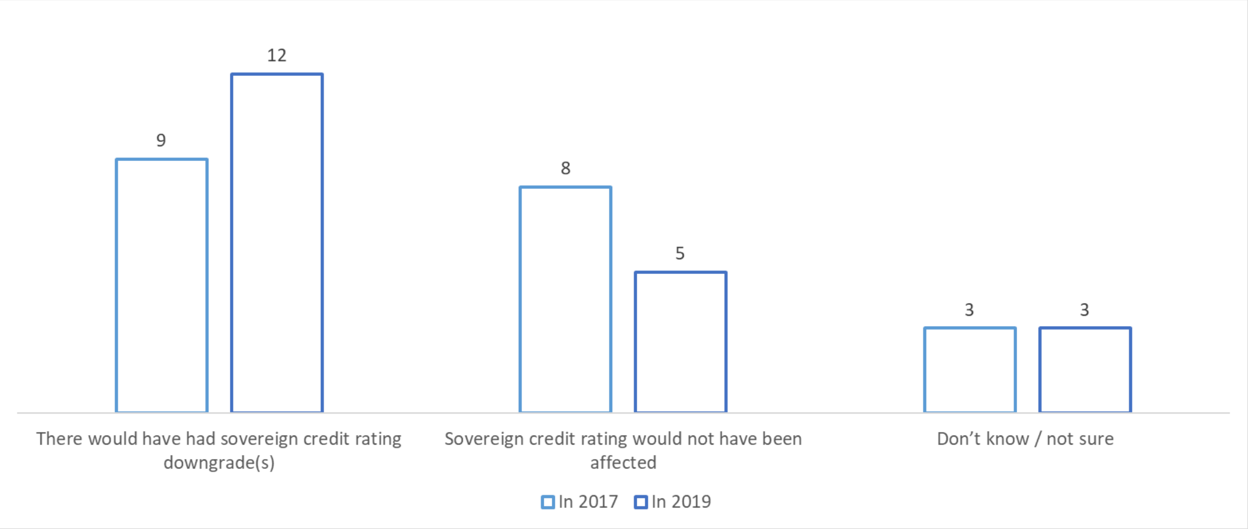
In this section, respondents were asked their views on how Jordan's sovereign credit ratings would have been affected, and the likelihood of sovereign default, over the period 2017-19 when considering two different scenarios: i) without MFA II; ii) without MFA II and other international assistance.

As shown in Figure 4 (below), with the first scenario (without MFA II only) nine (9) respondents indicated that Jordan's sovereign credit rating would have been downgraded and eight (8) respondents indicated that sovereign credit ratings would not have been affected in 2017. Similarly, twelve (12) respondents indicated that Jordan would have had its sovereign credit ratings downgraded in 2019. In contrast, five (5) respondents indicated that Jordans sovereign credit rating would not have been affected during that period.

Figure 33. Impact on Jordan's sovereign credit ratings in the absence of MFA II

Question 7A. Hypothetically speaking, how would Jordan's sovereign credit rating have been affected over the said period…?

a …had the MFA financing not been available? [provided that the other international assistance remained available]



Base: all (n=20)

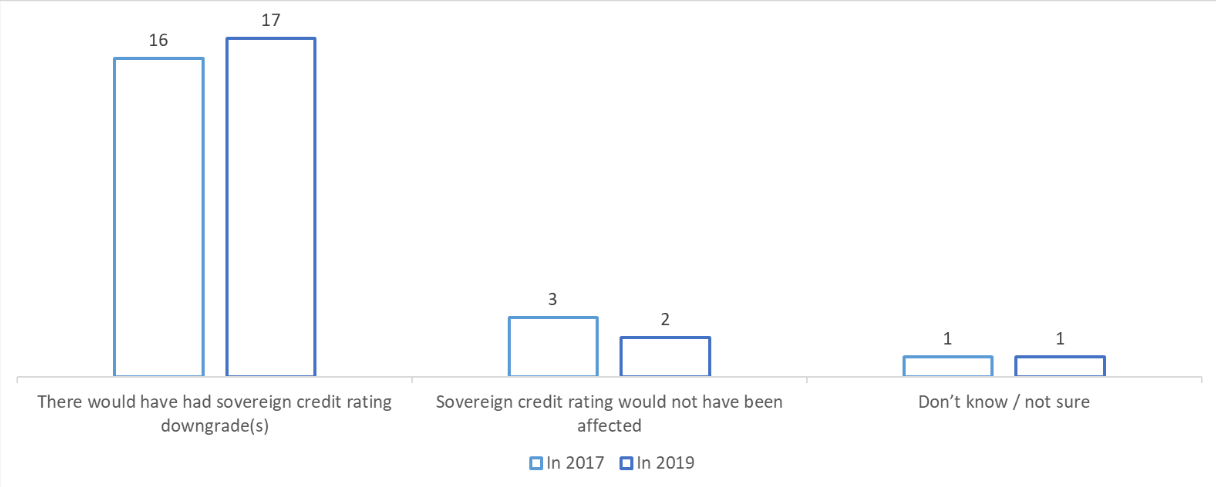
For the second scenario (Figure 17), there seems to be some level of agreement amongst respondents when considering what could have happened if no MFA II and other international assistance were not provided.

Most respondents (16 out of 20) were of the view that Jordan would have had sovereign credit rating downgrade(s) if not for the external assistance in 2017. Only three (3) respondents indicated that sovereign credit rating would not have been affected in 2017. Likewise, 17 out of 20 respondents indicated that Jordan would have had sovereign credit rating downgrade(s) if not for the external assistance in 2019. Similarly, only two (2) respondents indicated that sovereign credit rating would not have been affected had there been no MFA II and other international assistance to Jordan in 2019.

Figure 34. Impact on Jordans sovereign credit ratings in the absence of MFA II nor other international assistance to Jordan

Question 7B. Hypothetically speaking, how Jordan's sovereign credit rating would have been affected over the said period…?

b …had neither MFA financing nor the other international assistance been available?



Base: all (n=20)

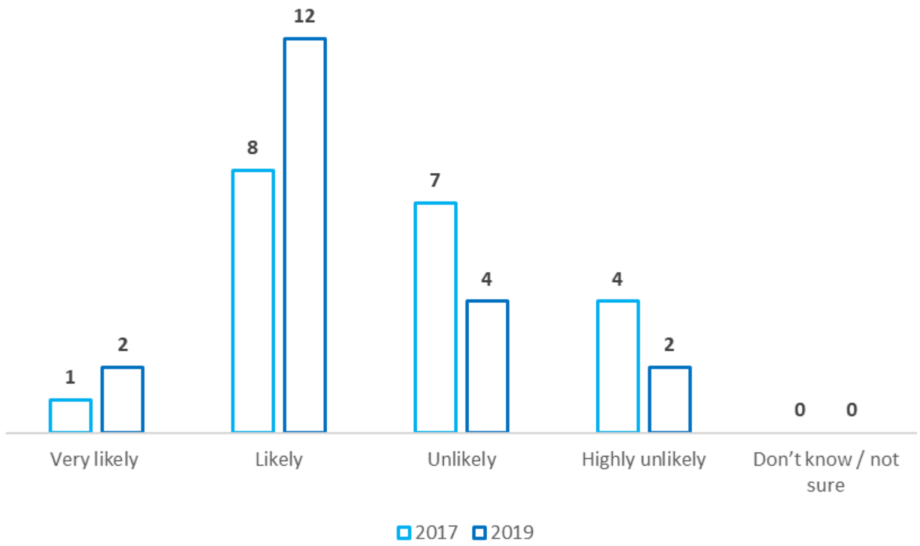
Further comments from respondents highlight the need to strengthen budget allocations as well as the importance of international assistance and financing for Jordan, especially as a result of regional developments, instability, and Jordan's geopolitical situation

In relation to the likelihood of sovereign default (Figure A1.26), 9 out of 20 (or 45%) respondents indicated that sovereign default was very likely or likely in 2017 had the MFA financing not been available to Jordan. In addition, 7 out of 20 respondents indicated unlikely and four (4) respondents also indicated highly unlikely. For 2019, 14 out of 20 respondents (70%) indicated that sovereign default was very likely or likely. Only two (10%) indicated this was highly unlikely while 4 indicated unlikely.

Figure 35. Likelihood of a sovereign default in the absence of MFA II nor other international assistance to Jordan

Question 8A. What, in your view, would have been the likelihood of a sovereign default occurring…

a ……had the MFA financing not been available to Jordan? [provided that the other international assistance remained available]



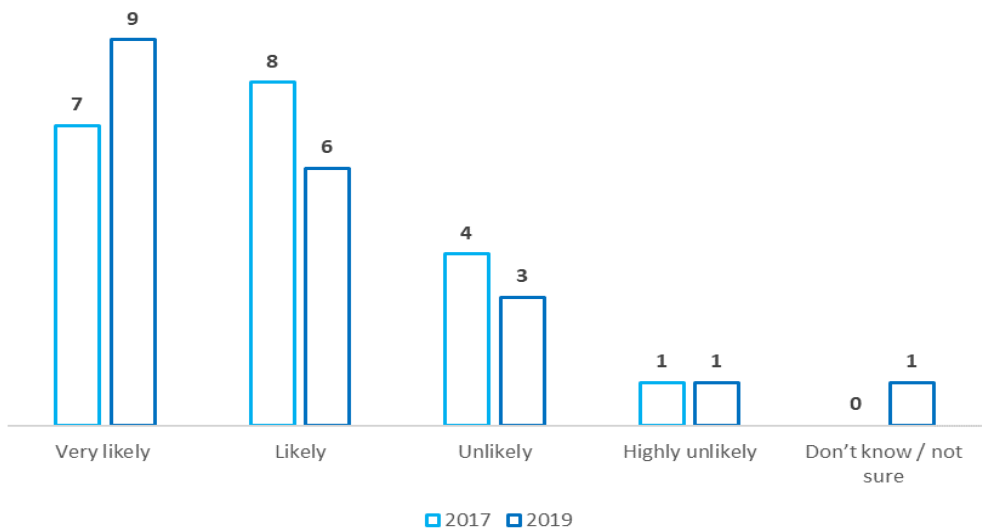
Base: all (n=20)

When asked about the likelihood of sovereign default in the absence of MFA II nor other international assistance to Jordan (Figure A1.27). Here, majority of respondents (15 out of 20 or 75%) indicated that sovereign default was very likely or likely in 2017 had the MFA and other international assistance not been available to Jordan. These responses were quite similar for 2019 with more respondents indicating "very likely" as compared to 2017 (Figure A1.27).

Figure 36. Likelihood of a sovereign default in the absence of MFA II nor other international assistance to Jordan

Question 8B. Hypothetically speaking, how Jordan's sovereign credit rating would have been affected over the said period…?

b …had neither MFA financing nor the other international assistance been available?



Base: all (n=20)

A6.2.6 Alternatives available to Jordan's authorities

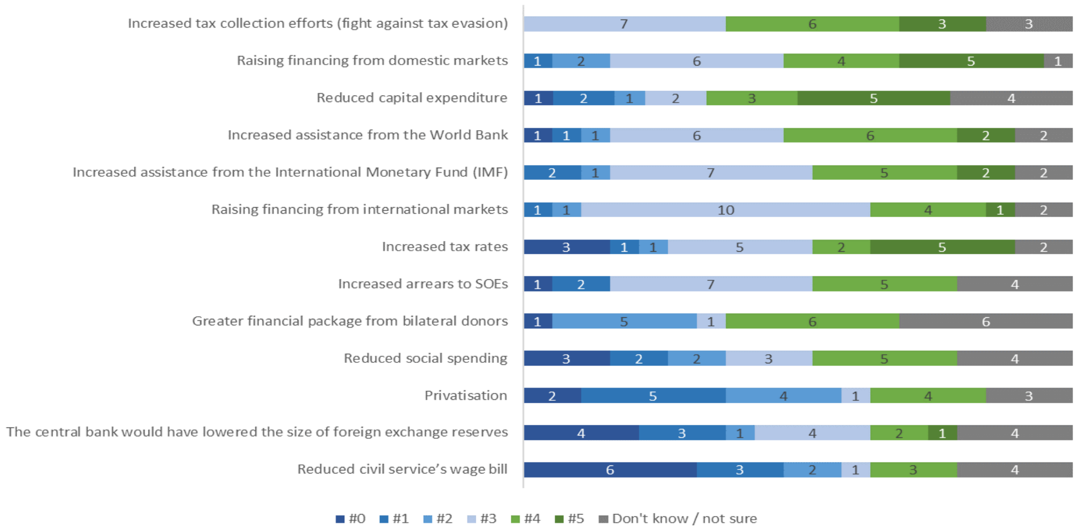
Proceeding to a counterfactual exercise, Question 9 considers plausible alternatives the Jordanian authorities would have had to pursue in the absence of MFA II. As shown in Figure 37 (also see Figure 37 for average scores), respondents were of the view that had the first tranche of MFA II not been disbursed in 2017 the plausible alternative would have been:

- Increased tax collection efforts (fight against tax evasion) (an average of 3.75)
- Raising financing from domestic markets (an average of 3.56)
- Reduced capital expenditure (average of 3.36)
- Conversely, the least likely options are:
- The central bank would have lowered the size of foreign exchange reserves (average 2,0)
- Reduced civil service's wage bill (average 1.47)

Figure 37. Alternatives Jordan would have taken in the absence of the first instalment of MFA II in 2017 (EUR 100m)

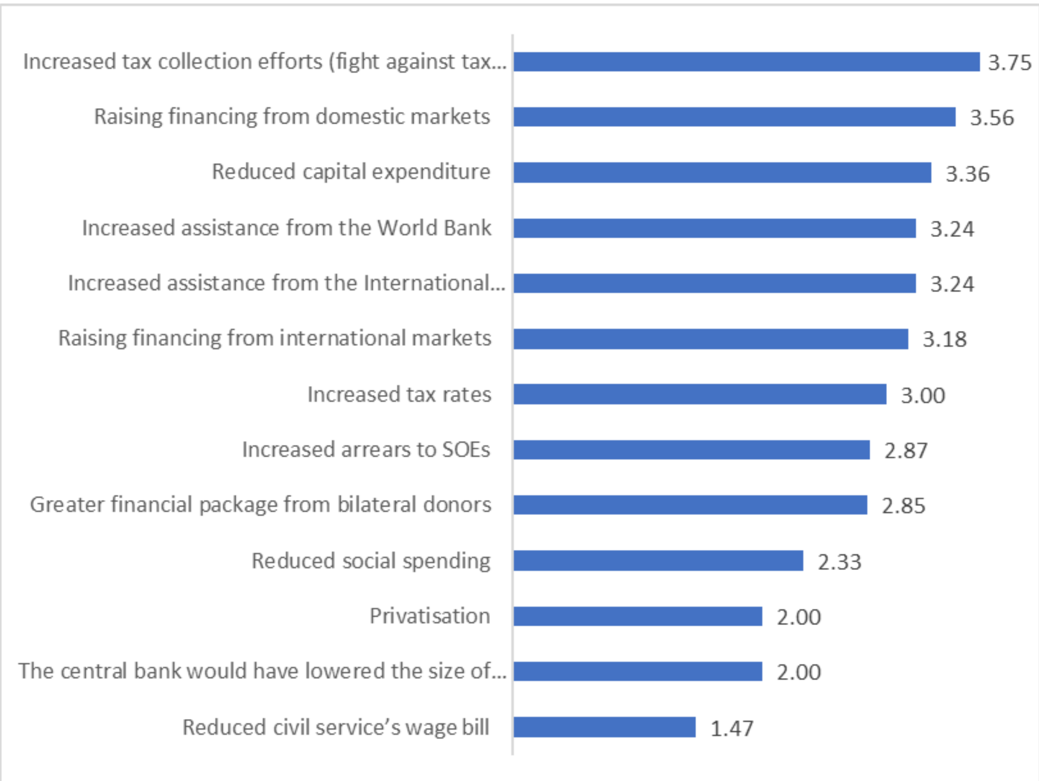
Question 9. In the absence of the MFA loan, the Jordanian authorities would have had to pursue alternatives. What action(s) would have been taken by the Jordanian authorities had the MFA loans not been available? Please answer separately for 2017 and 2019 using a 0-5 rating scale. Likelihood of alternative action(s) taken by Tunisian authorities with 0= "not at all plausible" to 5 = "very much plausible".

In the absence of the first instalment in 2017 (EUR 100m)



Base: all (n=19)

Table 14. Alternatives Jordan would have taken in the absence of the first instalment of MFA II in 2017 (EUR 100m) Average score of the most plausible alternatives in the absence of the second instalment in 2017



Base: all (n=19)

For the second tranche, respondents were first asked whether the Jordanian authorities would have taken similar actions in 2019 as compared to 2017. As shown in Figure 38, most respondents (14 out of 19) indicated "yes, most plausible actions were exactly the same in 2019 as compared to 2017".

Figure 38. Alternative action(s) taken by Jordanian authorities in 2019

Question 9Ai - Would action(s) have been exactly the same in 2019 (as compared to 2017)?

Base: all (n=19)

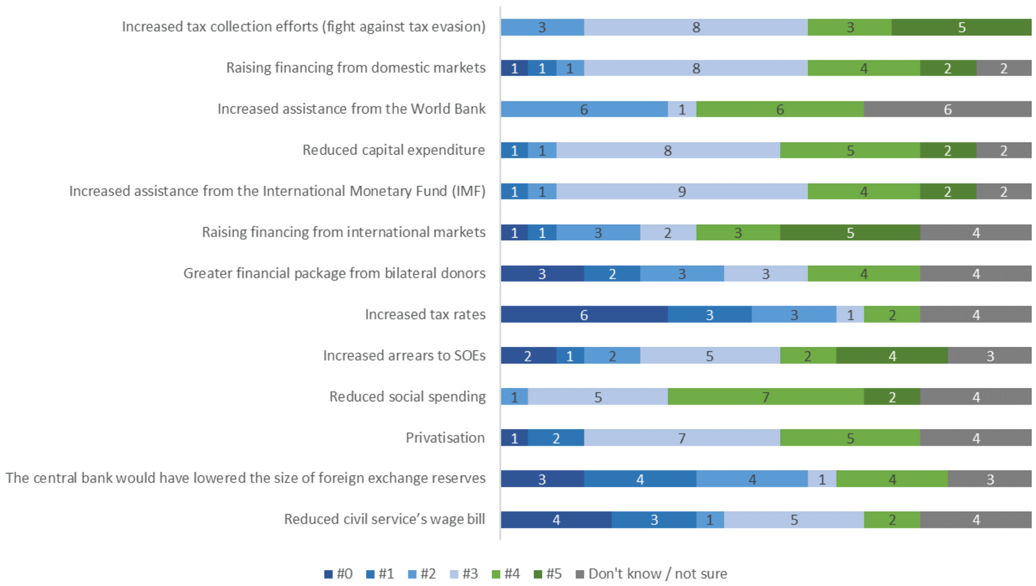
When asked about the possible alternative scenarios for Jordan in 2019, in the absence of the second tranche, survey responses suggest limited options for Jordan. Only two (2) respondents felt raising financing from international markets was very much plausible. Likewise, five (5) respondents felt that increased tax collection efforts (fight against tax evasion) was a possible alternative. On average (Figure 12), respondents were of the view that had the second tranche of MFA II not been disbursed in 2019 the plausible alternative would have been:

- Increased tax collection efforts (fight against tax evasion) (an average of 3.7)
- Raising financing from domestic markets (an average of 3.5)
- Conversely, the least likely options are:
- The central bank would have lowered the size of foreign exchange reserves (average 1,9)
- Reduced civil service's wage bill (average 1.3)

Figure 39. Alternatives Jordan would have taken in the absence of the second and last instalment of MFA II in 2019 (EUR 100m)

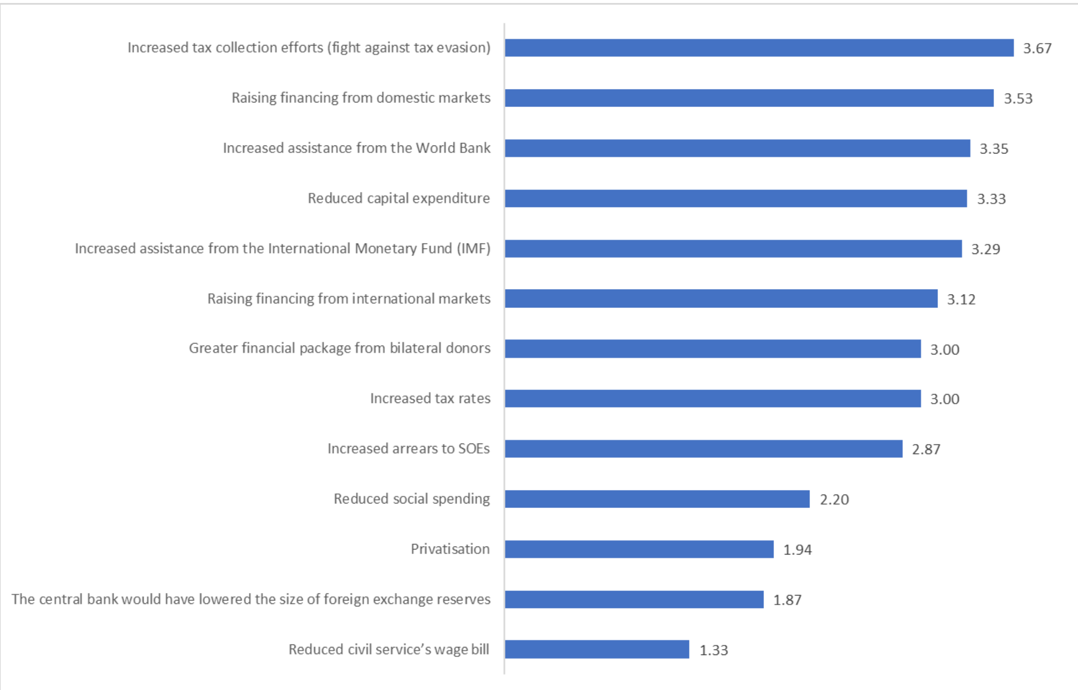
Question B9. In the absence of the MFA loan, the Jordanian authorities would have had to pursue alternatives. What action(s) would have been taken by the Jordanian authorities had the MFA loans not been available? Please answer separately for 2017 and 2019 using a 0-5 rating scale. Likelihood of alternative action(s) taken by Tunisian authorities with 0= "not at all plausible" to 5 = "very much plausible".

In the absence of the second and last instalment in 2019 (EUR 100m)



Base: all (n=19)

Figure 40. Alternatives Jordan would have taken in the absence of the first instalment of MFA II in 2017 (EUR 100m) Average score of the most plausible alternatives in the absence of the second instalment in 2017



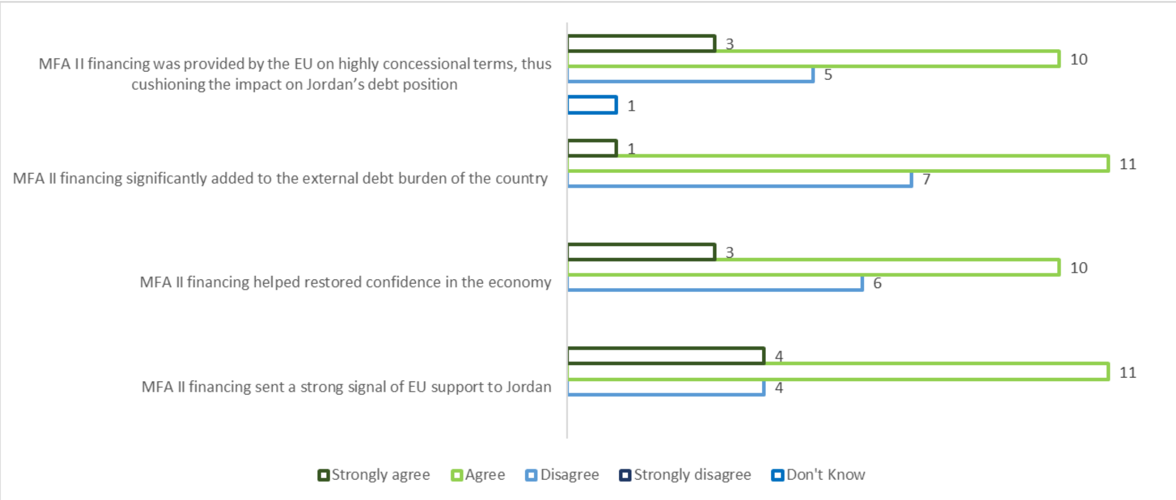
Base: all (n=19)

A6.2.7 Added value of the MFA II to Jordan

Lastly, respondents were asked about the added value of the operation (Figure 17). Overall, most respondents indicated either strongly agree or agree with the statements below with very few respondents indicating they disagree or strongly disagree. 15 out of 19 or 79% indicated they either strongly agree or agree that MFA II financing sent a strong signal of EU support to Jordan. 13 out of 19 or 68% indicated they either strongly agree or agree with the statement that MFA II financing helped restored confidence in the economy. This was similar for the statement *MFA II financing was provided by the EU* *on highly concessional terms, thus cushioning the impact on Jordan's debt position* (12 out of 19 or about 68% indicated they either strongly agree or agree with the statement).

Figure 41. Added value of the MFA II operation to Jordan

Question 10. Please indicate the extent to which you agree or disagree with the following statements?



Base: all (n=19)

A6.2.8 Section C: Impact of conditionality attached to the MFA III

This section considers the impacts of the MFA II conditionality across the various reform areas. Respondents were first asked how familiar they were with the MFA II reform areas. As shown in Figure 12, a large majority of respondents indicated they are familiar with reforms in the area of Public Finance Management (Public Debt Management) (16 out of 16); Jordan's overall structural reform efforts (14 out of 16); and Tax (income tax law) (13 out of 16). Likewise, few respondents indicated familiarity in the other reform areas.

Figure 42. Familiarity with MFA II reform areas

Question 11. Which of the following reform areas are you familiar with? (tick all that apply)?

Base: all (n=16)

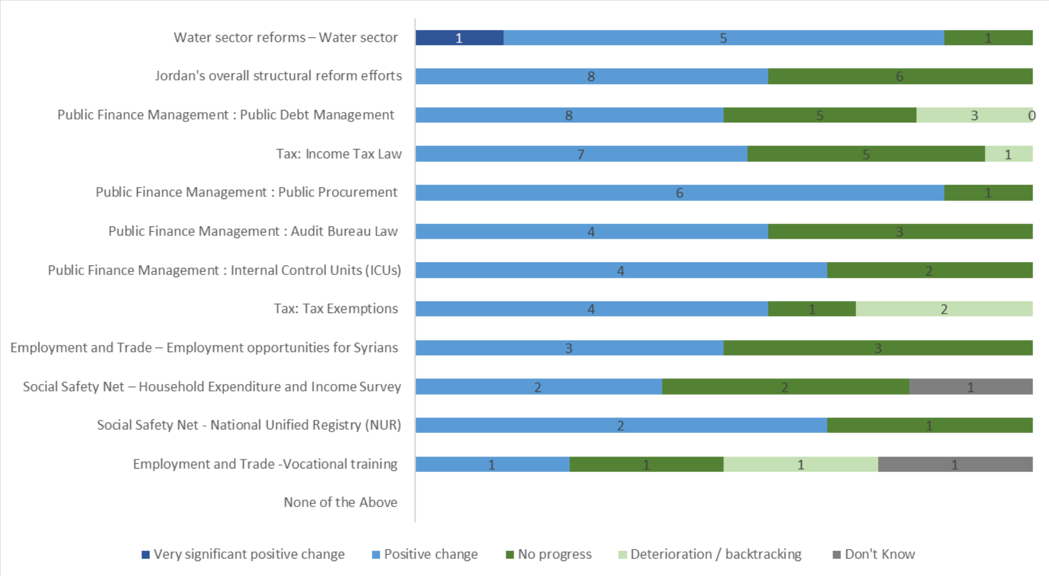
Participants were further asked their opinion on the overall progress made under each MFA II reform area (Figure 26). With the exception of Water sector reforms (1 out of 7), no respondent indicated that there had been "very significant positive change" in the other reform areas while an additional five (5) indicated that there had been "positive change" in this reform area. For those who ticked Jordan's overall structural reform effects, 8 out of 14 indicated that there was "positive change" and the remaining six (6) indicated that "no progress" had been made. Similarly, in the area of Public Finance Management, most respondents felt there had been "positive change" in public procurement reforms (6 out of 7) and one (1) respondent indicated that there had been "no progress". In relation to Internal Control Units, 4 out of 6 respondents indicated that there had been "positive change". However, the remaining two (2) indicated "no progress" had been made.

There were mixed reactions regarding reform measures relating to the Audit Bureau Law. Although 4 out of 7 respondents indicated that there had been "positive changes" in this reform area, the remaining 3 respondents felt "no progress" had been made. Similarly, while 8 out of 21 respondents felt there had been "positive changes" in public debt management, 5 indicated "no progress", and 3 felt there had been further "deterioration/backtracking".

In the area of taxation, 7 out of 13 respondents indicated there had been positive change for Income Tax Law and 5 out of 13 participants noted that no progress had been made. One (1) respondent also indicated that there had been backtracking/deterioration in this reform area. For Tax Exemptions, 4 out of 7 respondents indicated that there had been progress, one (1) participant indicated that there had been "no progress" and two (2) respondents noted that there had been "deterioration/backtracking". For Social Safety Net reforms, 2 out of 5 respondents indicated there had been "positive change" and an additional two (2) respondents indicated that there had been "no progress" with the Household Expenditure and income survey. 2 out of 3 respondents indicated there had been "positive change" in relation to progress made with the National Unified Registry (NUR). Only one respondent indicated that there had been "no progress" in this reform area. Lastly, for reforms relating to Employment and Trade, 3 out of 6 respondents indicated that there had been progress in relation to the creation of employment opportunities for Syrians. For vocational training, 1 out of 4 respondents indicated that there had been "positive change". This was similar with those indicating "no progress" and "deteriorating/backtracking" (1 out of 4 respondents each).

Figure 43. Overall progress made in reform areas

Question 12. What is your opinion of the overall progress made in each of the following areas?



Base: all (n=21)

In addition to the above, participants were also asked to speculate the extent to which there was existing political will and commitment by Jordanian authorities to undertake the reforms supported by the EU (Figure 14).

For reforms relating to taxation, all respondents felt that there was political will and commitment within the Jordanian authorities. With the income tax law, 4 out of 8 respondents indicated "yes", one respondent said "yes, but at a slower pace" and 3 out of 8 indicated "yes, but not that this was not fully/with some gaps". Likewise, 2 out of 4 respondents indicated "yes, but at a slower pace" for tax exemptions with the remaining 2 respondents indicating "yes, but not fully/with some gaps".

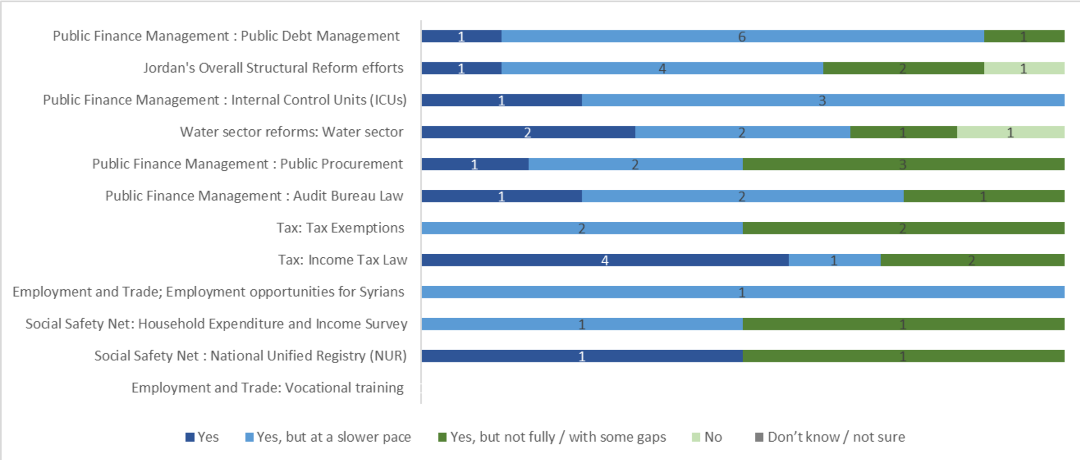
For Public Finance Management, majority of respondents (6 out of 8) indicated "yes, but at a slower pace" for reforms in the area of public debt management. One respondent indicated "yes" with another indicating "no" for this reform area. For reforms in the areas of Public Procurement and Audit Bureau Law, 1 out of 6 respondents indicated "yes" for public procurement, 2 out of 6 respondents indicated "yes, but not fully/with some gaps". Likewise, 1 out of 4 respondents indicated "yes" for Audit Bureau Law, 2 out of 4 respondents indicated "yes, but at a slower pace" and one respondent indicated "yes, but not fully/ with some gaps. With regards to Internal Control Units (ICUs), 3 out for 4 respondents indicated "yes, but at a slower pace" with the remaining respondent indicating "yes".

Due to the lack of familiarity in the areas of Social Safety Net and Employment and Trade, there were few responses for these reform areas. For social safety net, both participants indicated either "yes" and "yes, but at a slower pace" for the establishment of a National Unified Registry while 1 out of 2 respondents indicated "yes, but at a slower pace" with the other indicating "no". With Employment and Trade (employment opportunities for Syrians), one respondent indicated "yes, but at a slower pace". There were no responses for Vocational Training. Although one respondent felt there was no political will and commitment in relation to Jordan's overall structural reform efforts. Most respondents (4 out of 8) indicated "yes, but at a slow pace", 2 out of 8 indicated "yes, but not fully/with some gaps" and one respondent indicated "no".

Respondents also felt that there was some level of political will and commitment in Water Sector reforms. For this, 2 out of 6 respondents indicated "yes", and an additional two (2) indicated "yes, but at a slower pace" and one (1) respondent indicated "yes, but not fully/with some gaps". Lastly, one respondent felt there was no political will.

Figure 44. Progress in reform areas in the absence of MFA III

Question 13. We would like to understand the extent to which there was existing political will and commitment within Jordanian authorities to undertake the reforms supported by the EU. Could you speculate whether the Jordanian authorities would have undertaken reforms in each of the following areas without the nudge from the EU?



Base: all (n=21)

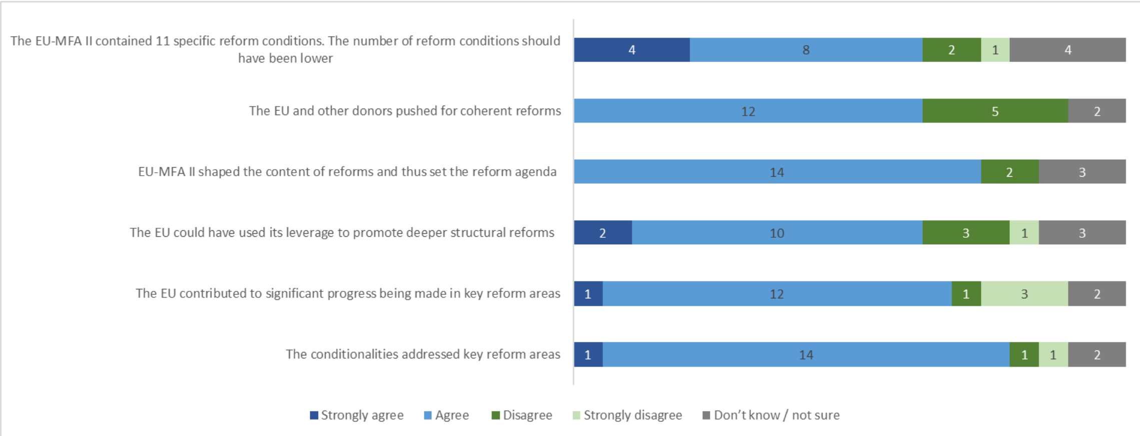
The final question under this section considers the impacts of MFA II conditionalities in supporting Jordan's key reform areas (Figure 26). From this, a large majority of respondents indicated they either "strongly agree" or "agree" that the number of conditions in EU-MFA II should have been lower (4 out of 19 indicating strongly agree and 8 out of 19 indicating they agree). Most respondents also felt the EU could have used its leverage to promote deeper structural reforms (10 out of 19 indicating agree and 2 indicating strongly agree).

Likewise, 15 participants said they "agree" or "strongly agree" that the conditions addressed key reform areas and 13 respondents "agree" or "strongly agree" that the EU contributed to significant progress being made in the key reform areas as against 4 of the respondents who disagreed with this statement.

Additionally, 14 out of 21 experts asked said to "agree" or "strongly agree" that "EU-MFA II shaped the content of reforms and thus set the reform agenda", in contrast 5 respondents disagreed with that statement. In addition, most of the respondents (14 out of 19) agreed that the EU-MFA II shaped the content of reforms and thus set the reform agenda. Lastly, most respondents (12 out of 19) indicated they agree the EU and other donors pushed for coherent reforms. Additional comments for open-ended responses suggest that the EU could have used its leverage to promote deeper structural reforms in the areas of investment promotion (trade and export), government reforms support, capital formation and encouraging/improving export competitiveness.

Figure 45. Realised impact(s) of MFA II

Question 14. Please indicate the extent to which you agree or disagree with the following statements. When answering this question, please bear in mind that we are only referring to reforms promoted by the EU-MFA II.



Base: all (n=19)

A6.2.9 Section D: Social impacts of the MFA II operation

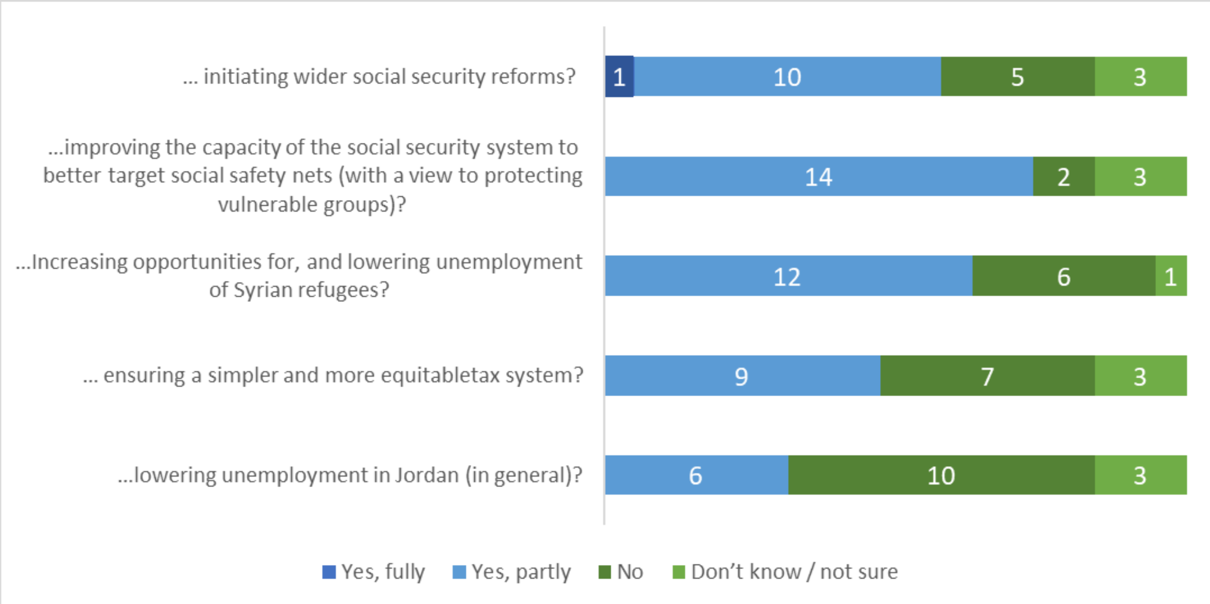
This section covers the social impacts that resulted from the fulfilment of MFA II conditionalities. Here, respondents were asked whether MFA II conditionality was successful in different social reform areas covered during the period under discussion (Figure 28). Overall, a large majority of respondents indicated that conditionality covered within the MFA were partly successful.

Only one participant felt MFA II was successful in initiating wider social security reforms while ten (10) respondents felt this area was partly successful and three (3) indicated otherwise. Likewise, 14 out of 19 respondents indicated that the MFA II conditionalities were successful in improving the capacity of the social security system to better target social safety nets (with a view to protecting vulnerable groups). For the remaining participants, two (2) felt the MFA was not successful in this area, while the remaining 3 indicated they were not sure.

In relation to ensuring a simpler and more equitable tax system, responses were mixed as 9 out of 19 indicated this was partly successful while seven (7) respondents indicated this was not successful. Most respondents felt the MFA II conditions were not successful in lowering unemployment in Jordan (10 out of 19) with only 6 participants indicating this was partly successful. In the open responses, one expert indicated that without better allocation of funds in the budget, the Jordanian economy is likely to grow at a very low rate and debt to GDP will keep increasing.

Figure 46. Effectiveness of MFA II conditionality in the social area

Question 16. Was the MFA II conditionality successful in…?

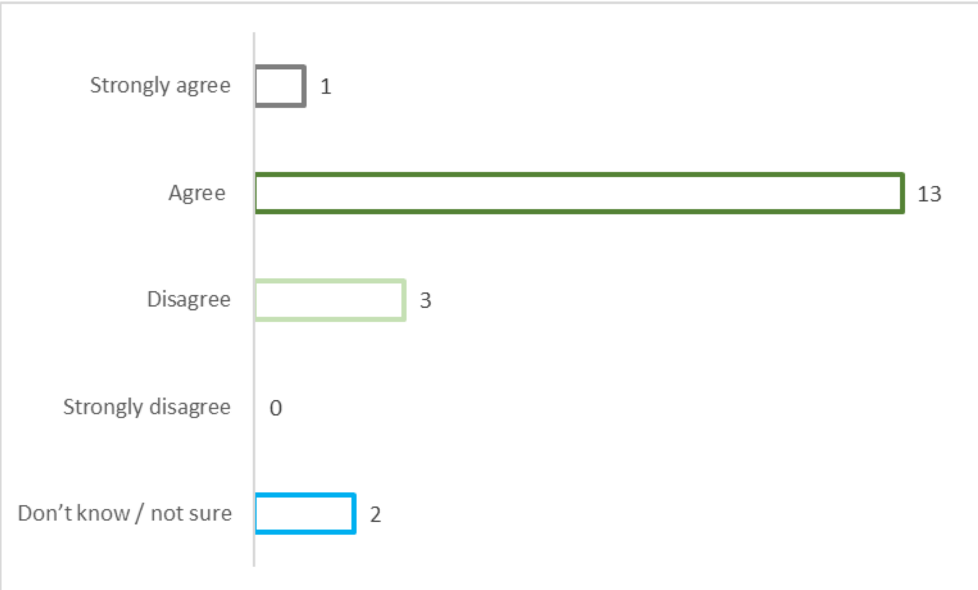


Base: all (n=19)

Lastly, respondents were also asked the extent to which they agree (or disagree) that the MFA II helped cushion the impacts of the crisis from a social point of view. As shown in Figure A6.34, majority of participants (13 out of 19) agreed with this statement.

Figure 47. Realised Impacts.

Question 17. Please indicate the extent to which you agree or disagree with the following statements: MFA II helped cushion the impacts of the crisis from a social point of view.



Base: all (n=19)

Annex 7 Summary notes from focus group discussions

A7.1 Ex-post evaluation of Macro-Financial Assistance II to Tunisia

Minutes of the Online Focus Group Meeting, 22nd July 2021

List of participants

Invitees

- Anis Morai – universitaire et journaliste
- Mustafa Mezghani – Tera Finances - informaticien et consultant dans les politiques numériques
- Leila Triki – doyenne Mediterranean business school of business – économiste
- Slim Zeghal – industriel et membre du business think tank IACE
- Mondher Khanfir – conseiller en politiques publiques : infrastructure innovation et logistique
- Faouzi el Moufti - STECIA International

Study Team

Facilitator

- Juliette Mathis, ICF associate

Presenters

- Angina Jugnauth, ICF
- Habib Zitouna, expert tunisien

Simon Neaime, expert régional

Study team

- Majda Santi, ICF

Presentation

The study team presented some slides on each aspect covered during the 2 sessions of the Focus Group to kick off the discussion. To see the presentations, please access the attached files:

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PART 1 – High level discussion on the visibility, the design and the implementation issues

Added value of the MFA

Relevance of the MFA instrument

Participants confirmed that concessional loans such as the MFA and the IMF assistance are needed for the financial support for the country. The democratic

> *transition overshadowed the economic challenges until the series of terrorist attacks in 2015 which affected an important sector of the economy, the tourism. In addition, the political transition entailed a certain political instability with frequent government reshuffle.*
>
> *Given the magnitude of the crisis, the support provided was not sufficient to seek a way out of the crisis and another programme MFA III is undergoing. Over time, the external aid became a mechanism to finance the budget deficit[29] without any major concrete impacts on the ground. This aspect is considered as a perverse/negative effect of the external aid. Laws are adopted but the required decrees of application are lacking. An example cited by several participants is the statement from the CdC on the presidential elections in 2019 have not been followed up.*

L'outil AMF comme les autres appuis budgétaires sont vus comme nécessaires pour pallier le déficit budgétaire chronique de l'Etat tunisien. Il a été rappelé que les levées sur les marchés internationaux sont difficiles et assorties de mauvaises conditions même avec l'appui du FMI. L'AMF est considéré comme un instrument de financement avec des conditions avantageuses et une maturité 13 à 16 ans – qui ne pourraient être obtenues sur le marché financier international.

Le montant du programme, bien que bienvenu, ne suffit pas au vu de l'ampleur de la crise, et notamment des répercussions sur la Tunisie de la crise en Libye. De nouveaux programmes sont toujours nécessaires.

De plus, l'impact concret des réformes exigées reste un point d'interrogation pour l'ensemble des participants aux groupes de discussions. La transition démocratique du pays a eu comme effet négatif de placer au second rang les enjeux de développement économique. Les donateurs n'y prêtaient que peu d'importance avant 2014/15. L'onde de choc provoqué par les attentats de Sousse et du Bardo en 2015, ayant touché un secteur vital à l'économie tunisienne, le tourisme, a rappelé l'importance de réformer le système économique. Cependant, depuis lors, l'instabilité politique rend la mise en œuvre des réformes plus longue et fastidieuse.

Ainsi, l'AMF est devenu, tout comme les autres appuis budgétaires internationaux, un mécanisme de financement du budget de l'Etat (et de soutenabilité de la dette publique) sans changement profond de son fonctionnement. Les interlocuteurs ont souligné que l'adoption des textes de lois exigés dans les conditionnalités des différentes opérations d'AMF ne s'étaient pas forcément traduites sur le terrain par une réelle mise en œuvre, faute par exemple de décrets d'application requis.

Un autre exemple repris par plusieurs intervenants est le rapport général de la CdC portant sur le financement des campagnes électorales des élections présidentielles 2019 qui n'a pas été suivi d'effets.

Les participants dénoncent donc un effet pervers du soutien financier apporté par l'AMF – malgré son rôle bienvenu de bouffée d'oxygène pour boucler le budget de l'Etat. Sur le long terme, le budget de l'Etat reste un budget avec une part fonctionnement jugé trop importante (en lien avec la masse salariale) et un budget de compensation conséquent (de par les subventions).

Visibility / awareness of the MFA II operation

> *Broadly speaking, the visibility and awareness of the MFA instrument is not sufficient, excepting press releases for official signature and disbursements. The*

[29] A deficit due high share of wage bill in the public budget (circa 15%) and a substantial compensation budget, through subsidies and financial transfers to state-owned enterprises.

IMF support is more well-known than MFA instrument. Also, few local media are specialised in economic matters. Participants recalled that the debate around the DCFTA negotiations in 2015 had a negative impact on EU image among the general public. MFA instrument is seen as a bargaining chip.

De manière générale, la communication autour de l'instrument AMF manque. Les médias ne traitent que très peu de ce sujet-là : les sujets économiques sont mal couverts en Tunisie où il y a une radio spécialisée seulement. De manière générale, les médias sont très stéréotypés.

Les participants ont donc considéré que malgré les dépêches de presse lors des signatures et des décaissements, la communication publique était insuffisante. L'absence d'informations sur les réformes demandées a également été relevé. L'intérêt pour les questions économiques est là, mais les débats sont parfois déconnectés des réalités de l'accord. Toutefois, cette remarque ne se borne pas au seul instrument AMF mais également aux autres financements extérieurs tels que les programmes du FMI (cf. les discussions sur les programmes du FMI). Les appuis budgétaires de la BM et du FMI restent plus visibles que ceux de l'UE.

Par ailleurs, il y a une certaine méfiance de l'opinion publique vis-à-vis de l'action de l'UE. En 2015, le débat autour de l'ALECA avait suscité de nombreux commentaires en défaveur de l'accord commercial (présenté sous la question idéologique). Une meilleure compréhension par les Tunisiens de l'intérêt des AMF et des contreparties exigées par l'UE permettrait de faire évoluer l'image de cette dernière. L'AMF est parfois perçue comme servant de monnaie d'échange, pour inciter la Tunisie à signer l'ALECA.

Design of the MFA II operation

Although, the design of the MFA II operation was considered as relevant, the lack of concrete results on the ground contributed to discredit the reform process. At issue, the lack of political and coordination between the sectoral ministers. The multiple administrative layers add confusion and hinders a clear definition of the roles of each entity.[30] Also, participants underlined several missing reforms such as SOEs restructuring (bankrupted an unbale to deliver properly the public service); Compensation and subsidies; and fight against informal economy and tax evasion.

Several suggestions were made to further improve the reform process: (i) focus on better law enforcement of the legislation already approved; (ii) introduction of conditionalities on investment in key sector such as energy and water; (iii) introduction of KPIs to follow-up reform process; (iv) evidence of tangible impacts from past operations becoming condition to get access to new MFA support; (v) opening the debate to the general public, reducing thus the monopoly of the MDICI and the public administration in the decision making process.

Les participants ont considéré que les réformes étaient pertinentes et leur niveau ambitieux, quoiqu'elles ne se soient pas traduites par des impacts réels et concrets pour le citoyen tunisien. L'arsenal réglementaire est adopté, mais les décrets d'application

[30] The role of the MDICI as the unique interlocutor with international donors and its lack of coordination capacity was mentioned by the participants. Also, in the business climate, the TIA was designed to be a one-stop-shop replacing the APPI and the CEPX but, due to a lack of support, the TIA was added to the administrative scheme, making the registering process more complicated for the investors.

manquent parfois. Petit à petit, cela contribue à une décrédibilisation du processus de réforme.

La volonté politique manque parfois alors même que c'est un élément crucial pour la réussite d'une réforme. Sans l'appui d'un chef de gouvernement convaincu de la réforme, on ne peut pas réformer. Il doit y avoir en interne des fers de lance qui convainquent leurs collaborateurs du bien-fondé de la réforme.

Comme domaines manquants dans la liste des réformes, ont été cités :

- La gouvernance des entreprises publiques. Ces entreprises grèvent le budget de l'Etat car la majorité d'entre elles sont en quasi-faillite financière. De plus elles n'arrivent plus à délivrer correctement le service public, du moins pas uniformément sur tout le territoire, ce qui créé des inégalités sur car ces entreprises jouent un rôle social. Le secteur privé souffre énormément de leurs défaillances. Les entreprises privées qui doivent se fournir auprès d'elles sont impactées par leur absence de compétitivité.
- La question des compensations (subventions à l'énergie, transport et produits de bases)
- Lutte contre l'économie informelle (incluant le commerce parallèle, les activités informelles, l'emploi informel, l'évasion fiscale) qui constitue une concurrence déloyale pour les entreprises structurées travaillant dans la légalité

En ce qui concerne la cohérence et la coordination des différents ministères sectoriels : le fait que le MDICI soit l'entité en charge de négocier les appuis budgétaires des donateurs sans l'aval certain de tout le secteur concerné par la réforme est vu comme un problème. Par exemple, la TIA devait être un guichet unique remplaçant l'APPI et le CEPX mais, faute d'appui, la TIA est venu s'ajouter au mille-feuille administratif rendant le process plus compliqué pour l'usager.

Les propositions suivantes ont été émises :

- L'exigence de mise en œuvre de mesures déjà adoptées, application pratique des mesures – au lieu demander l'adoption de nouvelles réformes. Il y a consensus sur ce point : des actions ciblées devraient être exigées plutôt que des nouvelles réformes dont l'application reste approximative. Les entrepreneurs présents ont clairement exprimé le besoin de se concentrer sur l'application du cadre réglementaire existant, pour faire face au problème du de l'exécution de la législation ("law enforcement").
- Avoir comme condition le financement de projets d'investissements dans des secteurs clés tels que l'électricité et d'eau, où des risques de pénurie grave existent et menacent la stabilité du pays ; ou financer directement ces projets
- Faire une évaluation ex-post de l'impact réel des réformes, la réalisation d'impacts devenant une condition à l'octroi de nouveaux programmes d'AMF.
- Suivre la mise en œuvre des réformes par des indicateurs qui mesurent l'impact des réformes (même si en pratique le lien entre une réforme et un impact sur le terrain n'est pas toujours évident à prouver)
- Avoir un débat ouvert au public et ne pas laisser la négociation seulement à l'administration / au MDICI
- Donner plus tout en exigeant plus.

PART 2 – Deep-dive into selected reform areas

<u>Court of auditors</u>: By assuring the independence of the Court of Auditors, despite some resistance from some deputies, the law improved the work of the Court which is now an important tool for the fight against corruption in the country. The flaw remains the implementation of the recommendations, which are not followed up.

<u>Public administration reform</u>: The main reforms pointed out include (i) the statutes of senior state officials; (ii) public service digitalization policy; (iii) Ending the regulatory insecurity due to an increase use of internal circulars within ministries, and sometimes contradictory legal texts; (iv) possibility to introduce quick and simple remedies against the administration in cases of non-respect with the legislation; and (v) the introduction of a performance system, modelled on the private sector.

<u>Business climate</u>: The failure of the new investment law is characterised by Tunisia's positioning in the Doing Business rankings of the World Bank and the Global Competitiveness Index (Davos). The investment rate stands at 13% of GDP while this share raises to 30% in Morocco. The experiences of the participants illustrated the challenges encountered by the private sector with the administration (e.g. customs administration). The government must invest in communication campaigns to restore the image of Tunisia.

<u>Public Procurement</u>: The introduction of TUNEPS improved the system although more trainings remain necessary.

<u>Social Protection Reform</u>: The social protection system weighs heavily on the state budget. However, it is estimated that 30% of the allowances are not allocated vulnerable households. Over time, the need to better target/rationalize the system was felt. The COVID crisis has accelerated the digitalization of the sector (e.g., 300,000 additional people have been identified).

<u>Fiscal / VAT Reform</u>: Since 2018, some progress has been made in the payment of VAT arrears. However, the reform was not meeting expectations and poorly implemented.

<u>Tourism / Transportation sectors Reform</u>: The public company Tunisair is not ready to cushion the shocks induced by the new agreement. The trade unions are therefore blocking the reform. One of the participants recommended the establishment of a discussion body as in the telecom sector.

Court of Auditors

La réforme de la CdC a été bénéfique après le passage de la loi, réduisant ainsi la tutelle organique et améliorant le travail de la Cour. Selon l'un des participant interrogé, les raisons du retard pris dans l'adoption de la loi sont la peur de certains élus de donner plus de prérogatives à la CdC qui deviendrait un organe en mesure de mettre en lumière la corruption importante en Tunisie.

Par ailleurs, certains ont soulevé les efforts de communication autour du travail de la CdC auprès du grand public. Depuis 2017 et ce grâce à un appui de la Banque Mondiale, la communication s'est vraiment améliorée et désormais la Cour vulgarise l'information en allant sur des plateaux TV par exemple, rendant moins technique son analyse du système et aide le citoyen à mieux comprendre son activité et l'utilité publique d'un tel organe. Elle effectue par ailleurs un suivi de la mise en œuvre de ses recommandations.

Le point faible reste tout de même la mise en œuvre des recommandations. Les recommandations ne sont pas vraiment respectées par les autres organes de l'administration tunisienne ce qui rend caduque leur travail – les crimes ou les délits vont être instruits, mais pas les fautes de gestion par exemple. Les utilisateurs des rapports de la CdC ont aussi tendance à en faire une lecture biaisée et à utiliser les rapports politiquement – pour dénoncer de la corruption quand des améliorations de pratiques sont conseillées.

Public administration reform

La réforme du secteur public a été un sujet central dans les discussions pour les deux sessions. Nous avons donc questionné les participants sur les réformes nécessaires du secteur public.

- Réforme des statuts des hauts fonctionnaires de l'Etat
- Réforme de l'ENA : l'Ecole ne dispense plus depuis les années 70's de formation de ses hauts cadres de l'administration au numérique – le sujet a été laissé au Centre National de l'Informatique (CNI) seul
- La digitalisation des services publics de l'Etat pour faciliter l'accès des citoyens et des entreprises au service public. Le service public doit changer de vocation et désormais être pensé pour être au service du citoyen et des entreprises. La relation entre le secteur public et le privé est problématique aujourd'hui. L'administration est très méfiante et considère le privé comme un concurrent ou fraudeur plutôt que comme un usager du service public. Elle lui impose donc un niveau d'exigence plus élevé que pour les entreprises d'Etat. L'administration n'est pas formée aux besoins du secteur privé alors même qu'elle devrait etre au service de l'entrepreneur tout en veillant que les normes sont respectées et sanctionner les fraudes. Il faut une relation de confiance et de service. L'administration n'est plus un outil au service du régime (comme avant la révolution), et il n'est pas seulement question d'automatiser le travail de l'administration, cela va au-delà. Mais ce basculement de paradigme est difficile à réaliser.
- L'application des nombreux textes législatifs adopté depuis la Révolution. Certains ministères (par exemple dans le domaine fiscal) publient des notes internes qui contredisent les textes de loi et crée une forme d'insécurité réglementaire.
- Possibilité d'introduire des recours rapides et simples contre l'administration quand elle ne respecte pas la loi – il n'est pas simple de décrier une administration fautive et donc beaucoup d'entrepreneurs et citoyens abandonnent.
- L'introduction d'un système de performance, d'où un changement de mentalité avec un accompagnement plus clair au niveau de la formation des futurs hauts fonctionnaires. Il faut exiger un suivi des progrès sur le terrain à travers des indicateurs comme pour le secteur privé ainsi qu'une boucle pour modifier l'action lorsque celle-ci ne remplit par les indicateurs.

Business Environment

La loi d'investissement a été considéré par un certain nombre des participant comme un échec. Celui-ci se mesure à travers :

- le positionnement de la Tunisie dans les classements Doing Business de la Banque Mondiale et l'Indice Global de Compétitivité (Davos) où la Tunisie apparait parmi les plus verrouillé en ce qui concerne les autorisations.
- le taux d'investissement qui se situe actuellement à de 13% du PIB – taux très faible en comparaison avec le Maroc qui se situe à 30% de son PIB.

Il n'y a pas d'application par l'administration des effets de la loi et par exemple l'Agence de promotion de l'industrie et de l'innovation (APII) continue sa procédure administrative classique malgré l'adoption de la loi car celle-ci n'aurait pas reçu de directives différentes pour le traitement des dossiers.

Pour illustrer le climat des affaires, les participants ont relaté leurs expériences avec les services de l'administration et notamment leurs difficultés avec l'administration douanière. Parmi les griefs soulevés, l'absence de digitalisation du système d'enregistrement pour l'import/export et la rigidité du monopole d'Etat sur certaines denrées entrainant un système d'approvisionnement inefficient et sans garantie de la conformité/qualité des biens importés. Ces participants déplorent l'impact que cela a sur leur productivité les rendant moins compétitifs que leurs concurrentes à l'étranger.

Les entrepreneurs appellent à une simplification des procédures administratives pour faciliter l'entreprenariat et réduire la lourdeur bureaucratique qui pèse sur l'activité économique. En somme, certains soulèvent que des mesures concrètes, plus ciblées, telles que la mise en place de système d'information entre administrations, permettraient de faire gagner des heures de travail perdues pour les entreprises (aujourd'hui c'est à l'entrepreneur de demander des documents à plusieurs administrations différentes pour une même démarche).

Un autre point soulevé est l'image de la Tunisie à l'international, qui a été durement touchée par les événements régionaux et a besoin d'être redorée pour restaurer la confiance des investisseurs étrangers. Cependant, il existe un profond déficit de communication public de la part du gouvernement qui aurait besoin d'un appui technique pour développer l'image du pays et le positionner comme une destination industrielle notamment au niveau du marché européen.

Public Procurement

Avec l'introduction de TUNEPS – supporté par les coréens, il y a eu des améliorations, un changement de logique. L'application digitalisée écarte les possibilités de copinage. Mais l'impac sur la passation des marchés reste à évaluer et il y a des besoins en formation pour en assurer un accès équitable.

Social Protection Reform

La réforme du système de protection social est un débat qui a refait surface dernièrement avec le sujet du déficit chronique de la caisse de compensation. Sous l'ancien régime les autorités administratives utilisaient les attestations de pauvreté à des buts de clientélisme politique. Ainsi, il a été estimé que 30% des allocations n'allaient pas à des familles nécessiteuses.

Cette réforme est liée projet de l'identifiant unique et passera nécessairement par la digitalisation de tous les programmes de soutien aux populations vulnérables / par le croisement des bases de données. D'ailleurs, la crise du COVID a accéléré cette digitalisation et désormais 300 000 personnes supplémentaires ont été identifiés.

Un système rationalisé et plus efficient de protection permettrait de faire gagner à la Tunisie des points de PIB. Peu de progrès ont été réalisés sur le terrain.

Fiscal/VAT Reform

Les participants reconnaissent l'effort d'harmonisation des taux avec une réduction du nombre des taux appliqués mais la réforme n'a pas été à la hauteur des enjeux et manque parfois de logique dans son application concrète. Il n'y a pas de consensus sur le taux à appliquer à chaque produit / service. Depuis 2018, quelques progrès ont été réalisés sur le plan du paiement des arriérés de TVA.

Tourism/Transportation sectors Reform

Les participants pensent l'impact de cette réforme sur Tunisair sera important, et que l'entreprise publique n'est pas prête à encaisser le choc de l'ouverture de slots à des compagnies low-costs. Les syndicats freinent la réforme car ils ont peur d'une privatisation "sauvage". Un des participants a recommandé l'instauration d'un organe de discussion comme dans le télécom.

A7.2 Ex-post evaluation of Macro-Financial Assistance II to Jordan

List of participants

Invitees

- Mohanad Zuwayed - Al-Hayat Center for Civil Society Development (HCCSD)
- Khawlah Abdallah Spetan – Associate Professor at the University of Jordan
- Ahmad Al Majali – Central Bank of Jordan(temporary attendance)
- Alaaeddin Tarawneh – Associate Professor at the University of Jordan

Study Team

Facilitator

- Charu Wilkinson, ICF associate

Presenters

- Gloria Uwingabiye, ICF
- Ghazi Alassaf, expert Jordan
- Simon Neaime, expert Regional

Study team

- David Alemna, ICF

Presentation

The study team presented some slides on topics covered during the session of the Focus Group to kick off the discussion. To see the presentations, please access the attached files:

JO focus group.11.08.pptx

PART 1 – High level discussion on the visibility and public perception of the MFA operation

Visibility / awareness of the MFA II operation

In general, communication around the MFA is insufficient. Participants acknowledged that the MFA as a specific instrument is well known amongst authorities and stakeholders directly dealing with macroeconomic issues within Jordan. However, the MFA is not recognized amongst the broader stakeholder groups. Although these groups may be aware of the support from the EU, they do not know it is the MFA.

Participants indicated a need to raise the awareness and visibility of MFA as a specific instrument amongst the general public. Some suggestions highlighted publicizing tangible impacts (project outcomes) as people are more likely to connect with these especially when they see the benefits of the instrument. Some other practical strategies were mentioned including, for instance, using social media and google search matching methods to link Jordan with MFA when people search for issues relating to EU and Jordan.

As regards the wider public perception of EU support, opinions are slightly mixed. While the EU is perceived as a friend, some participants felt that the EU is not seen to be as intrusive as the IMF or the World Bank. But then, when the EU raises sensitive issues (such as human rights) this becomes a concern. However, there is the divergent view that the public perception of foreign aid, in general, is looked on with suspicion because of Jordan's debt situation as well as the fact that these loans/aid come with strings attached. In some cases, the public is also suspicious of their government as these areas are usually associated with issues of corruption and they are sceptical about what political actors will get in return.

Added Value of MFA II

In relation to reinforcing EU-Jordan relations, participants emphasized that EU relations with Jordan are already strong, and it would be difficult to assess and draw conclusions on the extent to which the MFA may have played a specific role in further strengthening these ties. However, there is an added value of the MFA instrument in promoting change through its reforms in Jordan, particularly in the areas of accountability and governance. As such, in the long run, one would expect that the continued progress on reforms and promoting change would further help in restoring investor confidence, although this is yet to happen. It was also suggested that the EU, through its programmes such as the MFA, and related enforcement of the attached conditionality and requirements, has been promoting accountability and governance in partner countries , and attendees fully agreed with the hint. Attendees also evoked some of the short-term outputs stemming from this support, due mainly, to MFA programme and the related series of fiscal adjustment measures/reforms imposed by the programme. They noted the signalling effect of the funding, including the stability of some of the key macro-economic indicators as a result of these measures, but also recognized that more needs to be done before we can see tangible results.

Regional Impacts of MFA II

Participants emphasized the fact that the MENA region is not well integrated. In the case of Jordan, Jordan is a small open economy, for this reason, it is mostly affected by shocks taking place in other countries within the region. In times of economic shocks, for instance, a rise in oil prices in Saudi Arabia would negatively affect Jordan. However, negative impacts or ripple effects from negative shocks in Jordan on countries within the region are limited. Participants also felt that if Jordan's economy is stable and growing, there will be some positive spillovers. Some main potential channels through which impacts might occur were identified below:

- Remittances: In cases where there is any lowering of GDP in Jordan (or some form of crisis), then potentially remittances of workers from Egypt and Syria, who are based in Jordan, could be affected.
- Trade: Jordan previously relied on countries such as Iraq and to some extent Syria, for trade. But since the unrest/disturbances started in these two countries Jordan now relies more on Saudi Arabia for its imports (e.g., petroleum). For this reason, any form of fall in output from Jordan would potentially result in a reduction in imports. However, due to the balance of trade between Jordan and Saudi Arabia, such spillover effects on the Saudi economy would be limited.

PART 2 – Relevance and Effectiveness of Reforms: PFM & Tax reforms

Debt sustainability

Generally speaking, due to political turmoil in the region, covid 19 pandemic and other macro-economic imbalances stemming from recent crises, the debt situation in Jordan is becoming unsustainable and the MFA is contributing to bringing the public debt to a sustainable path, even though more remains to be done in this area.

The following ideas were put forward by participants:

(On the secondary market) - Sophistication of internal financial markets are needed to support and sustain the financing needs of the country and fill the gap. Consequently, developing the secondary market, broadening the investor base beyond local banks, easing restrictions and requirements on potential participants should be envisaged in this respect.

(More generally)- For some participants, however, the MFA II might be perceived as compounding the external public debt burden whereas the emphasis should be put on encouraging and affecting the GDP growth or trying to stabilize the Debt to GDP ratios for a sustainable future.

In overall, participants concurred that the reforms considered under the MFA II were generally perceived to be in the right areas of focus, and as such, aid Jordan in progressing on a path of sustainability. For reforms in line with debt sustainability, and most particularly on the feasibility of developing an efficient secondary market in such a short time frame, participants were of the view that the scale of reform needed was too much for a short-term instrument like the MFA. By and large , participants also felt that although targets where achieved, impacts are yet to be evident.

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Tax reform

Overall, participants felt there was some evidence suggesting the reforms undertaken helped enhance tax revenues. But this also triggered protests across the country. Participants were of the view that the "IMF type" strategy to reducing the public deficit by increasing taxes may have backfired or been counterproductive as these increased pressures on the middle class, reduced the purchasing power and inversely affected the economy negatively.

For some participants, given the Jordanian context, a better approach would have been to help in the creation of jobs and pursue a targeted tax regime which focuses on individual or sectors (e.g., Banks) with relatively lower levels of taxation. Some other participants also felt other sectors like the IT sector is also a possible avenue to explore in relation to taxation although with the governments agenda on ICT, this may not be possible.

Overall, participants suggested a better way of tackling deficit could have been through the uses of a three-point strategy. This involves i) the creating jobs, ii) having a more targeted set of reforms that focus sectors such as the banking sector, and iii) better management of taxes in general.

The impact of the refugee crisis was also highlighted as impacting the overall macro environment of the country. This was considered to make any increase in taxes more difficult, especially in a recessionary environment.

Annex 8 Implementation of MFA conditionality

A8.1 Tunisia

A8.1.1 Reform areas for the second disbursement

Table 15. Conditionality#1, 2nd tranche – Public Finance Management and Civil Service Reform

Conditionality number 1 – With a view to improving the efficiency, effectiveness and quality of the public administration, while reducing its burden on the budget, the Government will adopt a comprehensive strategy for the reform of the civil service.

Rationale and importance	In a context of rising public sector wages bill pressure, massive hiring in the public sector could no longer be considered as the best course of events, despite the circumstances of large unemployment and despite the earlier policy choices made. The stated objective to bring back the wage bill to a level of 12% of GDP by 2020 was included in the Tunisian authorities' Memorandum of Economic and Financial Policies submitted to the IMF in 2016[31]. In the same document, the authorities also committed to adopt a civil service reform strategy which would be in line with that objective. Even if it did not bring about changes as and of itself, the adoption of the strategy was a key starting point for the reform of the civil service which needed to be well managed and thought through. It also involved a participatory approach, in collaboration with Ministries, trade unions and civil society, with an aim to ensure buy-in and public support for the reform. The MFA II and the IMF EFF programme sought to reinforce that commitment by including as condition / structural benchmark the adoption of the strategy.
	√ This condition has been considered as fulfilled by the EC.
Implementation	On 6 February 2017 the Council of Ministers adopted a comprehensive strategy aiming at modernising the civil service and reducing the wage bill based on 6 pillars: A revision of the 1983 Statute of the Civil Service (introduction of mechanisms to reward performance, increased flexibility, possibility of two-way secondment with the private section, revision of some key aspects related to trade unions, including the right to strike); Creation of the "*Haute fonction publique*" comprising Ministries Directors and Secretary Generals and Chief Executive Officers (CEOs) of public enterprises. Senior managers would be nominated for a mandate of 6 years renewable once through open

[31] IMF Country Report No. 16/138

	public competition processes, open to both civil servants and external candidates . Introduction of career mobility for civil servants (e.g. through mechanisms facilitating the transfer of existing officials, and for encouraging geographical mobility (e.g. reinstallation allowances), introduction of compulsory secondment outside one's institution or enterprise, the possibility of moving between institutions or from the public to the private sector and vice versa) The revision of the remuneration regime for civil servants (e.g. by introducing elements of merit and performance and simplifying the system in place, harmonising the salary scales across comparable institutions) Launching a single IT system for human resources management in the civil service. Implementation of 2 programmes on early retirement and negotiated voluntary resignation to reduce wage bill in the medium term.
Evidence of Implementation deficit	Strictly speaking, there is no evidence of implementation deficit, but progress in terms of implementing the strategy were limited. Parallel ad-hoc measures taken include: functional review of ministries (four of them - Education, Health, Finance, and Equipment - between September 2017 and July 2018), carried out with the support of the EU. strict hiring limits (replacement rate of 25%), in the context of an increase in the retirement age and in the salary for the civil service in January 2019 (which will be administered in 2019 and 2020).
Evidence of benefits and contribution of MFA	Despite the initial commitment to the reform and the passing of some concrete measures (regarding the containment of the 2017 wage bill in line with inflation and the application of hiring freeze -except for the security and defence sectors- for three years, until 2019), difficulties soon arose. The wage bill continued to increase over the MFA II implementation period, including in absolute terms (+9.7% per year on average over 2015-2019), reflecting both volume effects and increases in average salaries. The adoption of the strategy was done with delays. It was first a structural benchmark for the IMF EFF programme, before being turned into prior action. In that context, the additional push from the MFA cross-condition was welcome. Overall, while the strategy was adopted, progress on the implementation side have thus far been limited. the 1983 Statute of the Civil Service have not been revised as yet. the two programmes on early retirement and negotiated voluntary resignation for civil servants were less successful than initially

	planned with less than 7 000 leaving while 20-25 000 people were targeted. the work around single IT system for human resources is delayed

Table 16. Conditionality#2, 2nd tranche – Public Finance Management and Civil Service Reform

Conditionality number 2 – With a view to strengthening the external audit of public accounts, the Parliament will adopt a new law on the *Cour des Comptes* (CdC) reflecting the provisions in the new Constitution. The new law will, in particular, reinforce the administrative and financial independence of the CdC and ensure a sufficiently wide remit in terms of the type of public accounts it can audit, in line with INTOSAI standards. It will also define the modalities for the publication and follow-up of the CdC's findings and will clarify the sanctions regime.

Rationale and importance	As from 2011, to better serve the objectives of the revolution and to comply with the institutional standards, the Court of Auditors claimed the needs for its autonomy and its institutional repositioning in full respect of the principles of objectivity, impartiality and neutrality. INTOSAI standards clearly recognise that Court of Auditors cannot fulfil their missions without administrative and financial independence. In line with this demand, Article 117 of the Constitution (2014) raised the Court of Auditors to a financially independent organ. The secondary legislation applicable at the time, the relevant Organic Law on the CdC, was thus rendered obsolete and needed to be revised accordingly. This was flagged inter alia in the Operational Assessment carried out ahead of the first MFA operation to Tunisia (2014). The submission to Parliament of a new law on the Cour des Comptes (CdC) including provisions for the "reinforcement of the administrative and financial independence of the Cour des Comptes" was a condition for the release of the 3rd tranche of the MFA I. The discussions on the adoption of a draft organic law on the Cour des Comptes started promptly, in early 2015, and a draft organic law on the CdC was adopted by the Government and transmitted to Parliament on 16 June 2016 (Draft Law #38-2016). At the time of MFAII negotiation, the draft law was however sitting at the Parliament without being debated. The EU used its leverage to try and push for the Parliamentary adoption of the law.
	√ This condition has been considered as being fulfilled by the EC.
Implementation	The new organic Law on the Court of Auditors (Loi Organique de la Cour des comptes, LOCC) was submitted to the ARP in June 2016.

	The discussion of the draft law by the relevant Parliamentary Committee (Committee for general legislative affairs) did not kick off for a long time. Given the importance of the condition, the Commission excluded the possibility of granting a waiver. Based on its draft version, it was temporarily considered possible that the Organic Budget Law (Loi organique du budget or LOB), whose adoption was scheduled for March 2018, may contain sufficient provisions to ensure independence to the CdC. The final text was however not meeting the expectations. Discussions on the LOOC started on 6 November 2018. The law was adopted on 16 April 2019.
Evidence of Implementation deficit	There is no evidence of implementation deficit, but the adoption of CdC law took nearly three years after its submission to the Parliament. This explains the delay in the disbursement of the second tranche (and relatedly, the third tranche). The delays in the adoption of the law were caused in part by the need to consult the newly set up Conseil Supérieur de la Magistrature (CSM), or the Supreme Judicial Council on the new CdC law. The CSM is an independent body tasked with guarding the independence of the judiciary in Tunisia and advising legislators about judiciary reforms. Given the time required for the consultation, the adoption of the CdC law was likely to still take some time. Over time, the issue of the independence of the CdC also became intertwined with that of other judicial bodies. To progress with the financial and administrative autonomy of the Court in meantime, it was at some point envisaged to insert provisions to ensure independence to the CdC within the Organic Budget Law (Loi organique du budget or LOB)[32]. This would have allowed for a quicker disbursement of the second tranche. Now given the fierce discussions around the draft LOB law, the legislators temporised and adopted the Organic Budget Law, on January 31st, 2019, without making a judgement on the financial and administrative autonomy of the Court and instead referring back to the CdC law itself. The Organic Law of Cour des Comptes was finally adopted by the Parliament on April 16th 2019, with all necessary provisions in place.
Evidence of benefits and contribution of MFA	The adopted version of the Organic Law of Cour des Comptes constitutes a step change. The independence of the CdC has been significantly reinforced even if some challenges remain (e.g. need to address the lack of resources).

[32] The role of the LOB is to define more generally the funding mechanisms of the various Constitutional Authorities and public bodies created by the 2014 Constitution. Its adoption was initially scheduled for March 2018.

	Regarding the contribution of MFA to the progress made, initially there were signs that the ownership of the reform was high. The independence of the CdC featured in the new Constitution and already before that progress was made with the publication of the CdC reports, which was seen as one of the first signs of increased transparency and accountability in the field of external audit[33]. With time however, and with the draft sitting at the Parliament for several years and throughout the discussions which have taken place around the Organic Budget Law, it became clearer that there was a resistance and risks were real that financial and administrative autonomy be rejected by the Parliament. In that sense the MFA condition may have been instrumental. In parallel, the EU also exercised pressure through its budget support programmes, notably through the successive PAR programmes and its justice reform BS (FA PARJ 3). More specifically, PAR IV (2014) included a policy implementation condition linked to adoption of the law on the Cour des Comptes by the Parliament while PAR V (2015) was conditional on the adoption of the organic budget law, which, in a complementary manner, allowed for greater budget autonomy for a number of constitutional entities, like the CdC. Furthermore, the CdC has received assistance from the French and Portuguese Court of Auditors (as part of a twinning project). It also benefited from a peer review exercise financed by the Austrian Development Cooperation and stressing again the importance of the independence of the Cour des Comptes.

Table 17. Conditionality#3, 2nd tranche – Tax reform

Conditionality number 3 – With a view to enhancing tax collection while moving towards a simpler and more equitable tax system, and in line with the Tax Reform Strategy adopted by the Government in May 2016, the Budget Law (Loi de Finances) for 2017 will include steps towards a reform of the VAT. In particular, the number of goods and services subject to the intermediate VAT tax rate of 12% and the number of exemptions to the VAT will be substantially reduced.	
Rationale and importance	Tunisia's VAT legislation was described as complex and inequitable. More precisely, VAT exemptions were reducing the VAT tax base and were distorting competition between economic players. The system was also quite complex, with three VAT rates and complex registration threshold rules. The authorities had committed to make the system simpler, more neutral for taxpayers and less prone to create revenue shortfalls. The gradual reduction in exemptions and

[33] 2015 PEFA assessment on Tunisia, p 123. Available at: https://pefa.org/sites/default/files/TN-May16-PFMPR-Public%20with%20PEFA%20Check.pdf

	rationalisation of VAT rates from three to two featured in the Tax Reform Strategy adopted by the Government in May 2016.
	√ This condition has been considered as broadly fulfilled by the EC.
Implementation	Progress was made through the 2017 Budget Law, adopted by the Parliament (ARP) on 17 December 2016 (Loi n°2017-66) Regarding lowering the number of exemptions: several previously VAT-exempt goods and services were now subject to the VAT rates of 6% and 18%. Regarding diminishing the use of the middle rate: it shifted several goods and services previously subject to the 12% rate to the 6% or 18% rates.
Evidence of Implementation deficit	There is no evidence of implementation deficit, as progress was made. The formulation of the condition, calling for a substantial reduction, was not very precise and contained a sort of "in-built" flexibility.
Evidence of benefits and contribution of MFA	See condition #10, 3rd tranche.

Table 18. Conditionality#4, 3rd tranche – Social Protection

Conditionality number 4 – The *Centre de Recherches et d'Etudes Sociales* (CRES), under the purview of the Ministry of Social Affairs, will submit to the Government a Strategic Orientation Note on the reform of the main social transfer programmes (Programme national d'aide aux familles nécessiteuses –PNAFN- and Cartes de soins gratuits - AMG1 - et à tarifs réduits - AMG2). The note will draw on the results of the evaluation of these programmes undertaken by CRES based on the survey of some 6,000 households and will propose specific measures, including a scoring system, to improve the targeting of the programme beneficiaries.	
Rationale and importance	Building on MFA I-related first steps, this condition aimed to incentivise Tunisia to make further steps towards targeted social policies. By the time MFA II was negotiated, the diagnosis was clear: there was scope to improve targeting of the social assistance programme.

	Comparing the theoretical optimal targeting34 with the actual targeting of the PNAFN, a CRES evaluation had found that: only 47% of the 8.3% poorest are covered by the PNAFN 6% of the 8.3% poorest in the population do not benefit at all from any existing SSN programmes (neither the PNAFN nor the AMG II) exclusion errors) 35 % of PNAFN resources do not benefit the bottom 20% (16 % do not even benefit the bottom 30%) With eligibility being determined based on self-declared (unverified) household revenue and a list of categorical criteria[35], the targeting process was not ideal. There was a case to draw on the results on the evaluation to design better-performing targeting processes and develop wider recommendations for improving the current system of direct social transfers.
	√ This condition has been considered as fulfilled by the EC.
Implementation	The study entitled "Évaluation de la performance des programmes d'assistance sociale en Tunisie, pour optimiser le ciblage des pauvres et freiner l'avancée de l'informalité" was presented officially on 4 May 2017. It contained data on a sample of households, drawn from a consumption survey conducted in 2015 by the National Institute of Statistics. Based on this study, the CRES prepared and published in May 2017 a technical paper on the targeting of social assistance programmes[36] and an orientation note on the wider social security reforms[37]. The orientation note also includes recommendations for improving the current system of direct social transfers, namely : Introducing the "Single Identification Code" (identifiant social unique) to allow the interoperability of different databases Distinguishing "chronic poor households" from "household in transitional poverty" to better target the most vulnerable groups of the society Increasing the coverage of social services by deploying more social workers throughout the country; Increasing the PNAFN monthly allocation per household to TND 180 (about 60 euros) Encouraging the transition of informal activities to formality.

[34] PNAFN resources allow to cover 8.3% of the population, in theory the 8.3% poorest, although actual targeting will always differ slightly from theoretical targeting given the imperfect information.

[35] World Bank (2015) Consolidating Social Protection and Labor Policy in Tunisia. Building Systems, Connecting to Jobs. Policy note.

Nora Lustig (editor), Commitment to Equity Handbook. A Guide to Estimating the Impact of Fiscal Policy on Inequality and Poverty. Brookings Institution Press and CEQ Institute. The online version of the Handbook can be found here (copy the following URL link): http://www.commitmentoequity.org/publications/handbook.php

[36] "Vers l'adoption d'un modèle de ciblage optimal des pauvres par les programmes d'assistance sociale en Tunisie". Available at : http://www.cres.tn/uploads/tx_wdbiblio/Note_Technique_CRES.pdf

[37] "Note d'orientation des pistes de réformes pour l'instauration d'un socle de protection sociale". Available at : http://www.cres.tn/uploads/tx_wdbiblio/Note_Orientation_CRES.pdf

Evidence of Implementation deficit	There is no evidence of implementation deficit.
Evidence of benefits and contribution of MFA	The technical paper and the orientation note were published in May 2017, providing several policy recommendations relating to social protection in Tunisia. Actual progress followed suit. In terms of targeting, CRES (benefiting from the assistance of the World Bank) has developed a scoring model which shows good performance in terms of discriminating between the poor and the non-poor. It is based on a multidimensional definition of poverty (taking due account of the socio-economic characteristics, housing conditions, place of residence, etc) and uses essentially social survey data (cross-checked with administrative data). It will be used to identify beneficiaries of temporary support provided as from 2021 as part of the Covid response and to add new PFAFN beneficiaries for 2021/22. For now, it has not been applied to remove benefits for those benefiting but found to be ineligible. With regards to administrative / monitoring capacity, the coverage of registrations to the social identifier system rose to 98% for rights openers and 86% for rights holders, thereby enabling healthcare systems to be linked to social protection and various social security structures to be aligned (CNAM[38], CNSS[39], CNRPS[40]). Another key result was a nominal increase in PNAFN monthly disbursement from TND 150 to TND 180 in line with the new Amen law. The greater deployment of social workers throughout the country - recommended n the Orientation note - could however not take place to the scale required, given the context of hiring freeze for the public sector. 1. Generally speaking, the rationale behind the MFA condition was to advance on the technical side and generate strategic thinking that would help build consensus around the need for reform and course of action to be taken. For progress on the technical side, the technical assistance from the World Bank was particularly key, but the MFA condition was also viewed positively – in the sense that the implementation of an MFA related reform is followed in a more rigorous manner.

[38] Caisse nationale d'assurance maladie - National health insurance fund

[39] Caisse Nationale de Sécurité Sociale - National social security fund

[40] Caisse nationale de retraite et de prévoyance sociale - National Pension and Social Security Fund

Table 19. Conditionality#5, 2nd tranche – Social Protection

Conditionality number 5 – The Government will submit to Parliament a new law that will replace the current legislative framework governing the social transfer programmes (PNAFN and Cartes de soins), currently composed of several ad-hoc regulations. In line with the provisions of the 2014 Constitution, this new law will emphasise a multi-dimensional approach to the targeting of social transfer programmes.

Rationale and importance	In Article 38 of the 2014 constitution is enshrined the right to health and the role of the state as guarantor of free quality care to the poor and social protection. Over the course of MFA I, acting on prior commitments to upgrade its information system[41], Tunisia took key actions aiming at knowing the poor better and developing its administrative capacity. A further steppingstone was to develop a new targeting system (promoted by the MFA II related condition #4). One logical next step was to adopt a new legislative framework governing the social transfer programmes, regulating the transition towards a new targeting system.
	√ This condition has been considered as fulfilled by the EC.
Implementation	At the end of December 2017, the Government submitted to the ARP a draft new law, aligned with the CRES recommendations included in the Orientation Note. On 18 January 2018, the ARP Committee of Social Affairs started reviewing the law and introduced a few amendments without affecting the objective of the law. On 15 May 2018, the Committee's full report was discussed at the Plenary assembly. On 16 January 2019, the ARP adopted the Loi organique n° 2019-10, named "Amen Social" programme
Evidence of Implementation deficit	There is no evidence of implementation deficit.
Evidence of benefits and contribution of MFA	In terms of implementation of the new legislative framework, progress went beyond the MFA requirement (which consisted of the submission of the law to the Parliament). The law was adopted by the Parliament, still within the MFA timeframe, in January 2019. According to the CRES, the content of the law is satisfactorily aligned to the recommendations it made in the Orientation Note. Another positive aspect is that the adoption of the legislation was accompanied by a communication plan to better explain the reform to the general public.

[41] http://projects.worldbank.org/procurement/noticeoverview?lang=en&&id=OP00042737

	Further progress was made beyond the scope of MFA II. The application texts of the law followed in May 2020 with (i) the Governmental Decree No. 2020-317 setting the eligibility criteria and the process to access the AMEN Social program and its grievance redress mechanism (ii) the MOSA Order setting up the targeting model. The legislative frameworks and technical aspects are now well in place. Important political decisions have been made regarding, e.g. the criteria to access the social programmes. The new model has been tested to identify those that will benefit from COVID-crisis related temporary support and to add new PNAFN beneficiaries as from 2021/22. The hard decisions - potentially leading to the removal of benefits for some part of the population (found to be ineligible based on the new targeting model) or consisting of reducing the general subsidies and reinvesting the savings made into the financial envelope earmarked for SSNs- have however not yet been taken, rendering the progress less visible for the general public and causing frustration for part of the population. 2.

Table 20. Conditionality#6, 2nd tranche – Labour Market Reform

Conditionality number 6 – With a view to enhancing active labour market policies and reducing unemployment, especially among the youth, the Government will make substantial progress in the implementation of the FORSATI programme managed by the Ministry of Employment. In particular: i) a full Personal Employment Project will be provided to at least 50% of the 85.000 employment seekers registered under the first edition of the programme, which was launched in 2016; and ii) a new edition of the programme will be launched in 2017 with sufficient financial backing provided by the 2017 Budget Law.

Rationale and importance	Despite the context of high unemployment, prior to FORSATI which was launched in 2016, there was no personalised job-search assistance programme in Tunisia.
	√ This condition has been considered as fulfilled by the EC.
Implementation	On January 2016, the FORSATI programme was launched. The objective was that 85.000 unemployed people would benefit from FORSATI (as per February 2016 announcement of the then Minister of Vocational Training and Employment Zied Laadhari) .

	In June 2016, the first edition started only in two governorates Zaghouan and Béja and then extended to the rest of the country in October 2016. In 2017, a second edition was launched. A call for applications has been planned in 2018 but the Ministry decided to carry on the programme with existing beneficiaries.
Evidence of Implementation deficit	There were several flaws in the programme design / implementation: Overly optimistic expectations in terms of potential outreach: target of 120 000 beneficiaries (50 000 in 2016 and 70 000 in 2017), while only ~ 85 000 people in total applied for the programme and only 48 565 actually participated (implementing agency (ANETI)'s report March 2018). Budget overrun: A total of TND 81.3 million was spent on the programme in 2016 and 2017 against a total initial allocation of TND 67.4 million. These aspects are in turn related to challenges and resources needed to to implement this kind of programmes providing continuous and tailored support – a first of its kind. Many people who initially applied to the programme also refrained from actually participating once the high time commitment this would imply became clearer. Notwithstanding this, the impacts of the programme were assessed positively – reason why the Commission considered the condition as being fulfilled even if the quantitative targets were not met.
Evidence of benefits and contribution of MFA	The FORSATI programme has not been independently evaluated but the feedback received highlighted the positive impacts for those participating and at the organisational level. For those participating, there were notably skills gains, confidence building impacts and clearer and more realistic professional objectives. The gains were even higher for those receiving more intensive support (e.g. complementary trainings, internships) but not all could benefit given the resource constraints. On the side of ANETI, the staff familiarised itself with a new approach tailored to meet beneficiaries' specific needs and expectations. ANETI has also reportedly developed the capacities of its *Espace entreprendre*, within its regional offices, to accompany the creation of micro-enterprises. One main limitation of this programme is its lack of sustainability. The programme was discontinued as from 2018/19 and resources are lacking to restart it (despite the legal basis which is in place). In that context, isolated MFA conditions (without earmarked funding, complementary sectoral budget support programme and technical

	assistance programmes) seem somehow less useful despite the high relevance of the thematic area.

Table 21. Conditionality#7, 2nd tranche – Labour Market reform

Conditionality number 7 – With a view to reducing long-term unemployment, the Government will launch a new active labour market policy programme ("*Contrat Dignité*"), with sufficient backing under the 2017 Budget Law, aimed at reinserting into the labour market job seekers who have been unemployed for over two years.

Rationale and Importance	There were already existing wage subsidy programmes in Tunisia, but not especially for the long term unemployed (at least 2 years). Long-term unemployment impacts widely the youth, especially the graduated ones. In Tunisia, on average, close to 40% of graduates have a duration of job search exceeding 2 years.[42] The programme was launched at a time where there were hiring limits / hiring freeze in the public sector, to somehow compensate. The Contrat de dignité (Karama) programme is formalised through a contract, lasting up to two years and giving right to a monthly salary of TND 600 paid two thirds by the State and the rest by the company.
	√ This condition has been considered as fully fulfilled by the EC.
Implementation	On 9 March 2017, the Government issued a Decree (N. 2017/358) establishing the programme "*Contrat Dignité*" and setting its financial backing onto the *Fond National de l'Emploi*. On 8 August 2017, by the Minister of Vocational Training and Employment issued an *arrêté* on the eligibility conditions and the modalities of programme implementation. Over 2017-2019, there was 15,000 to 18,000 contracts signed each year. In 2020, the number of contracts signed was lower (7,000), reflecting the COVID impacts and also probaby the tightening of the programme's rules (meant to address the scheme's overuse by the same companies).
Evidence of Implementation deficit	There is no evidence of implementation deficit.

[42] ILO, Labour market transitions of young women and men in the Middle East and North Africa, 2016. Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_536067.pdf

Evidence of benefits and contribution of MFA	An initial impact analysis concluded that after two years, 35% of those who benefited from Karama still work at the same company. Other would have moved on or at least no longer appear on the official payroll. This outcome is promising while waiting for the results of a more extensive study (supported by ILO, planned the second half of 2021). Cost effectiveness would however need to be better understood. The promising results indeed come at a cost for the public finances which is not insignificant. The minimum wage of "Contrat Dignité" contracts was TND 600 per month, of which two-thirds were funded by the state. This corresponds to a fiscal cost of TND 4,800 per annum per beneficiary. This cost can however be seen as a social transfer (from government to long-term unemployed) and many benefits need to be factored (in terms of human capital, other costs avoided) before making conclusions. The added value of MFA conditions linked to the implementation of wage subsidy schemes seems rather limited in terms of substance. , as what is needed for the deployment of those programmes is funding, systems for an efficient outreach, impact evaluations which can feed into the better the design of these programmes.

Table 22. Conditionality#8, 2nd tranche – Investment climate

Conditionality number 8 – With the aim of improving the business climate in Tunisia as a key element of the Government's strategy to promote economic growth and following the adoption in September 2016 by Parliament of a new Investment Law, the Government will adopt the main by-laws for the implementation of the Code. These will include, in particular the following three by-laws: i) one simplifying and strengthening the institutional and governance framework for investment; ii) one clarifying the financial incentives provided to investments and setting up the Tunisian Investment Fund (*Fonds Tunisien de l`Investissement*); and iii) one defining the nomenclature and authorisations mechanisms. In addition, the Government will adopt a new law aimed at streamlining and clarifying the criteria for granting the fiscal incentives applicable to investments.

Rationale and importance	The adoption of the new Investment Law in 2016 paved the way for an improved business climate, reduced barriers to investment, reduced room for discretion and reduced red tape. Some key by-laws were however needed to support its implementation of the new Investment Law. The MFA condition pushed for the adoption of these by-laws and for the adoption of a complementary law on fiscal incentives. Thematically the MFA condition covered the following areas:

	the incentive system described as costly for the public finances, untransparent and ineffective at promoting investment and job creation; the authorisation system described as heavy and untransparent; the institutional and governance framework for investment, which was described as complex and lacking a one-stop-shop for investors
	√ This condition has been considered as fulfilled by the EC
	Decree 2017/388 was published on 9 March 2017 on the composition and organisation of the High Investment Council ("Conseil supérieur de l'investissement"), the Tunisian Investment Authority ("Instance tunisienne de l'investissement") and the Tunisian Investment Fund ("Fonds tunisien de l'investissement"). Decree 2017/389 was published on 9 March 2017, establishing the financial incentives for investments realised under the new Investment Law and setting a list of economic priority sectors. Decree 2017/390 was published on 9 March 2017, creating the UGPO in charge of implementing the Investment Law and proposing relevant legislative changes, notably in relation to the review of the current authorisation mechanism. Law N. 2017/8 on fiscal incentives to private investment, which was adopted on 14 February 2017. It entered into force on 1 April 2017.
Implementation	There was no implementation deficit.
Evidence of Implementation deficit	The relevant decrees and laws were all adopted but the general understanding is that thus far, progress has been very limited. There are blockages hampering true progress, despite the coordinated efforts of the donors in relation to this area (the IMF, WB, MFA were all pushing for the same aspects). With regards to incentives, the changes are seen as steps in the right direction[43]. Incentives are now targeted on poorer regions and key sectors (likely to generate employment opportunities for the graduates). No evaluation of the cost / benefits of the new incentive system is however available as yet. With regards to the authorisation system, progress has thus far been particularly slow. It is described in more details in relation to condition #13. With regards to the institutional set up however, the changes are not necessarily seen as positive. With the Tunisian Investment Authority now added to the existing set-up, the system is described as even more complex[44]. By law, the Tunisian Investment Authority is supposed to be a one-stop-shop for investors, but it still exists alongside other

[43] EBRD (2018) Tunisia Diagnostic paper: Assessing Progress and Challenges in Unlocking the Private Sector's Potential and Developing a Sustainable Market Economy

[44] OCDE (2018) Études économiques de l'OCDE : Tunisie 2018

	pre-existing structures and agreements between the different institutions had to be signed to delineate responsibilities and create artificial boundaries. The understanding from local experts is that the changes to the institutional set up were negotiated without the necessary buy-in of all those concerned meaning that in the end the changes were made to tick the box rather than to truly simplify the system (in the spirit of the condition, TIA should have replaced other structures).

A8.1.2 Reform areas for the third disbursement

Table 23. Conditionality #9, 3rd tranche – Public Financial Management and Civil Service Reform

Conditionality Number 1 (Action 9) – The Government will ensure that all bidders have unrestricted access to the TUNEPS system of e-procurement.

Rationale and Importance	The condition related to public procurement (a newly targeted field) aimed to accelerate the roll-out of an electronic procurement system whose installation / testing was under way. The project started back in 2011 and the first procurement signed on TUNEPSwas in 2014. Several benefits were expected from the shift to an e-procurement system. The rationale was to reduce the time and costs associated with procurement procedures and to increase transparency, traceability and accessibility in procurement, with positive impacts on economic development and good governance.
	√ This condition has been considered as fulfilled by the EC.
Implementation	In August 2018, the Tunis government published a decree for the TUNEPS system of e-procurement on the procedures governing the system in the official journal JORT No. 70. Specific procedures have been also set up to ensure that all bidders have unrestricted access, including foreign providers that can register and participate in the bids. From September 2018, TUNEPS became compulsory for central government units (ministries, non-administrative public institutions, and public enterprises) and from September 2019 for other public institutions and the Local Government as well.

Evidence of Implementation deficit	There is no evidence of implementation deficit thus far.
vidence of benefits and contribution of MFA	Satisfaction level with the main features of the system is rather high. By international comparison, the Tunisian e-procurement system has been described by the OECD as advanced in terms of its functionalities which include an option for e-submission at either the national level or the level of some procuring entities, an e-contracting functionality and an e-shopping mall functionality for small value procurement[45]. The full transition to e-procurement was also rather quick. The use of TUNEPS is mandatory for all buyers (since September 2019). The effective uptake of the platform by all buyers is however still uneven and lags behind, notably at the regional level. Large communication and training campaign were carried out and will be reiterated in 2021. SMEs also still face various constraints when accessing public markets despite the efforts to enhance their access to procurement opportunities, the-shopping mall functionality and the trainings provided. The Focus Group Discussions also highlighted issues of timely payment by public sector clients, going beyond the e-procurement system per se, meaning that some SMEs and larger companies may voluntarily refrain from bidding for public procurement. TUNEPS was developed in co-operation with the Korean International Co-operation Agency (KOICA), building on the Korean successful experience in this area. Many donors have been involved supporting the legal and technical developments in this area, notably through technical assistance, including the AfDB, the EBRD and the World Bank. The EU was, on its side, not involved in public procurement matters previously and the added value from inserting that specific MFA condition is not obvious at first glance. Based on earlier drafts of the MoU and reading the way the fulfilment of this condition has been assessed, it becomes clear that the rationale was to ensure foreign bidders' access – including EU bidders' access - to TUNEPS. In the end, foreign firms do have access to TUNEPS in Tunisia. Provisions that explicitly favour domestic firms by allocating a price preference to national suppliers have been inserted in parallel[46] – as is also the case standardly in the EU[47]. The inverse is however not true and Tunisian economic operators do not have access to EU public procurement (as Tunisia is not a signatory to the WTO Agreement on Government Procurement and as no agreement has been reached on the DCFTA).

[45] OECD (2020), Improving the E-procurement Environment in Tunisia: Supporting vulnerable groups in gaining better access to TUNEPS, Paris.

[46] More precisely national bids are preferred to foreign ones that are of equal quality where national bids' price does not exceed 10% of the price quoted in the foreign one. See OECD (2016) Emerging Policy Issues: Taxonomy of Measures Affecting Trade in Government Procurement Processes

[47] European Commission (2019) Guidance on the participation of third country bidders and goods in the EU procurement market. Communication from the Commission (C(2019) 5494 final)

	Overall the experience with TUNEPS in Tunisia is positive. Improvements in the price and quality of goods and services procured through TUNEPS have been reported by public buyers. The added value of the MFA condition is however rather low taking the Tunisian perspective.

Table 24. Conditionality #10, 3rd tranche – Tax Reform

Conditionality Number 2 (Action 10): Building on the reforms of the VAT introduced in the context of the 2017 Budget Law, the draft Budget Law for 2018 submitted by the Government to Parliament will foresee: i) a reduction in the number of VAT rates from three to two, through the elimination of the middle rate; and ii) an additional substantial reduction of the number of exemptions to the VAT.

Rationale and Importance	This condition was going one step further compared to condition #3, 2nd tranche, calling for a further reduction in the number of exemptions to the VAT and the suppression of the VAT middle rate, in line with the objectives of the 2016 tax reform strategy.
	✕This condition was only partially fulfilled. However, given the stricter balance of payments, the progresses made in terms of VAT administration and the implementation of complementary fiscal measures, a waiver was granted by the Commission.
Implementation	The 2018 Budget Law which was adopted by the ARP on 9 December 2017, was unsuccessful in removing the middle rate of 12%. This rather increased all Value Added Tax (VAT) rates by one percentage point (from 6 to 7%; from 12 to 13%; and from 18 to 19%). The middle rate VAT still exists although it now applies solely to a limited list of transactions e.g., energy products, the sale of low-voltage electricity intended for domestic consumption and the services rendered by certain liberal professions. Satisfactory progress was made in terms of reducing the number of exemptions to the VAT in successive budget laws (from 2016 to 2019)
Evidence of Implementation deficit	The intermediate rate was not fully removed but now applies to: a limited number of very sensitive goods and services (energy products, the sale of low-voltage electricity intended for domestic consumption) for which an increase to the 19% rate would potentially trigger social unrest (and a decrease to 7% would negatively affect budget revenues) the services rendered by certain liberal professions for which an increase to the 19% rate may potentially incentivise VAT evasion. Alternative measures to combat tax evasion and fraud from the

	liberal professions were taken instead, leading to a 20% increase in tax revenues from this category of taxpayers in 2018. During 2019 (election year), this was politically difficult to achieve more in this area (resistance from the Parliament)
Evidence of benefits and contribution of MFA	Progress with reducing exemptions has been achieved. Implementing this part of the condition has proven rather consensual. The revenue impacts were by definition positive while the social impacts were also expected to be positive, as per the IMF staff calculations which showed the regressive distributional impact of VAT exemptions. More specifically, given the differences in their respective consumption baskets, the top quintile of the income distribution was capturing about 40 percent of the benefits from tax exemptions, as opposed to less than 10 percent for the bottom quintile[48]. Besides provisions were included to mitigate the potentially negative social impacts, by leaving VAT exemptions for basic food items unchanged[49], as highlighted under the SIA. The middle VAT rate however still exists[50]. This is, with the benefit of hindsight, not of immediate concern, given the potential detrimental impacts linked to the suppression of the VAT middle rate, from the tax collection perspective – see also row above "Evidence of Implementation deficit". From the social perspective, the impacts of this implementation deficit are unclear. Poorer household budgets may have benefited from the reduction in VAT rates for domestically consumed energy but at the same time they may have been penalised by higher prices of petroleum products – see also SIA in Annex 12. In parallel, though not a direct demand stemming from the MFA nor the IMF programmes, VAT rates have been increased by 1 percentage point as of 1 January 2018[51], generating positive revenue impacts, amidst social concerns (see for instance widespread protests in January 2018 which reportedly entailed hundreds of arrests, injuries and one death [52]). With the benefit of hindsight, the added value of that specific MFA condition is unclear, although it was fully aligned with the authorities' plans.

[48] IMF Country Report No. 15/285

[49] IMF Country Report No. 18/120

[50] https://taxsummaries.pwc.com/tunisia/corporate/other-taxes

[51] VAT rates now read 7%, 13% and 19%.

[52] "Tunisia protests, authorities accused of indiscriminative crackdown", The Guardian, 11 January 2018, available at www.theguardian.com/world/2018/jan/11/tunisia-hundreds-arrested-violentprotests-army-deployed-cities

	What the condition entailed was not fully clear. Suppressing the middle rate meant specifying at which rate the products and services previously taxed at 12% would need to be taxed. The MFA condition was not specific on this. Despite the discussions which had been held ahead of the adoption of the tax reform strategy, it appeared further down the line that there was no consensus on this in Tunisia[53]. As per an earlier IMF report[54], the idea was that the rate of 18% would apply to all goods and services previously taxed at 12%. However, given the basket of products subject to the middle rate and the low tax compliance of liberal professions currently subject to the middle rate, difficulties linked to political and social concerns were to be anticipated. These difficulties were not fully grasped at the time of the MoU discussions. The MFA condition sought to follow up on the commitments made under the IMF programme: as prior action, the parallel IMF programme called for the adoption of the tax strategy - which contained the objective of rationalizing VAT rates (from three to two). However, in the meantime, taking a closer look at the limited number of very sensitive goods to which the middle rate applied at the time, the IMF refrained from pushing for the suppression of the middle rate. Instead, it focused on pushing only on a narrower aspect, the increase of the VAT rate for liberal professions (from 13 to 19 percent). That structural benchmark had to be reprogrammed (from end 2018 to end 2019), for lack of compliance following resistance by the concerned liberal professions, who are well represented in the ARP. It has still not been implemented by 2021. Once included in the MoU, the MFA condition (covering the suppression of the middle rate for both products and services) was set in stone, despite the early notice from the Tunisian side that the middle rate would not, in the end, be eliminated. The Commission demonstrated flexibility at the assessment stage, granting a waiver, and rightfully so given the tangible progresses towards the final objectives pursued. Another positive aspect is that the inclusion of this condition did not cause undue delays in the disbursement of the assistance.

Table 25. Conditionality #11, 3rd tranche – Social Protection

Conditionality Number 3 (Action 11) – The Ministry of Social Affairs will complete the survey of the approximately 900.000 households currently benefitting from the main social transfer programmes (PNAFN and Cartes de soins) and publish the results.

Rationale and Importance	As part of MFA I, the EU had promoted the implementation of a survey aimed at identifying the families benefitting from the PNAFN and subsidised health care programmes and re-assessing their eligibility for these programmes. This was a long process, longer than

[53] The authorities committed to the objective of suppressing the middle rate in their tax reform strategy but the ARP Commission on Finances highlighted the sensitiveness of the remaining products to which the middle rate still applied, and for the services, the counterproductive effect of encouraging VAT evasion.

[54] IMF Country Report No. 15/285

	initially expected. The delay in launching the survey was one of the factors withholding the disbursement of the second tranche of MFA I at the time of MFA II negotiations (the field phase of the survey finally started in April 2017, after a three-year delay). At the time there was still a case to push for the acceleration in the data collection process.
	√ This condition has been considered as broadly fulfilled by the EC.
Implementation	As of August 30, 2019, the new Amen Social database had 644,000 households registered with basic survey data. Of these, 387,000 had complete information. It was estimated that that the number of 700,000 households registered could be reached by the end of 2019. With the benefit of hindsight, the target of 900.00 households (i.e. almost a third of the total households in Tunisia) was overly ambitious.
Evidence of Implementation deficit	There is no evidence of implementation deficit, even if the survey is still an ongoing process. As of mid-2021, the Amen database has identified more than 800,000 households and the number of entries finalized by social workers is around 450,000.[55]
Evidence of benefits and contribution of MFA	After a much slower start than expected, the speed of the data collection process increased markedly as from late 2017 onwards. The pace of survey implementation was however stunted by the lack of incentives for registration to beneficiaries to complete the survey. In 2019, measures were taken to accelerate progress and to urge beneficiaries of the social assistance programmes, and eligible non-recipients to register for the survey in their respective constituencies. A communication campaign was launched at the time of the adoption of the Amen law. Aside communication, more coercive measures were taken. For instance, the renewal of the new electronic Cartes de soins is conditional on the completion of the survey. All PNAFN recipients are by now registered but this is not yet the case of all AMG II beneficiaries. The COVID-19 crisis and the lack of logistics (vehicles) has slowed the completion of social surveys and field visits by social workers. Progressively the gap should be filled: when distributing the new health digital card (as mentioned above) or for those applying Covid related temporary support, the completion of the survey is mandatory.

[55] Interview with CRES-MoSA Tunisia, July 2021.

	The completion of this large-scale social survey allows to know the poor better. This is a pre-requisite to be able to better target the assistance. In this reform area, authorities tend to value especially the technical assistance implemented by the World Bank but they also reckon that the MFA conditions have also contributed to the sustained mobilisation around this reform area. The level of ambition was high, especially when it was first included under MFA I. Based on the insights from MFA I, Commission adapted its approach and required the completion of that condition only for the third tranche. It continued – and rightfully so – to show some flexibility when assessing the fulfilment of that condition, valuing the progress made despite that the quantitative targets have not been reached.

Table 26. Conditionality #12, 3rd tranche – Social Protection

Conditionality Number 5 (Action 12) – Consistent with the National Development Plan 2016-2020 adopted by Government in May 2016, the Government will adopt an Action Plan for the implementation of reforms aimed at improving the effectiveness and sustainability of the country's social protection system (including, inter alia, the main cash transfer programmes and the pension and health care systems). The plan will draw on the recommendations contained in the assessment and results-based matrix that the CRES, under the purview of the Ministry of Social Affairs, has been requested to provide with technical support from the International Labour Organisation, UNICEF and the World Bank.

Rationale and importance	Among the priorities in the National Development Plan 2016-2020, the government committed to reform its social protection system. The contributory system (social insurance) was assessed to be financially unsustainable while the non-contributory system (social assistance) was considered as insufficient to ensure universal access to essential health care and income security. The proposed MFA condition encouraged the government to develop its thinking and adopt an action plan to prepare the ground for a wider reform of the social protection system, going beyond the reform of social assistance and cash-transfer programmes (promoted through the other conditions) and touching up pension reform and healthcare reform.
	√ This condition has been considered as fulfilled by the EC.
Implementation	The Government of Tunisia considers the Decent Work Country Programme 2017-2022 signed in July 2017 with the social partner organisations and the ILO56 as its initial action plan. This Action plan was updated in 2019, providing an overview of different actions and initiatives that have been completed and are on

[56] https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_565882/lang--en/index.htm

	the way along three main axes namely 1) social assistance and cash-transfer programmes; 2) pension reform; 3) healthcare reform.
Evidence of Implementation deficit	There is no evidence of implementation deficit.
Evidence of benefits and contribution of MFA	Over the course MFA II, several preparatory steps were taken with an aim to introduce / reinforce national social protection floors. Studies were notably undertaken to have a better diagnosis of the current situation of each social guarantee; develop policy options, assess their feasibility and cost them; including studies by the CRES[57], the Conseil D'Analyses Economiques[58] and the ILO[59]. The orientation note[60] and the draft law for the establishment of the national social protection floors were examined and approved by the Council of Ministers in December 2019. These, inter alia, determine potential financing sources for the funding of the various guarantees. However, given the aggravated budgetary constraints in the COVID-19 crisis context, new estimates of possible funding sources need to be produced (in this reduced fiscal space scenario). No fixed comprehensive action plan seems to be publicly available for now. Specific concrete advances also took place in parallel. This included the reform of pensions for the public sector, adopted under law n°37/2019 (increasing retirement age to 62 and raising contribution rates). In relation to social assistance programmes, aside the developments related to the legislative framework and infrastructure for a better targeting (in relation to conditions 4, 5 and 11), a new (temporary) cash-based transfer programme to help families targeting children aged 0 to 5 from poor families impacted by the COVID crisis (in partnership with UNICEF) was also set up. On this topic of national social protection floors, the Tunisia authorities are accompanied by international organisations such as ILO and UNICEF. An MFA condition would typically reinforce the message.

Table 27. Conditionality #13, 3rd tranche – Investment Climate

Conditionality Number 6 (Action 13) – As part of the reform of the investment framework started with the approval of the Investment Law in 2016, and with a view to boosting

[57] http://www.cres.tn/uploads/tx_wdbiblio/resume-socle-final.pdf

[58] http://www.cae.gov.tn/wp-content/uploads/2019/08/7-Note-CAE-N%C2%B0IX-1-Protection-Sociale-Mai-2018.pdf

[59] https://www.social-protection.org/gimi/gess/RessourcePDF.action;jsessionid=67Hr7bj8uHfcK1NlhZ-K1t-atlfCuIFmZN30KBmqcr0h7cxceFP9!539423187?id=56782

[60] https://www.unicef.org/tunisia/media/2491/file/note-dorientation-les-garanties-du-socle-national-de-la-protection-sociale-2019.pdf

foreign direct investment, facilitating market access and creating a level playing field for all investors, the Government will adopt a decree regulating access by investors, including foreign investors, to the different economic sectors. This decree will benefit from the work carried out and recommendations issued by the Unité de Gestion par Objectifs that will be created (also by decree) to review sector legislation regarding market access. The decree regulating market access will reduce the number of economic sectors for which investment is subjected to authorisations or specifications (cahiers de charge) and will be consistent with the principle of equal treatment of domestic and foreign investors stated in the new Investment Law (Article 2). Specifically, the decree will imply the suppression of the list of 49 service activities currently requiring authorisation by the Commission Superieure de l'Investissement for any foreign investment entailing the acquisition of a majority stake.

	In almost all countries, foreign investors face at least some sort of restrictions compared to their national peers, for targeted reasons such as national security concerns. In Tunisia, restrictions were implemented for broader economic reasons. Prior to the new Investment Law, Tunisia had a relatively stringent FDI restrictiveness index, primarily due to the preapproval requirement for foreign investments in services activities[61]. 49 services activities were concerned by these authorisations granted by the Investment Commission (including e.g. transport, communication and tourism activities)[62] as soon as foreign investments exceeded 50% of companies' capital. Only the offshore sector was exempted (where activities are meant wholly for export). Besides, market access for new entrants (foreign and national ones) was restricted by ubiquitous authorisation processes, which for a large part could have been removed or simplified. Authorisation processes were described as untransparent and in many cases not related to legitimate objectives (such as protecting consumers or the environment). Some criteria were typically unclear (thereby creating room for discretion) or hard to fulfil (thereby limiting competition, delaying local and foreign investments and fuelling the informal economy). Cases of conflicts of interest within the institutions that issue permits were reported – with those having a stake in the business being in a position to block the issuance of new permits. Prior to the new Investment Law, there was no reference document listing all activities concerned by the investment entry authorisations, or administrative authorisations. The relevant information was thus hard to find for investors. The new Investment law required that economic activities subject to authorisations be explicated listed and investment entry authorisations be streamlined, by the "Unit for Management by Objective" (UGO) to be set up within the MDICI. At the time of MFA II negotiations, there was a case to follow up on this, and notably to push for the adoption of the implementing decrees.
	√ This condition has been considered as fulfilled by the EC.

[61] OECD (2017) REPORT Legal investment reforms Tunis, May 2017

[62] OECD Investment Policy Reviews: Tunisia 2012

Implementation	The suppression of the list of 49 services subject to restrictions on foreign investment was already enacted by the Investment Law (n. 2016-71) and adopted on 30 September 2016. The "Unité de Gestion par Objectifs" was created under Government Decree No 2017-390 of 9 March 2017 to review sector legislation regarding market access and provide recommendations regarding the progressive liberalisation of market access. Decree No. 2018-417 and circular 21 now organise activities potentially subject authorization in four lists A first wave of simplification is being finalised for 27 activities. A second wave is in the pipeline for 2021.
Evidence of Implementation deficit	There is no evidence of implementation deficit stricto sensu but the progress is slow. Real willingness to make a difference is being questioned.
To be checked	There has been progress, although slower than planned. The suppression of the authorisations for foreign investments into 49 services activities were enacted promptly directly through the Investment Law – triggering improvements in the FDI restrictiveness index (from 0.205 in 2016 to 0.178 in 2017)[63]. The work on investment entry authorizations is however more tedious. The decree No. 2018-417 (from May 2018) was a milestone, introducing a reduced list of 100 investment entry authorizations that will be initially maintained and enacting a first wave of simplification concerning 27 authorizations to be eliminated or simplified through specifications ("cahiers de charge")[64]. In the end, 15 authorisations have been eliminated and 12 replaced by specifications (which should all be finalised by end 2021). The finalisation of the first cahier des charges took longer than planned due to a lack of ex-ante consultations and preparation ahead of the adoption of the decree, resistance and lengthy review process (in a context of frequent changes within the consulted line ministries). In light of the delays, the mission of the UGO has been extended by three more years until March 2023. A second wave of simplification is expected to start imminently (concerning a further 25 authorisations which have been selected in consultation with the relevant line ministries). Beyond this simplification work, the new Investment Law also provides some clarity on the reasonable time to process authorisations. It has introduced the rule that responses from the public administration are due within a 60-day deadline and that, once

[63] https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#

[64] cahiers des charges are inventories of regulatory requirements that the operator needs to fulfil in order to start and operate a specific business. Investors only need to provide some basic operational information and declare their compliance with all the legal requirements in signed documents delivered to line ministries to start their activity without having to wait to obtain an authorisation.

the deadline has passed, "silence means consent" (with some safeguards for specific sectors like medicine, where this principle does not apply). This represents a change in mentality and communication campaigns were run towards administrations and investors. The principle of "silence means consent" is however not yet implemented on the ground since TIA, for now, does not use its authority to waiver the authorization when the deadline to process is past[65].

All in all, decree No. 2018-417 brings more clarity for the investors, compiling in one reference document more than 400 previously existing laws and regulations, some dating back from the years 1884, according to the UGO itself.

However, it is still too early to say whether the "cahiers des charges" is an approach that works well and whether the simplification has helped increase investments in certain sectors of the Tunisian economy (the first wave of simplification which started in 2018 is not yet fully finalized). There are doubts that most of the investment entry authorisations concerned by the simplification process were chosen so as to make a real difference. Looking at the list proposed for the second wave of simplification, reports note that authorisations are lifted for capital intensive industries or anecdotal sectors of the economy, making it less likely that impacts will be seen in terms of promotion of entrepreneurship or curbing of informality levels. Concerns are also expressed regarding the lifting of authorisations for polluting activities such as the cement industry while authorisations remain in place in parallel for certain minor activities[66].

The MFA condition in this domain reinforced the exact same messages than those given by the IMF or World Bank. The formulation of the MFA condition was however not optimised. Requirements linked to putting foreign and national investors on an equal footing were outdated: the suppression of the list of 49 services subject to restrictions on foreign investment was already enacted by the Investment Law itself (a fact which was maybe still unclear at the time of MFA II negotiation). As regards to the wider simplification process, it was not clear whether the MFA condition simply required the adoption of a decree listing authorisations to be eliminated/simplified, or whether it implied that technical consultations with line ministries be completed and the concerned authorisations be effectively eliminated/simplified. The condition also did not include specific quantitative targets or any safeguards specifying which activities should be concerned by the lifting of authorisations as a matter of priority. MFA II aside and until the more recent PAJE sectoral budget support programme, the EU was not heavily involved in this matter. To some extent, the vague formulation may illustrate an initial lack of intimate understanding of the situation; but it may also illustrate a willingness not to be too prescriptive in a context where the authorities initially seemed

[65] World Bank (2021) Implementation and results report, Tunisia Investment, Competitiveness and Inclusion (P161483) Development Policy Financing. Report No: ICR00005369

[66] https://inkyfada.com/en/2021/07/22/abolitions-permits-tunisia-investigation/

	committed to the reform – strategy which ultimately did not pay off (with the benefit of hindsight).

Table 28. Conditionality #14, 3rd tranche – Financial Sector

Conditionality number 7 (Action 14) – Following the adoption by Parliament of the new Banking Law, the Government will adopt the necessary decrees needed to implement the creation of a deposit guarantee scheme for banks in line with international standards, as required in the new law.

Relevance and importance	MFA I condition required the submission to the Parliament of a new Banking law inter alia defining the precise features and implementing modalities of a deposit guarantee scheme for banks, in line with international standards. MFA II condition followed up on this calling for the implementing decrees in relation to the newly set up deposit guarantee scheme.
	√ This condition has been considered as fulfilled by the EC.
Implementation	A new baking law (No. 2016-48) was adopted in 2016 to ensure that national banking standards and financial operations are structure in accordance with international regulations. This was aimed at ensuring adequate banking sector standards and guaranteeing financial stability by supporting the principles of good governance, transparency, and competition. A new guarantee fund for bank deposits, a safety net to protect deposits and prevent the contagions was also created. The Fund takes the form of a public institution with legal personality and financial and administrative autonomy with a capital of 5 million TDN equally owned by the Tunisian State and the Central Bank. The rules and procedures for compensation were set through Decree No. 2017-268 of 1 February 2017. The ceiling for compensation per customer is set at 60 000 TDN or the equivalent in foreign currencies. Two other decrees were passed during 2017 to appoint key staff and the surveillance committee. The fund started operating in August 2020[67].
Evidence of Implementation deficit	There is no evidence of implementation deficit.
Evidence of benefits and	The institutional change called for by the MFA operation seems sustainable with effective operations starting in August 2020. Tangible benefits cannot be measured as yet as the launch of the

[67] https://www.fgdb.gov.tn/en/presentation

contribution of MFA	deposit guarantee fund is too recent. Expectations are that the fund strengthens the confidence between banks and savers and contributes to the stability of the Tunisian financial system. The assessment of the functioning of the deposit guarantee scheme (in terms of its powers, resources and activities, and how this compares with international standards) is still ongoing. KfW provides technical support. The MFA condition on the deposit guarantee fund was a cross-condition with the IMF programme and the added value of such a cross-condition is not fully clear.

Table 29. Conditionality #15, 3rd tranche – Tourism Sector

Conditionality Number 8 (Action 15) – With a view to supporting the recovery of the tourism sector, while promoting further economic integration between Tunisia and the EU, the Government will conclude the negotiations, and initial, a Euro-Mediterranean Aviation Agreement.

Relevance and importance	Creating a Common Aviation Area with the covered by the European Neighbourhood Policy is an external policy objective of the EU. It is seen as a key element for the development of the European aeronautical industry and the regional integration and economic development. With Europe being the departure point for 82% of the tourists who travel to Tunisia[68], the Tunisian tourist industry relies to a large extent on existing aviation links with Europe. Over the time of the MFA II negotiations, a comprehensive Euro-Mediterranean agreement was in the pipeline. Existing bilateral agreements between the Member States of the European Union and Tunisia were seen as coming with restrictions (in terms of flight frequencies, number of authorised carriers, number of airports which can be served)[69]. The agreement was aimed at (i) increasing the number of direct flights; and (ii) setting standards for issues relating to aviation (including passenger rights, safety and security, and air traffic management amongst others).
	√ This condition has been considered as fulfilled by the EC.
Implementation	A comprehensive Euro-Mediterranean agreement was negotiated and initialled on 11 December 2017. This is aimed at (i) increasing the number of direct flights and improving trade and tourism between Tunisia and the European Union and (ii) setting standards for issues relating to aviation (including passenger rights, safety and security, and air traffic management amongst others).
Evidence of Implementation deficit	There was no implementation deficit on the Tunisian side, although delays pertaining to the signature of the aviation agreement by the

[68] COM(2008) 603 final

[69] COM(2008) 603 final

	European Union have been observed (the signature is planned for Autumn 2021)[70].
Evidence of benefits and contribution of MFA	Given that the agreement is yet to be signed by the EU, actual benefits cannot yet be observed. The expectations are high however, and generally positive at least for the medium to long term. The increase in traffic (by about 15-20% per year based on the experience of Morocco) is expected to significantly increase trade and tourist flows and stimulate growth in ancillary sectors. In the immediate term however, the liberalisation may lead to a shocks hard to absorb for Tunisair, fuel social discontent and raise acceptance issues. Trade unions in the airline industry are greatly concerned about the increased competition that the publicly-owned national airline (TunisAir) could face, and the potential negative social effects associated with its necessary restructuring. In that context, based on a review of ECFIN documentation, the authorities were initially reluctant to have this as an MFA condition. Besides, regardless of the context, the idea of including as an MFA condition the signature of an agreement which is in theory mutually beneficial but where the EU industry has a direct and obvious stake (that of increasing presence of EU aviation carriers in Tunisian airports) is questionable. It could be seen as the EU trying to prioritise and impose its own interests at a delicate moment for Tunisia and ultimately have a detrimental impact on the quality of the policy dialogue with Tunisia.

[70] https://www.consilium.europa.eu/fr/press/press-releases/2021/06/28/international-aviation-council-greenlights-signing-of-major-agreements-with-four-countries/

A8.2 Jordan

Table 30. Conditionality number 1 – Public Finance Management - Public Debt Management

Conditionality number 1 – Adoption and publication of an updated Medium-Term Public Debt Management Strategy in order to enhance public debt sustainability.

	√ This condition can be considered as met.
Relevance and importance	Despite continues attempts to manage its public debt, external financing (borrowing) mechanisms have been used by Jordan to address gaps in public finance, and to lessen the impacts of external shocks amongst others. This has resulted in a continues increase in Jordan's debt-to-GDP ratio.
	Public Debt Management Strategies are seen as key determinates for identifying the extent to which a country's sovereign stress can be answered with a combination of economic and structural reforms as well as IFI financing[71]. In this sense, the adoption and publication of an updated Medium-Term Public Debt Management Strategy was essential in informing the need for debt relief and restructuring.
Implementation	In June 2017, an updated Medium-Term Public Debt Strategy (MDTS) was adopted and published by the government. It introduced a view to debt management enhancement, market access condition improvement, as well as an increase in the average maturity of public debt.
	As per the debt management strategy 2017-2021, initiatives can be condensed as below: Continue reliance on external debt sources especially borrowing in USD to cover the portion of the borrowing needs with target to increase the FX as % of total debt to reach 45.5% of total debt in 2021. Extend the average maturity of domestic debt by issuing debt instrument with long term maturity (3, 5, 7, 10 and 15 years) taking market conditions into consideration. Decrease the share of debt maturing within one year. Issue Islamic Sukuk to diversify the financing sources and expand the investor base in government debt securities. This adoption was enabled by the restructuring of the Public Debt Department (PDD) as well as the on-boarding and training of new staff.
	In addition, several measures oriented on the development of the Domestic Market and Public Securities were implemented, including improved collaboration with the private sector, Improvements in

[71] Währungsfonds, I. (2021). Review of The Debt Sustainability Framework For Market Access Countries. *IMF Policy Paper, IWF*.

	the auction process and the reopening of existing securities to enhance liquidity. The latest update of the MDTS was done in May 2019 covering the period from 2019-2023.
	From July 2018, 3-month and 6-month T-Bills were regularly issued by the Ministry of Finance, as well as one-year T-Bills.
	In February 2019, the Government Securities Issuance Plan was adopted and published.
Evidence of Implementation deficit	There is no evidence of implementation deficit. Nevertheless, while the adoption and publication of the Strategy was view positively amongst interviewees. Comments suggest this Strategy may have been ambitious although reforms in public finance and broaden tax base (including tackling tax avoidance and tax evasion) are still key points to achieve expected targets and maintain debt sustainability. Other comments for interviews also suggest the Jordanian secondary markets remains other develop.
Evidence of benefits and contribution of MFA	Interviews with national authorities suggest condition #1 of MFA II help in updating the Governments Public Debt Management Strategy. This provided an effective outlook of debt, the cost of debt, how to lower it, and possible options on securing lower cost with the diversity of funding resources. Representatives of other international financial institutions also noted that the strategy provided a clear view on Jordans commitments as well as areas where donor efforts could be aligned.
	In relation to macroeconomic contributions, as observed in the debt sustainability analysis, despite efforts to reduce public sector deficits (as with the IMF, MFA II support) the debt-to-GDP ratio could not be brought down to a more sustainable level in the years 2016-2019. As of 2019, the ratio increased further, with additional support requested from the IMF in January 2020.

Table 31. Conditionality number 2 – Public Finance Management - Internal Control Units

Conditionality number 2 – The Audit Bureau will withdraw from 20 additional internal control units (ICUs) established in ministries, Departments and Agencies following its action plan to disengage from pre-audit activities.

	√ This condition can be considered as met.
Relevance and importance	This MFA II condition was rooted in an Operational Assessment of Jordan’s PFM system highlighting the weaknesses therein and built upon the progresses made under MFA I in this specific area (which focused on increased staffing, training and certification, thus laying the groundwork for the withdrawal required under MFA II). The provisions of the Audit Bureau law in force during the pre-MFA II period allowed the Audit Bureau - at the request of the Prime Minister - to conduct audits of expenditures before payment i.e. pre-audits. This legislative provision together with the lack of capacity in many government entities to conduct proper internal audits, resulted in the Audit Bureau undertaking pre-audit activities on behalf of

	42 Ministries, Departments and Agencies (MDAs). This not only detracted resources from the Audit Bureau's core business, but also weakened its independence and objectivity. This condition was therefore, important and relevant.
Implementation	Between March and June 2017, ICUs' readiness to conduct pre-audit activities without assistance was assessed by the staff of the Audit Bureau and the Central Internal Control Unit of the Ministry of Finance during the field visits. From June 2017, the withdrawal of Audit Bureau from 20 qualified internal control units became effective. Trainings and qualification programmes were implemented for ICUs staff working at the ministries, departments and agencies, ensuring they were qualified and ready to undertake the internal control activities from Audit Bureau Staff. By the end of 2017, the Audit Bureau had withdrawn from pre-audit activities in all internal control units.
Evidence of implementation deficit	There is no evidence of implementation deficit, or any other concerns.
Evidence of benefits and contribution of MFA	There is now a clearer separation between internal and external audit. This condition, therefore, rectifies a deficiency in the institutional architecture for audit of public finances in Jordan. Although the implementation of this condition has benefited from technical assistance from a number of donors (including EU budget support), the MFA nevertheless contributed to reinforcing and accelerating the timetable for this reform.

Table 32. Conditionality number 3 – Public Finance Management - Audit Bureau Law

Conditionality number 3 – The Cabinet of Ministers will submit to the Parliament revisions of the law on the Audit Bureau, in line with INTOSAI standards and recommendations of SIGMA.

	√ This condition can be considered as broadly met.
Relevance and importance	Supreme audit institutions (SAIs) are the lead public sector audit organisation in a country. Their principle task is to examine whether public funds are spent economically, efficiently and effectively in compliance with existing rules and regulations. Well-functioning SAIs can play an important role in confirming that controls are operating effectively, identifying waste and suggesting ways in which government organisations can operate better. Independence is a fundamentally important issue for SAIs.

	The Audit Bureau Law in force (dated 2007) did not provide necessary financial and administrative independence for Audit Bureau, prerequisite immunity and security of tenor of its president, unduly limited its remit to audit state-owned enterprises and, by contrast, allowed it to enter, under Prime Minister's approval, into pre-audit activities. Successive MFA operations have tried to address these weaknesses. MFA-I required the government to implement a new law strengthening the Audit Bureau's financial independence in line with INTOSAI standards and ensuring an appropriate separation between internal and external audit condition. The condition was not fulfilled de jure, although a waiver was granted by the Commission after concluding that positive steps had been taken in attaining some of the objectives of the new law (withdrawal from pre-audit activities, de facto improvements in the Audit Bureau's independence). MFA II carried forward the reform process initiated under MFA –I by requiring the authorities to submit to the Parliament revisions to the law on the Audit Bureau, in line with INTOSAI standards and building on the recommendations of SIGMA. The condition was highly relevant and important as it addressed weaknesses in Jordan's PFM system and was grounded in an Operational Assessment of Jordan's PFM system.
Implementation	In 2018, the following main amendments to the Audit Bureau Law wasere adopted, and published in the Official Gazette number 5538 dated 16 October 2018: Enhanced financial (Article 2) and administrative independence (Article 5) New legislation introduced the formal acceptance of the INTOSAI rules as the Audit Bureau working standards (Article 14). The requirement of pre-audit of Government payments upon request of the Prime Minister has also been removed Legislative amendments were fully implemented and established.
Evidence of Implementation deficit	There is no evidence of implementation deficit, although according to some stakeholders interviewed, the Audit Bureau law did not go as far as expected in terms of providing the ability to strengthen the independence, position, and status of the Audit Bureau. In 2020, the Audit Bureau prepared another amendment to the AB law to provide for more independence and autonomy. This amendment sought to take the Audit Bureau out of the Civil Service in order to have the ability to hire people with the right qualifications. This would give the Audit Bureau the power to hire, promote staff etc. Unfortunately, the Parliament did not pass this amendment. The general consensus among stakeholders is that the new president of the Audit Bureau is reform minded and intends to continue to push for reform and invest in capacity building.

Evidence of benefits and contribution of MFA	The withdrawal of the Audit Bureau from pre-audit activities is already bearing fruit. It has allowed the Audit Bureau to focus on more important issues and improve the timeliness and coverage of its audits. In the past, there were delays of five to six years in auditing some accounts due to the Audit Bureau's resources being stretched as a result of its involvement in pre-audit activities. Nowadays, the delays have been reduced to one year. Moreover, since 2019 the Audit Bureau started undertaking risk-based comprehensive audits. Although the implementation of this condition has benefited from technical assistance from a number of donors (including EU budget support), the MFA nevertheless contributed to reinforcing and accelerating the timetable for this reform.

Table 33. Conditionality number 4– Public Finance Management - Public Procurement

Conditionality number 4 – The establishment of an independent appeals system, applicable to at least the Government Tenders Department, the Joint Procurement Directorate, and the General Supplies Department, in order to increase transparency and objectivity in public procurement.

	√ This condition can be considered as broadly met.
Relevance and importance	Despite previous attempts to implement similar reforms, Jordan's legislative structure on public procurement has been fragmented and inconsistent with international standards. Three distinct government bodies (i.e., the Joint Procurement Directorate, the General Tenders Directorate of the Ministry of Works and Housing, and the General Supplies Department of the Ministry of Finance) have been in charge of dealing with different aspects of government procurement. While this made the system extremely complex, the procurement system also lacked a functional and effective independent appeals body to address complaints from bidders. As such, action #4 sort to aid in the establishment of an independent appeals committee.
Implementation	Since May 2019, following the advice from the World Bank and considering the EU proposals received by March 2019, Jordan adopted a new public procurement by-law addressing the appeals system, by introducing a two-layer complaints examination system aimed at further strengthening the complaint mechanism. The new Public Procurement By-law was published in the Official Gazette dated 1 May 2019.
Evidence of Implementation deficit	Although experiencing initial delays there is no evidence of implementation deficit. The second instance of the by-law is represented by a newly established second tier procurement complaint review committee. Despite the inconsistencies in implementation especially in relation to the structure and membership of the committee as envisaged by the World Bank, it is still considered aligned with international standards and good practice. However, further improvements and regulations are necessary for the appeals system to be fully functional.

Evidence of benefits and contribution of MFA	The establishment of the independent appeals system has increased the level of transparency in Jordans public procurement system. While the new system gives bidders the right to complain, the committee is also required to provide written feedback to justify its decisions – even in cases where decisions are against the bidder. This, to a large extent has improved the transparency in the system and aligned the current procurement system with international standards. Internal data provided by the Government Tenders Department suggests that 5 complaints were received and address in 2020 and an additional 18 complaints were received in 2021 until now. Further Interviews with Jordanian officials suggest that this reform has unified the procurement system in Jordan and made decision making within procurement entities more systematic and transparent – thereby increasing confidence in the governments procurement processes. However, further work needs to be done in raising awareness at the local government level and in incorporating e-procurement measures to reenforce transparency in the system.

Table 34. Conditionality number 5 – Tax reform, Income Tax Law

Conditionality number 5 – The government will submit to Parliament a new income tax law with a view to broadening the tax base, increasing tax collection and improving the equity aspects of the tax. In particular, the law will lower significantly the exempted threshold under the personal income tax and will increase progressivity within the rate structure.

	√ This condition has been considered as fulfilled by the EC.
Relevance and importance	Jordan 's Direct tax collection has been traditionally low due to low tax rates for individuals and corporates. By 2015, less than 5% of the population was paying personal income tax. The law aimed to increasing tax collection and the progressivity of personal income taxation, thereby enhancing higher government revenue, and ultimately improved fiscal sustainability and less donor dependency.
Implementation	The new Income Tax Law was published in December 2018, replacing the previous law adopted in 2014. This law lowered the exemption thresholds for individuals and households, therefore broadening the tax base. Additionally, greater progressivity and fairness was achieved by implementing a 6-tax grid scale which replaced the 3 tax grids in the previous income tax law. Additionally, the extension of the tax base also covered the corporate income taxation (CIT) by harmonising the standard statutory CIT rate for manufacturing and commercial sectors to 20% and introducing additional surtax on corporate profits in different sectors. Moreover, tax concessions for investment in special and development zones on

	non-manufacturing services and exemptions for large agricultural companies were removed.[25]
Evidence of Implementation deficit	There is no evidence of implementation deficit thus far. However, the adopted law was a watered-down version of the original, and the PIT reform was not as ambitious as anticipated due to the unpopularity of the measure and political pressures, which eventually led to the resignation of the Prime Minister Hani Mulki[26] .
Evidence of benefits and contribution of MFA	The law shows a clear evidence of tax base expansion from increased taxes on individuals, households and taxes on certain corporate sectors. For instance, the tax exemption threshold for personal income taxation (PIT) was lowered from JOD 12,000 in 2018 to JOD 10,000 in 2019, and further to 9,000 in 2020. Further to this, the new law also introduced a 1% 'solidarity tax' to individuals' income beyond JOD 200,000 per year[27]. However, despite recent progress in this field, benefits by way of increased income tax contributions to the budget are yet to materialize and tax revenues are still mainly obtained from the indirect tax.

Table 35. Conditionality number 6 – Tax reform, Tax exemptions

Conditionality number 6 – With a view to increasing revenue collection, reducing allocative distortions and increasing transparency, the government will adopt and submit to Parliament a new framework entailing a gradual reduction of exemptions in the general sales tax and customs duties. As a first step,

the budget law for 2018 submitted to Parliament will substantially reduce exemptions on these two taxes and will include an estimate of the tax revenue foregone due to the existing exemptions .

	√ This condition has been considered as fulfilled by the EC.
Relevance and importance	With a view to widening revenue collection, eliminating allocative distortions while enhancing transparency, a progressive decrease of exemptions in the general sales tax and customs charges was perceived as one of the steps towards that end, and one that would improve and streamline the indirect taxation exemption structure.
Implementation	On 16 January 2018, Jordan adopted a set of measures aimed at a greater rationalisation of the tax exemptions framework in the indirect taxation (general sales tax and custom duties). The general sales tax increased to 10%for commodities that were previously taxed at 0%-4%. Additionally, the government raised special taxes, namely special taxes on carbonated drinks (from 10% to 20%), on cigarettes (to JOD 0.20 per pack), and on Octane 95 and 98 gasoline

	(to 30%)[28]. Furthermore, a levy of JOD 500 – JOD 1,500 was introduced on imported cards and food subsidies on bread were lifted[29].
Evidence of Implementation deficit	There is no evidence of implementation deficit thus far.
Evidence of benefits and contribution of MFA	Though the law was instrumental in increasing revenues, the actual revenue performance was lower than originally expected. Additional revenues amounted to 0.2% of GDP in 2018, which is 1% less than initially envisaged (1.2%). This can be attributed to a contraction of 9% in non-energy imports and increased smuggling of cigarettes, which impacted tax collection[30].Additionnaly, views emanating from interviews suggest that the effect of such huge indirect taxes in the tax system may be directly impacting the economy in a negative way. By affecting the purchasing power of those who are in in the middle class of income, of whom contributes more to stimulating the local demand in the markets, indirect taxes may be negatively affecting the local demand.

Table 36. Conditionality number 7 – Social Safety Net - National Unified Registry (NUR)

Conditionality number 7 – With a view to protecting vulnerable groups while supporting fiscal consolidation, the government will take steps to better target the social safety net. In particular, it will make substantial progress towards establishing an operational National Unified Registry (NUR), building on the project on the matter financed by the Deauville Partnership's Transition Fund. The NUR will act as a mechanism for automated data exchange between the National Aid Fund (NAF) and other participating institutions or government entities, such as the Social Security Corporation, the Pension Roll and the Income and Sales Tax Department of the Ministry of Finance, and the Civil Status and Passport Department.	
	√ This condition has been considered as broadly fulfilled by the EC.
Relevance and importance	With the lack of an adequate targeting system to distribute household compensations aimed at protecting vulnerable groups while undertaking fiscal consolidation, there was a need for further progress to be made in developing and expanding the coverage of the NUR to ensure the beneficiaries of targeted cash transfer are adequately covered. The NUR was also intended to serve as an instrument for automated data exchanges between the NAF and other institutions with full data entries on Jordanian families through electronic linkage of the databases with the official entities. In this context, Action #7 was relevant in supporting this project by ensuring that significant progress was made in establishing the NUR.

Implementation	After some delays in the procurement process, the signature of the contract for the development of the System Integrator Platform was signed in July 2018. In January 2020, the Minister of Planning announced the accomplishment of the first phase of the National Unified Registry (NUR) scheme[72], which aims to improve the targeting of social safety net programs and develop an efficient outreach mechanism by establishing an unified Platform Portable database.[73][74] In this first phase, the registry included six government agencies: The National Aid Fund, the Social Security Corporation, the Civil Status and Passports Department, the Driver and Vehicle Licensing Department, the Income and Sales Tax Department and the Ministry of Finance- Retirement Administration. Back in May 2019, the data exchange system was successfully tested through the verification of the information of beneficiaries of the National Aid Fund's supplementary support programme[75]. The second and third phase of the programme, which includes new entities such as the Health Insurance Administration, the Ministry of Labor, the Ministry of Local Administration, the Department of Land and Survey, the Ministry of Education, the Greater Amman Municipality, the Ministry of Higher Education and Scientific Research, the Ministry of Digital Economy, Entrepreneurship, and the National Information Technology Center have also been completed[76]. According to a national official, further progress is being made to add an additional 20 entities. It is anticipated that this would continue until all government entities are connected to the NUR.
Evidence of Implementation deficit	There is no evidence of implementation deficit thus far. Interviews with representative of the Ministry of Social Development suggest the expansion of the NUR has been completed and it is fully operational.
Evidence of benefits and contribution of MFA	Overall, there has been substantial progress in setting up the NUR to ensure that the beneficiaries of targeted cash transfer are adequately covered. As of 2019, World Bank published a report indicating the NUR was 75% completed and has been tested and piloted during the implementation of the extension of the National Aid Fund Program (Takaful)[77]. This benefitted about 152,000 individuals. The World Bank report further indicates that the platform was also used for targeting insurance, energy subsidy support and transportation subsidy, benefiting about 37,000

[72] MENAFN (2020) Jordan- First phase of national unified registry accomplished. Available at https://menafn.com/1099582784/Jordan-First-phase-of-national-unified-registry-accomplished

[73] World Bank (2013) Jordan - Restructuring Paper on a Proposed Project Restructuring of National Unified Registry and Outreach Worker Program. Washington, D.C. : World Bank Group.

[74] National Aid Fund of Jordan. About the Unified National Register. Available at https://naf.gov.jo/EN/Pages/About_the_Register

[75] European Commission (2019) Second Macro-Financial Assistance to the Hashemite Kingdom of Jordan: Disbursement of the Second Tranche. Information Note to the European Parliament and to the Council.

[76] The Jordan Times (2020) First stage of unified national registry completed — Planning minister. Available at https://jordantimes.com/news/local/first-stage-unified-national-registry-completed-%E2%80%94-planning-minister

[77] Unified registry outreach programme nears completion — WB report. (2019). Retrieved 14 June 2021, from https://www.jordantimes.com/news/local/unified-registry-outreach-programme-nears-completion-%E2%80%94-wb-report

	households with health insurance and an additional 1,028 households with solar panels Follow up interviews with national officials suggest that the creation of NUR and the expansion NAF have made it earlier to monitor and identify beneficiaries. In recent times, the platform has also been used to support the bread subsidy and beneficiaries registered using this platform. The NUR has also been used as a targeting mechanism to identify eligible or not eligible beneficiaries. Now there are ongoing discussions on the possibility of using this tool as a targeting formular system and registration for other forms of support like the electricity and water support, Medicare, health insurance support, amongst others.

Table 37. Conditionality number 8 – Social Safety Net – Household Expenditure and Income Survey

Conditionality number 8 – The Department of Statistics of Jordan will launch a new Household Expenditure and Income Survey and, as part of this exercise, will produce updated poverty indicators, including an updated official estimate of the poverty line. Sampling for the Household Expenditure and Income Survey will allow representative data separately for Jordanians and other nationalities, including Syrians

	√ This condition has been considered as broadly fulfilled by the EC.
Relevance and importance	With the aim of protecting vulnerable groups while supporting ongoing reforms inter alia, there was a need to broaden the coverage of the main NAF assistance programme In addition to this, given the outdated poverty indicator a new household expenditure and income survey was required to provide an estimation of the Jordanian poverty line. Action #8[78] of MFA II required that the Department of Statistics launched a new survey.
Implementation	With the purpose of measuring poverty and living standards in the country[79], the Household Expenditure and Income Survey (HEIS) has been implemented in Jordan since 1966[80]. However, a new HEIS was launched in August 2017 after a technical assistance

[78] Conditionality number 8 – The Department of Statistics of Jordan will launch a new Household Expenditure and Income Survey and, as part of this exercise, will produce updated poverty indicators, including an updated official estimate of the poverty line. Sampling for the Household Expenditure and Income Survey will allow representative data separately for Jordanians and other nationalities, including Syrians.

[79] Department of Statistics of Jordan (DOS) Household Expenditures & Income Survey.

[80] World Bank (2018) Jordan Household Expenditure and Income Survey 2017-18 : Completion Note

	provided by the World Bank helped redesign all aspects of the survey and expanded its representation[81]. Results of the last HEIS were published in November 2018 by the Department of Statistics of Jordan[82], however, published information did not cover poverty indicators[83].
Evidence of Implementation deficit	There is no evidence of implementation deficit. However, the last HEIS published dates as far back as 2018 and last surveys do not appear to be published. In addition, official estimates on poverty indicators, which were expected to be published during the course of 2019, are not yet publicly available. Furthermore, the publicly available survey results do not segregate the data by nationalities (including Syrians), as required by the condition.
Evidence of benefits and contribution of MFA	While the data provided from the HEIS advanced the estimations of Jordan's poverty rates not only at the national level but also at district and sub-district levels, as at the time of writing, the last surveys do not appear to be published and there is no official estimation/baseline of the Jordanian poverty line. Interviews with other international donors suggest there may be some political constrains as the results are still pending and there has been no official report or communication regarding the poverty situation in Jordan.

Table 38. Conditionality number 9 – Employment and Trade - Employment opportunities for Syrians

Conditionality number 9 – Following the EU-Jordan Partnership Priorities and its annexed Compact, the government will take measures to facilitate the access of Syrian refugees to formal employment opportunities in the 18 Special Economic Zones (SEZ) that benefit from the agreement of 19 July 2016 between the EU and Jordan on rules of origin relaxation.

	√ This condition can be considered as met.
Relevance and importance	The Syrian crisis and the resulting inflow of mostly low skilled Syrian workers impacted the Jordanian labour market. Quantifying such an impact is undoubtedly challenging, but it is worth noting that Syrian refugees were denied work permits from the start of the crisis up until 2016, resulting in many of them taking up low paid, precarious jobs in the informal economy. This condition intended to address poverty concerns amongst Syrian refugees and to encourage a move away from the informal economy, which is connected with increased risks of health problems and poor social protection coverage. The condition

[81] European Commission (2019) Second Macro-Financial Assistance to the Hashemite Kingdom of Jordan: Disbursement of the Second Tranche. Information Note to the European Parliament and to the Council

[82] http://dosweb.dos.gov.jo/ar/economic/expenditures-income/expend_tables/

[83] European Commission (2019) Second Macro-Financial Assistance to the Hashemite Kingdom of Jordan: Disbursement of the Second Tranche. Information Note to the European Parliament and to the Council

	builds and complements such provisions specified in the Jordan Compact, in which the Jordanian authorities agreed to facilitate the social and economic inclusion of Syrian refugees.
Implementation	In December 2018, following a revision of the rules of origin, the requirement to facilitate the employment of Syrian refugees in the Special Economic Zones was abolished. Jordan extended the scheme to the whole country (up until 2030), for companies employing a minimum of 15% Syrian labour in the exporting line, under certain conditions and regulations. Key outcomes included the number of working permits issued for Syrian refugees during the period 2017-2019, of which stood at 46,717; 45,649 and 14,052, in 2017, 2018 and as of May 8, 2019, respectively. As regards the social security contributions paid by Syrian workers (7.5% of salary) to the Social Security System in Jordan, they amounted to JOD 3.0 million in 2017, JOD 3.3 million in 2018 and JOD 3.2 million in 2019 (for 2019 the number is annualised based on data from January until 16 May 2019).
Evidence of Implementation deficit	There is no evidence of implementation deficit. Although a series of measures increased employment opportunities for Syrian refugees, ILO noted, that many Syrian workers did not work with written contracts, were not covered by social security, and/or did not have occupational safety conditions and health standards met with the requirements.
Evidence of benefits and contribution of MFA	As a result of this conditions and other measures, up to 106 418 working permits were issued for Syrian refugees during the period 2017-8, up to May2019. Although, the issuance of most of these working permits for Syrian refugees stemmed primarily from formalisation of existing informal employment, it was perceived by the ILO and the donor community as an important achievement. Nevertheless, evidence from interviews suggests shortcomings in the achievement of this condition. Firstly, shortfalls of special economic zones limited the scale of impacts. Secondly, challenging labour market conditions for Syrian refugees remained a threat to impact, and finally, horizontal issues pertaining to the attractiveness and appeal of formal employment for refugees were also mentioned as potential limiting factors.

Table 39. Conditionality number 10 – Employment and Trade - Vocational training

Conditionality number 10 –The government, through the Vocational Training Centres (VTC) under the Ministry of Labour, will extend access of Syrian refugees to existing vocational training programmes, with a view to increasing employment opportunities for Syrian refugees. In addition, a survey of the educational qualifications, professional profiles and technical skills of the Syrian refugees will be launched by the Department of Statistics of Jordan.

	√ This condition can be considered as met.

Relevance and importance	With a view to increasing employment opportunities for Syrian refugees, access to vocational training programs was perceived as vital to enhance and improve their skills. In addition, and in parallel to this, a study on the educational qualifications, professional profiles and technical abilities was conducted. By conducting the survey, new data on the skills and professional profiles of Syrian refugees was generated, potentially enhancing current and future efforts to improve employment opportunities for the Syrians .
Implementation	In 2017, the Survey on Education, Skills, Experiences and Preferred Areas of Work of the Syrians in Jordan was carried out in cooperation with the Ministry of Planning and International Cooperation and the Norwegian FAFO Institute. In 2019, the survey was published on the websites of the Jordanian Department of Statistics and of FAFO. The survey results provide data for three separate groups: (i) Jordanians; (ii) Syrians; and (iii) other nationalities. From 2017 to 2019, a growing number of Syrian refugees received training by the Vocational Training Corporation (VTC), and in parallel with other measures, the number of training programmes expanded exponentially from around 9 different subjects in 2018 to 39 in 2019.
Evidence of Implementation deficit	There is no evidence of implementation deficit.
Evidence of benefits and contribution of MFA	From 2017 to 2019, the Vocational Training Corporation (VTC) provided training to around 800 Syrians refugees in 2017, 900 in 2018 and 310 in January-May 2019. A variety of subjects was provided, and the number of training programmes expanded substantially from around 9 different subjects in 2018 to 39 in 2019. In 2019, the survey of the educational qualifications, professional profiles and technical skills of the Syrian refugees was published on the website of the Jordanian Department of Statistics. However, due to methodological constraints, the aforementioned survey was significantly altered and thus did not allow to measure its contribution to increasing employment opportunities for Syrian refugees. Likewise, the data provided by the Ministry of Vocational training was quite limited in depth and did not allow the study team to adequately quantify the contribution of this condition to the main goal .

Table 40. Conditionality number 11 – Water sector reform

Conditionality number 11 – In order to make the financial situation of the Water Authority of Jordan sustainable, thereby also supporting fiscal consolidation efforts, the Ministry of Water and Irrigation will adopt an updated Action Plan to Reduce Water Sector Losses, including both revenue enhancing and cost reduction measures. It will also launch and complete the tender for the selection of the contractors for a project aimed at reducing energy consumption in major pumping stations, as laid out in the Action Plan for the Implementation of Energy Efficiency and Renewable Energy Policy for the Water Sector

√ This condition has been considered as fulfilled by the EC.

Relevance and importance	The management of Water in Jordan has concentrated on Given the significance of Action #11, especially in supporting both fiscal consolidation and responding to the increase in demand for water partly due to the influx of Syrian refugees. This action also reflected the shared priorities of the Government, the IMF, and the World Bank.
Implementation	In February 2017, the Ministry of Water and Irrigation adopted an updated Action Plan with the objective to increase revenues and reduce costs in the water sector in order to achieve operation and maintenance cost recovery by 2020. Some of the measures aimed at reducing non-revenue water included the introduction of energy efficiency and renewable energy projects in the water sector, the elimination of illegal or unauthorised usage of water, the increase of water and wastewater tariffs, and automatization of water supply systems. A tender for the rehabilitation of major pumping stations was published in early 2017 by the Ministry of Water and Irrigation with the purpose of reducing energy consumption. The project, which was awarded on 26 August 2017, is expected to create 50 GW hours/year of energy savings and a reduced energy consumption of the water sector of 7%. The electricity bill is expected to be impacted by these energy savings with an estimated reduction of JOD 5 million (or EUR 6 million) annually. In June 2019, the Action Plan was updated to cater for measures that had not been implemented (e.g., the restructuring of tariffs) and to reflect changes in the situation in Jordan.
Evidence of Implementation deficit	Given the actions required for water sector reforms, there is no evidence of implementation deficit thus far. However, reform outcomes are yet to be evident. During an interview with a representative of the Water Authority, it was pointed out that the escalation of water tariffs and importation cost were the key barriers for the prolonged nature of implementing change. In addition, other aspects of the Action Plan (e.g., Tariffs reforms - unification of Tariffs) have been put on hold due to the impacts of Covid.
Evidence of benefits and contribution of MFA	In February 2017, the Council of Ministers adopted the Action Plan to Reduce Water Sector Losses (as reflected in the letter of HE the PM ref. 56/10/6/5790). In August 2017, the Ministry of Water and Irrigation awarded a tender for the rehabilitation of major pumping stations to reduce energy consumption (Energy Efficiency in the Jordanian Water Sector-Phase 2 - Component 2: Rehabilitation of Pump Stations Tender No 52/2016/SW). After completion, this project would create energy savings of around 50 GW hours per year and reduce the energy consumption of the water sector by 7%. During the interviews with government official and other donors, it was pointed out that tangible benefits would take some time to manifest (6 to 7 years). This is due to the continues escalations in the electricity bills especially in 2020 (as compared to the pervious years 2018/2019). These increases in electricity bills have had a negative impact on the progress made in the water sector.

Annex 9 Case studies on external audit

A9.1 Case Study – External audit - Tunisia

A9.1.1 Section 1: Introduction to the case study

This case study provides a deep dive analysis of the reform promoted by the MFA operations in the area of External audit in Tunisia. The MFA II operation included the following condition:

With a view to strengthening the external audit of public accounts, the Parliament will adopt a new law on the Cour des Comptes (CdC) reflecting the provisions in the new Constitution. The new law will, in particular, reinforce the administrative and financial independence of the CdC and ensure a sufficiently wide remit in terms of the type of public accounts it can audit, in line with INTOSAI standards. It will also define the modalities for the publication and follow-up of the CdC's findings and will clarify the sanctions regime.

This was building on an MFA I condition which had requested the submission to the Parliament of the same law.

A9.1.2 Section 2: Rationale for strengthening the independence of the external audit function in Tunisia

Role of supreme audit institutions

By auditing government revenue and spending, supreme audit institutions oversee the management of public funds and assess the quality and credibility of governments' reported financial data. In Tunisia, the Napoleonic model[84] is followed meaning that the CdC is an integral part of the judiciary. In that context, it not only ensures that public funds are well spent but also acts as an administrative court and makes judgement on government compliance with laws and regulations.

Expectations are that well-functioning supreme audit institutions can curb corruption even if it is not an explicit part of their mandates. Audits may detect fraud and abuse in a direct manner and thus play a key detection role. More generally, the strong financial management and reliable reporting fostered by supreme audit institutions are key ingredients to promote transparency and accountability in government programmes and actions. Its actions reinforce the legal, financial, and institutional frameworks and reduce the arbitrary application of rules and laws. Its mere existence can have a deterrent effect. Tunisia is a case in point in terms of links between external auditing and the curbing of corruption as illustrated by the extent to which the CdC played an active role in anti-corruption inquiries after the fall of the Ben Ali regime.

Box 1. CdC and anti-corruption efforts during the transition

The magistrats of the CdC were actively involved in investigations of cases against the former regime.

In May 2011, the CdC published on its website all the reports that it had drafted over the previous five years, in their entirety. Until then, those had remained unpublished – only truncated summaries omitting the corruption-related findings were available. These reports, notably the report on the management of Tunisian state television and the report on irregularities at the Ministry of State Properties, were extensively used by the newly set-up Commission of the Fight against Corruption (CFC) and instrumental in

[84] There are 3 main types of auditing systems: Napoleonic, Westminster, or board. The Napoleonic one is prevalent in francophone countries. See: World Bank (2001) Features and functions of supreme audit institutions.

identifying and documenting the irregularities that had taken place under previous regime.

A number of CdC magistrats also became members of the CFC, further illustrating the CdC expertise in this domain.

Source: Janssen, Roel (2015) : The Art of Audit. Eight remarkable government auditors on stage, ISBN 978-90-485-3082-3, Amsterdam University Press, Amsterdam, http://dx.doi.org/10.5117/9789462980914

Departure point

The Tunisian Cour des Comptes was created by law in 1968. According to Faiza Kefi, President of the Cour des Comptes of Tunisia from 2003 to 2011, "the Court of Auditors was always considered as an 'institution de reference', (…) because of the seriousness of its work and the competence of its auditors"[85]. Reports from the World Bank confirm the same: Tunisia at the time already had a good quality external audit and INTOSAI standards on autonomy[86], scope and quality were met[87]. The CdC was indeed adhering to the professional auditing standards already under the previous regime. It was already an INTOSAI member and, illustrating its good regional reputation, it has been managing the secretariat of ARABOSAI, gathering 22 Supreme Audit Institutions of the MENA region, since 1983.

One of the main weaknesses under the previous regime, however, was that there were censorship surrounding the work of the CdC, primarly exercised by the government. There were severe constraints over the publication of the CdC reports. They could not be published in their entirety and some key messages were erased from the summaries (see Box 1). In parallel, as reckoned by the President of the Cour des Comptes from back then, those writing the reports were subject to some form of self-censorship, as illustrated by systematic attempts to always compensate negative points by more positive ones, up to the point that the critical conclusions could be lost or distorted[88].

Besides, there was not any formal Parliamentary hearing on the CdC reports. This lack of legislative scrutiny of audit reports and weaknesses in general reflected the limited role played by the Parliament under the previous regime. There was no pressure exercised by the Parliament requesting support in holding the executive to account (to be provided by the CdC). A similar situation was experienced in many other countries in the region, according to the World Bank assessment dating back from 2010.

In Tunisia however and unlike in other countries, there was a step change in 2011, immediately after the revolution. The President of the Republic made use of an existing provision to ensure that CdC reports would be made public, in their unabridged versions, and this was labelled as one of the first signs of increased transparency and accountability, intervening in the field of external audit[89].

[85] Janssen, Roel (2015) : The Art of Audit. Eight remarkable government auditors on stage, ISBN 978-90-485-3082-3, Amsterdam University Press, Amsterdam, http://dx.doi.org/10.5117/9789462980914

[86] The CdC was not reporting directly to the President but audit reports and other financial control reports were followed up by the High Commission for Administrative and Financial Audit (HCCAF), a small body unique to Tunisia, which was directly linked to the Presidency. There were other issues linked to a lack of independence of the CdC (over its recruiting plans, work programme and budget).

[87] World Bank (2010) Public Financial Management Reform in the Middle East and North Africa: An Overview of Regional Experience

[88] Janssen, Roel (2015) : The Art of Audit. Eight remarkable government auditors on stage, ISBN 978-90-485-3082-3, Amsterdam University Press, Amsterdam, http://dx.doi.org/10.5117/9789462980914

[89] 2015 PEFA assessment on Tunisia, p 123. Available at: https://pefa.org/sites/default/files/TN-May16-PFMPR-Public%20with%20PEFA%20Check.pdf

Other pre-existing pitfalls, however, still needed to be addressed, even after the relaxation of the rules over the publication of the CdC reports. These were linked to the question of independence and related to the need for more independence from the state budget, more freedom to recruit auditors and specialists, and greater autonomy over the use of the budget – see Box 2.

Box 2. Respect of the 8 principles of the Mexico Declaration on SAI Independence by Tunisia at the time of MFA II design (2016)

Principles contained in the Mexico Declaration on SAI Independence	Conclusions from the 2016 peer review exercise	Compliance
1. The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework	The Tunisian legal framework does not include any specific reference to the administrative, financial and management independence of the Court of Auditors (see principle 8). Furthermore, no legal remedies are foreseen against possible interference which would affect the capacity of the Court to carry out its work in accordance with its mandate and the legal framework.	✖
2. The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties	While the eligibility, the mandate, and the renewal of the appointment of the candidate to the presidency is considered as compliant, additional provisions would reinforce the independence of the Court. The possibility for the Head of the government to revoke the president without any specific procedures is particularly problematic.	~
3. A sufficiently broad mandate and full discretion, in the discharge of SAI functions	The CdC has a sufficiently broad mandate and respects a code of ethics based on international best practices. The CdC carries out financial and performance audits. It independently identifies bodies that should be audited, although the decision must be submitted to the High Control Committee Administrative and Financial. Additional safeguards should be designed to make sure this coordination element does not hinder the CdC independence.	
4. Unrestricted access to information	The CdC has adequate access (free of charge and direct) to the requested documents to conduct the investigations - even before 2011 Revolution.	

5. The right and obligation to report on their work	The CdC has an obligation to present its conclusions and recommendations of its annual report to the President of the Republic, the Head of government and the ARP.	
6. The freedom to decide the content and timing of audit reports and to publish and disseminate them	The CdC is free to decide on the content and timing as well as the publication and dissemination of its reports. Calendar requirements apply only to the budget and election campaigns. Some delays have been observed in the past, partly due to external factors e.g. late transmission of the requested documents, or to internal factors, such as the lack of resources, given the expanded scope of the mandate (with the monitoring of electoral campaigns).	
7. The existence of effective follow-up mechanisms on SAI recommendations	The CdC has no mechanism for monitoring the implementation of its recommendations. The CdC is under no legal obligation to undertake follow up activities.	✖
8. Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources	The budget allocation is decided at the ARP without the Court participation. The CdC has no recourse in case its resources are insufficient. It cannot decide on the allocation of its budget.	✖

Source: Rapport Final Examen par les pairs de l'Indépendance de la Cour des Comptes Tunisienne. Available at : http://www.courdescomptes.nat.tn/Fr/actualites_7_22_D62

Demands for strengthened independence following the revolution

In that context, in the immediate aftermath of the revolution, to better serve its objectives, the CdC reiteratied its calls for greater autonomy and its institutional repositioning in full respect of the principles of objectivity, impartiality and neutrality. It set up a committee, tasked with developing a draft article on the positioning of the Court in the new constitution. This draft article, endorsed by all the magistrates of the Court, specified the Court's relations with the public authorities. It was discussed at the level of the "National Constituent Assembly" with the committee in charge of justice matters[90].

[90] OECD Sigma (2014) Conférence régionale pour les Institutions Supérieures de Contrôle de la région du voisinage européen du sud

Strengthening the independence of the Court would also allow to comply with the institutional standards. INTOSAI standards clearly recognise that Court of Auditors cannot fulfil their missions without administrative and financial independence. In the INTOSAI's Lima Declaration of guidelines on auditing precepts, it says that "Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence". It is in addition clearly mentioned that it is not enough for a Court of Auditors to achieve de facto independence. Instead, this independence needs to be "anchored in the legislation", with the establishment of Supreme Audit Institutions and the necessary degree of their independence laid down in the Constitution and details set out in legislation if and as required [91].

In line with CdC demands and international standards, Article 117 of the Constitution (2014) raised the Court of Auditors to a financially independent organ. The Constitution however did not formalise in detail the relationship between the Court and the government and did not cover in details the budget / recruiting matters. In Tunisia, that would be the role of the secondary legislation which needed to be revised accordingly. This was flagged inter alia in the Operational Assessment carried out ahead of the first MFA operation to Tunisia (2014).

Rationale for the specific MFA condition

When channelling funds though the financial circuits of a beneficiary country, it is key to ensure that one can rely on the work of its Supreme Audit Institution -with no need for a parallel auditing system. This is one of the main reasons why the Joint Declaration of European Parliament and the Council from August 2013 emphasises the requirement to promote PFM reforms via the MFA.

The submission to Parliament of a new law on the CdC including provisions for the "reinforcement of the administrative and financial independence of the Cour des Comptes" was a condition for the release of the 3rd tranche of the MFA I. The discussions on the adoption of a draft organic law on the CdC started promptly, in early 2015, and a draft organic law on the CdC was adopted by the Government and transmitted to Parliament on 16 June 2016 (Draft Law #38-2016).

At the time of MFA II negotiation, the draft law was however sitting at the Parliament without being debated. The EU used its leverage to try and push for the Parliamentary adoption of the law.

A9.1.3 Section 3: Implementation of reforms

Once transmitted to the Parliament in June 2016, the draft law was not discussed by the relevant Parliamentary Committee (Committee for general legislative affairs) before November 2018. Given the importance of the condition, the Commission excluded the possibility of granting a waiver. Granting some flexibility was however envisaged. Based on its draft version, it was temporarily considered possible that the Organic Budget Law (Loi organique du budget or LOB), whose adoption was scheduled for March 2018, may contain sufficient provisions to ensure independence to the CdC[92]. This would have allowed for a quicker disbursement of the second tranche. The final text was however not meeting the expectations. Given the fierce discussions around the draft LOB law, the legislators temporised and adopted the Organic Budget Law, on January 31st, 2019, without making a judgement on the financial and administrative autonomy of the Court

[91] INTOSAI, 2019. Lima Declaration

[92] The role of the LOB is to define more generally the funding mechanisms of the various Constitutional Authorities and public bodies created by the 2014 Constitution. Its adoption was initially scheduled for March 2018.

and instead referring back to the CdC law itself. The second disbursement was withheld until the law was finally adopted on 16 April 2019.

There is no evidence of implementation deficit, but the adoption of CdC law took nearly three years after its submission to the Parliament. This explains the delay in the disbursement of the second tranche (and also relatedly, the third tranche).

The delays in the adoption of the law were caused in part by the need to consult the newly set up Conseil Supérieur de la Magistrature (CSM), or the Supreme Judicial Council on the new CdC law. The CSM is an independent body tasked with guarding the independence of the judiciary in Tunisia and advising legislators about judiciary reforms. Given the time required for the consultation, the long time required to adopt the CdC law is not entirely surprising. In addition, over time, the issue of the independence of the CdC also became intertwined with that of other judicial bodies. Beyond the justifiable reasons though, with the draft sitting at the Parliament for several years and the discussions which have taken place around the Organic Budget Law, it was also clear that there was a lack of political will among the ruling parties to grant financial and administrative autonomy to the CdC.

A9.1.3.1 Section 4: Coordination between donors

External audit is one field where the EU has been extensively involved in Tunisia, for many years. Other donors have not significantly entered that field, except at the margin (e.g. the World Bank reportedly provided support to the CdC on the communication aspects).

MFA operations aside, the EU notably exercised pressure through its budget support programmes, notably through the successive PAR programmes. In the early stages, PAR programmes focused on publication of reports produced by CdC. Later, in direct relation with the MFA II condition, PAR 4 (2014) included a policy implementation condition linked to adoption of the law on the Cour des Comptes by the Parliament (not met, waivered) while PAR 5 (2015) was conditional on the adoption of the organic budget law, which, in a complementary manner, allowed for greater budget autonomy for a number of constitutional entities, like the CdC. The justice reform BS (FA PARJ 3) included an indicator similar to PAR 5, requesting that the LOB includes provisions guaranteeing the CdC's autonomy.

Conditions pre-and post-dating MFA II conditions in the external audit field

PAR 1/2: Policy implementation condition related to publication of reports produced by CdC for the years 2005 to 2009

PAR 4: Policy implementation condition linked to adoption of the law on the Cour des Comptes by the Parliament (not met, waivered) + adoption of Organic Budget Law (which inter alia tasks the CdC with the realization of performance audits);

PAR 5: Particular prior condition on the adoption of the Organic Budget Law + two variable tranche indicators on audit modernisation by CdC

FA PARJ 3: Condition specifying that the upcoming LOB should guarantee the financial autonomy of the CdC.

Source: ICF analysis of EU documentation

Furthermore, the CdC has received support and technical assistance from a number of EU Member States, including through actions financed by the EU itself. Support was notably provided for the elaboration of the draft CdC law, by the French and Portuguese Court of Auditors, as part of an EU financed twinning project (2015-17). This work built on a peer review exercise conducted in 2016 and financed by the Austrian Development Cooperation, stressing the importance of the independence of the CdC and mapping the main deficiencies which needed to be addressed (see Box 2). In parallel, cooperation was established with the Dutch Court of Audit, on the issue of performance audits more specifically. The EU plans to continues its support to the Tunisian CdC through its PAGE programme adopted in 2020.

A9.1.4 Section 5: Impact of the reforms

The adopted version of the Organic Law of Cour des Comptes constitutes a step change. The independence of the CdC has been significantly reinforced and the new CdC is generally assessed as compliant with INTOSAI standards by experts from this domain. In the previous years, the executive was involved in the appointment process for the head of the CdC up to the point that it would go against Principle 2 of the Mexico Declaration. The executive's influence over the audit institution is now much more limited. Illustrating the newly granted financial autonomy of the CdC and in line with Article 40 of the new CdC law, the CdC budget for the year 2021 has been discussed for the first time at the ARP in December 2020. The CdC budget is no longer calibrated by the government and means that the CdC can now put forward, in the parliamentary debate, its arguments on the adequacy of its resources given its mandate.

Despite the granted independence, the CdC remains part of the Tunisia state as a whole. As such, the CdC is subject to the state's overall budgetary constraints and recruits its permanent staff on the basis of the relevant regulation for hiring civil servants. Absolute independence is however not expected as per international standards. Rather the Lima Declaration says that SAIs shall have "the functional and organisational independence required to accomplish their tasks"93.

Beyond the question of independence stricto sensu, the legislative changes also stimulated the ongoing improvements in the audit practices, e.g. thanks to an increased focus on performance audits for instance.

More directly related to the MFA condition (which also specifically called for progress in this area), there was an improvement in relation to the follow-up of the CdC's findings. The absence of mechanisms to monitor the implementation of audit recommendations had been identified as a weakness in analyses conducted by international organisations[94] . The article 16 of new CdC law foresees that the CdC should "ensure the follow-up of the results of its work and the implementation of its recommendations". The CdC initiated this work as evidenced in its 32nd report (published in 2021)[95], where it conducted an analysis of the extent to which measures have been taken in response to its recommendations (in relation to one of its missions on the management of the archaeological heritage). On this sample work, only 20% of its recommendations have been followed through with some effect. Despite first attempts at better monitoring of the implementation status of the CdC recommendation, the absence of concrete implementation of many of the CdC recommendations remains a major source of frustration in Tunisia as reported in the focus group discussions. More specifically, the case of the CdC report on the funding of 2019 presidential election campaign was often referred to, as there was no immediate action following its publication until a recent opening (on July 14th 2021) of investigations into three political parties on suspicion of receiving foreign funds during the 2019 election campaign[96]. More generally, while actions are typically initiated in case criminal offences are detected, there is a perception that this is not necessarily the case when misdemeanours, more minor irregularities or mismanagement are identified.

[93] INTOSAI, 2019. Lima Declaration

[94] OECD (2014), Examen de l'OCDE du Système de contrôle et d'audit de la Tunisie : Gestion des risques dans les institutions publiques

[95] http://www.courdescomptes.nat.tn/upload/rapport32/rapport32.pdf

[96] https://www.reuters.com/world/africa/tunisian-judiciary-investigating-ennahda-two-other-parties-judicial-source-2021-07-28/

On the positive side, during the focus groups, participants reckoned the CdC communication efforts. Thanks to appearances on television, dissemination in the newspapers, improvements in terms of presentation and use of a less technical language, access to the CdC reports is facilitated. There is still some education work to do however, given that the users of the reports still have a tendency to do a biased reading of the CdC reports and use them in a political rather than neutral manner, e.g. insinuating corruption cases were detected while only practice improvement was suggested.

Overall, the CdC legislative framework now seems adequate. Remaining challenges mostly pertain to the need to better calibrate resources with the CdC expanded mandate. The real increase in the CdC budget does not seem sufficient given that regularly CdC resources are diverted towards to the monitoring of election spending by political parties. Recently it was the case in 2014 and again in 2019 for the parliamentary and presidential elections and in 2018 for the municipal elections. Some issues in relation to the institutional framework / coordination issues were also mentioned, the CdC mandate to some extent overlapping with that general control bodies under the government control (for public service - CGSP, finance – CGF, and state property and land affairs - CGDEAF).

Box 3. CdC mandate

The CdC mandate is to examine the accounts and assess the management of the State, local government, public institutions and companies, as well as all entities in whose equity the State or local government participates.

It also assesses the results of the economic and financial aid that the above mentioned entities extend to associations, mutual benefit societies, and all types of private enterprises and companies.

Besides since September 2011, it is tasked with auditing political party financing and election campaign financing.

Lastly, the Court is empowered to carry out audits of the accounts of international institutions or organizations

The Court is also the depositary of the declarations of property of members of the Government and of certain categories of public officials

Source: http://www.courdescomptes.nat.tn/Fr/competence-de-la-cour-des-comptes_11_40

Box 4. CdC total budget

	2010	2015	2016	2017	2018	2019	2020*	2021*
current prices	6,7	11,6	12,4	12,7	15,8	18,7	20,2	25,7
constant prices	6,7	9,4	9,6	9,4	10,9	12,0	12,2	14,7

Source: Ministry of Finance, Budget de la cour des comptes pour l'année 2021

*Loi de Finances

A9.1.5 Section 6: Role and contribution of MFA

Regarding the contribution of MFA to the progress made, initially there were signs that the ownership of the reform was high. The independence of the CdC featured in the new Constitution and, already before that, progress was made with the publication of the CdC reports, which was seen as one of the first signs of increased transparency and accountability in the field of external audit. With time however, it became clearer that there was a resistance and risks were real that financial and administrative autonomy be rejected by the Parliament. In that sense the MFA condition is generally seen as having played an instrumental role: the condition on the independence of the CdC was very helpful when advocating for the Parliamentary passage of the law. In this specific instance, had the EU been more flexible, it would certainly have constituted a "missed opportunity".

A9.1.6 Conclusions and lessons learned

The new CdC law constitutes a step change for the external audit field in Tunisia and one change which can help curb corruption. Yet there seems to have little recognition of the significant progress made in Tunisia, beyond government circles and international experts. The focus group discussions showed that the independence of the CdC is often not valued in and of itself, with attention centering on lack of follow-up of CdC recommendations. This, however, should be read in light of the current general disenchantment, widespread frustration and difficult situation in Tunisia (political and institutional crisis, economic difficulties, COVID-19 response failure). It does not undermine the actual progress made. With the benefit of hindsight though and given the recent developments, the remark was made that the EU could have insisted more on the establishment of the Constitutional court. The justice reform BS (FA PARJ 3) did include one indicator related specifically to that aspect, but that did not feature in other EU instruments with more firepower, like the MFA.

The type of the condition under consideration was also extensively discussed during the evaluation. It was seen as problematic by Tunisian stakeholders as a matter of principle, given that the successful passage of the legislation by the Tunisian Parliament is ultimately entirely up to the ARP. The Study team agrees that this type of conditions should be handled with particular care as it can potentially compromise the implementation of an operation for reasons outside the government's control. In the present case however, the concerns werre mitigated by the fact that: (i) there was full alignment with the provisions of the new Constitution; (ii) the Tunisian Parliament ratified the MoU (and its list of conditions) as part of the MFA II approval process. In that context, the condition was seen as particularly justified, also given (iii) EU involvement with that specific aspect through other instruments; and (iv) the expected benefits for Tunisia, in terms of greater accountability and transparency of public finances.

A9.2 Jordan: case study of audit reforms

The MFA II operation included two conditions aimed at improving the accountability and transparency of public finances in Jordan by strengthening the institutional framework for external and internal audit. While one of the conditions aimed at strengthening the internal financial control and audit function within line ministries (condition 2), the other condition aimed at strengthening the role of the Audit Bureau as a Supreme Audit Institution (condition 3).

A9.2.1 Withdrawal of the Audit Bureau from pre-audit activities

A9.2.1.1 Pre-MFA II context

The provisions of the Audit Bureau law in force during the pre-MFA II period allowed the Audit Bureau - at the request of the Prime Minister - to conduct audits of expenditures before payment i.e. pre-audits (see section 1.3 for further details about the Audit Bureau law in force). This legislative provision together with the lack of capacity in many government entities to conduct proper internal audits, resulted in the Audit Bureau undertaking pre-audit activities on behalf of 42 Ministries, Departments and Agencies (MDAs). This not only detracted resources from the Audit Bureau's core business, but also weakened its independence and objectivity.

Successive MFA operations and EU budget support programmes sought to address this weakness in Jordan's PFM system. For instance, MFA I included the following condition:

A9.2.1.2 MFA I condition relating to capacity building of Internal Control Units (ICUs)

> "With a view to strengthening internal financial control while ensuring a phased withdrawal of the Audit Bureau from pre-audit activities, the number and performance of Internal Control Units (ICUs) will be substantially increased through a combination of training and increased staffing, consistent with the multi-annual training plan developed jointly by the Ministry of Finance and the Audit Bureau. Work should focus on the 43 budget entities that were assessed by the Audit Bureau in its 2011 review, which found that 20 of these entities had functioning ICUs, 9 had ICUs with significant deficiencies and 14 had no ICUs. During 2013, training efforts will cover a first batch of 25 budgetary entities.
>
> Compliance with this measure will be assessed on the basis of a review, to be completed by the Audit Bureau, of progress achieved in the 25 budgetary entities covered by the 2013 training plan.
>
> The EU will continue supporting efforts for training the staff of ICUs through the three institutional building instruments (Twinning, TAJEX and SIGMA)."

The MFA I condition was satisfactorily fulfilled by the Jordanian authorities. Substantial training was provided to the staff of the ICUs: 346 ICU workers participated in 17 workshops and training courses that were organised in 2013 and 265 workers participated in 16 workshops and training courses organised in 2014, consistent with the training plans for those years. Moreover, staffing of ICUs increased from 663 employees in 2013 to 716 employees in 2015. Progress was also made with the certification of internal auditors[97].

Furthermore, the authorities introduced two new Regulations in December 2014 and March 2015 regarding internal financial control and audit. These regulations better

[97] Ecorys (2017) Ex-post Evaluation of Macro- Financial Assistance to Jordan, ECFIN 2016 019/D

defined the concept of internal control and audit, expanded the scope of internal audit and reinforced the follow up of internal control findings.

The Audit Bureau, in cooperation with the Ministry of Finance, also formulated a plan for its gradual withdrawal from the pre-audit activities of the ICUs and for enhancing the ICUs' capacity to conduct pre-audit activities independently. Following the withdrawal from pre-audit activities in two entities (Customs, Ministry of Interior) in 2015, the Audit Bureau made a plan to withdraw from another twenty entities before the end of 2016 and from remaining twenty entities in 2017.

MFA II reinforced the Audit Bureau's plans for a phased withdrawal from pre-audit activities and as such build upon the MFA I condition which focused on increased staffing, training and certification (thus laying the groundwork for the withdrawal).

A9.2.1.3 MFA II condition relating to phased withdrawal of the Audit Bureau from pre-audit activities

"Condition 2: As part of its plan to gradually disengage from pre-audit activities, the Audit Bureau will withdraw from 20 additional internal control units (ICUs) established in Ministries, Departments and Agencies. The withdrawal process will focus on those ICUs that are certified by the Audit Bureau to be ready to handle pre-audit independently without Audit Bureau's involvement."

A9.2.1.4 Implementation of MFA II conditionality

This conditionality was satisfactorily fulfilled. During 2017 the Audit Bureau withdrew from 20 qualified ICUs, with the withdrawal being effective as of 1st June 2017. Prior to the withdrawal the Audit Bureau trained and certified ICU's staff to conduct pre-audit activities on stand-alone basis whereas following the withdrawal the Audit Bureau monitors ICU's performanceImplementation of this reform was greatly facilitated by capacity building support from the EU, GiZ and USAID funded technical assistance programmes.

A9.2.2 Audit Bureau

A9.2.2.1 Pre-MFA II context: legal framework for external audit

Article (119) of the Constitution of Jordan (1952) provides for the establishment of the Audit Bureau *"to monitor State revenues, expenditures and the ways of expenditures".* The AB Law No. (28) of 1952 - which has been amended several times - sets out the provisions for the functioning of the AB[98].

As the applicable AB law (dated 2007) was not consistent with international practices and standards[99], the Council of Ministers (CoM) adopted a new draft law in January 2013 and submitted it to the Parliament for approval in February 2013. The proposed amendments would have brought the AB law closer to international practices and standards promulgated by the International Standards for Supreme Audit Institutions (INTOSAI). In particular, the draft law included amendments that would:

- strengthen the Audit Bureau's administrative independence (including through a better definition of the rules for the appointment and dismissal of its President and confer legal immunity to both the President of the Audit Bureau and its employees).

[98] European Commission (2020) Strengthening the Capacities of the Audit Bureau (AB) of Jordan

[99] It did not provide necessary financial and administrative independence for Audit Bureau, prerequisite immunity and security of tenor of its president, unduly limited its remit to audit state-owned enterprises and, by contrast, allowed it to enter, under Prime Minister's approval, into pre-audit activities

- reinforce its financial independence by authorising its President to prepare its annual budget, which would be then incorporated into the state budget law and could only be rejected by the parliament.
- strengthen the remit of the Audit Bureau by allowing it to audit enterprises in which the state has a stake of at least 25%.
- provide for the removal of the provision that allows the Prime Minister to authorise the Audit Bureau to engage in pre-audit activities.

The draft law was however, withdrawn from the Parliament in 2015 to include some amendments regarding the appointment of the Head of the Audit Bureau and the Audit Bureau's capacity to use certain foreign aid as well as certain non-governmental entities (the Asian Association of Supreme Audit Institutions).

The EU has been supporting the Jordanian authorities' endeavours to strengthen the institutional framework for external audit. The adoption of a new AB law by the Parliament was part of the conditions of the MFA-I operation[100] as well as of the ENI-funded budget support operation 'Support to the Public Finance Management reform programme' implemented between 2010 and 2016.

A9.2.2.2 MFA I condition relating to the new Audit Bureau law

> "With a view to improving economic governance and public sector transparency, the government will implement a new Audit Bureau law. The new law will strengthen the role of the Audit Bureau as a Supreme Audit Institution in Jordan, ensure its financial independence in line with INTOSAI standards and ensure an appropriate separation between internal and external audit"

The new AB law was however, not adopted and a waiver was granted by the Commission after concluding that positive steps had been taken in attaining some of the objectives of the new law (withdrawal from pre-audit activities, de facto improvements in the Audit Bureau's independence).

In 2016, when the Jordanian requested the EU for another MFA operation, the Commission once again included a condition requiring the AB to prepare and submit to the Cabinet of Ministers a proposal for a revised Audit Bureau law in line with INTOSAI standards and building on the recommendations of SIGMA. The condition under MFA II was less ambitious in its wording than the condition contained in the MoU for MFA-I (requesting submission to the parliament rather than adoption by parliament as the latter was deemed politically unrealistic at the time).

A9.2.2.3 MFA II condition relating to the new Audit Bureau law

> "Condition 3: Consistent with the Audit Bureau's medium-term Strategic Plan 2016-2020 which aims at strengthening its performance, capacity and independence, the Cabinet of Ministers will submit to the Parliament revisions to the law on the Audit Bureau, in line with INTOSAI standards and building on the recommendations of SIGMA"

A9.2.3 Implementation of the condition

In 2017, there was a fresh momentum to improve the AB law. After studying best practices in other countries, the AB prepared a proposal for a revised draft of its law and

[100] MoU signed in March 2014; disbursements took place in 2015.

submitted it to the Council of Ministers under the letter of the AB no. 9/22/6934 dated 16/4/2017[101].

The Audit Bureau Law was eventually amended by the Parliament in September 2018 and the new amended AB law no. 36 for 2018 was published in the Official Gazette number 5538 dated 16 October 2018. The main amendments were as follows:

- Article 2 of the new Law provides an enhanced financial independence of the AB as the budget of the AB is to be submitted directly to the Prime Minister. However, to-date the budget of the AB is still being scrutinised by the MoF as part of the regular budget preparation process[102].
- Article 5 of the law provides more autonomy and independence to the President of the Audit Bureau. It stipulates that the Audit Bureau administration shall be headed by a President to be appointed under a Royal decision based on the recommendation of the Council of Ministers and such appointment shall be notified to the House of Representatives. He may not be dismissed, transferred, pensioned-off or be subject to disciplinary sanctions without the approval of the House of Representatives (if the House is assembled) or with the King's approval based on the recommendation of the Council of Ministers (if the House of Representatives is not assembled). In the past the president of the Audit Bureau could be dismissed by the Government when the parliament was not in session. Now, dismissing the President of the Audit Bureau requires the approval of His Majesty the King. This provides additional layer of administrative independence compared to the previous situation.
- Article 14 of the new Law explicitly requires observance of INTOSAI International Standards of Supreme Audit Institutions (ISSAI)
- The requirement of pre-audit of Government payments upon request of the Prime Minister has been removed.

In 2020, the Audit Bureau prepared another amendment to the AB law to provide for more independence and autonomy. This amendment sought to take the Audit Bureau out of the Civil Service in order to have the ability to hire people with the right qualifications. The Audit Bureau a special by-law for human resources. This would give the Audit Bureau the power to hire, promote staff etc. Unfortunately, the Parliament did not pass this amendment.

The implementation of this condition has benefited from technical assistance from a number of donors aimed at strengthening Audit Bureau's activities, including its capacity to conduct audits and its legal framework. This has included assistance from SIGMA in the preparation of the Audit Bureau's Strategic Plan for 2011-2015, and technical assistance as well as policy measures agreed in the context of several budgetary support operations financed by the ENI including the ENI-funded budget support operation 'Support to the Public Finance Management reform programme' implemented between 2010 and 2016. From September 2013 until June 2015 the Audit Bureau also benefitted from a Twining project with the Spanish Court of Accounts, the Netherlands Court of Audit and the Estonian National Audit Office aimed at strengthening its capacity in audit issues, training, management planning, IT and Anti-Fraud issues.

A9.2.4 Outcomes and impact of the reform

Table 41 shows the expected outcomes and impacts of the two conditions. Supreme audit institutions (SAIs) are the lead public sector audit organisation in a country. Their principle task is to examine whether public funds are spent economically, efficiently and

[101] Ecorys (2017) Ex-post Evaluation of Macro- Financial Assistance to Jordan, ECFIN 2016 019/D

[102] European Commission (2020) Strengthening the Capacities of the Audit Bureau (AB) of Jordan

effectively in compliance with existing rules and regulations. Well- functioning SAIs can play an important role in confirming that controls are operating effectively, identifying waste and suggesting ways in which government organisations can operate better. Independence is a fundamentally important issue for SAIs, and is recognised in the Lima and Mexico declarations and in the UN General Assembly resolution 66/209 of March 2012 promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening SAIs, which also emphasised that SAIs can only accomplish their tasks objectively and effectively if they are independent of the audited entity and are protected against outside influence.

The withdrawal of the Audit Bureau from pre-audit activities is already bearing fruit. It has allowed the Audit Bureau to focus on more important issues and improve the timeliness and coverage of its audits. In the past, there were delays of five to six years in auditing some accounts due to the Audit Bureau's resources being stretched as a result of its involvement in pre-audit activities. Nowadays, the delays have been reduced to one year. Moreover, since 2019 the Audit Bureau started undertaking risk-based comprehensive audits.

Table 41. Intervention logic of the audit reforms

Condition	Output	Short-term effects	Medium-term effects	Longer term effects
Condition 2	Phased withdrawal of the Audit Bureau from pre-audit activities	Audit Bureau can focus its resources on fulfilling its mandate Clearer separation between internal and external audit	Improved economic governance: greater accountability and transparency of public finances	Reduced fraud, corruption and wastage Improved efficiency and effectiveness of public spending
Condition 3	Submission (& eventual adoption) of new Audit Bureau law	Ensure administrative and financial independence of the Audit Bureau in line with INTOSAI standards		
		Clearer separation between internal and external audit (removal of the requirement to conduct pre-audits on the Prime Minister's request)		

A9.2.5 Role of MFA in promoting reforms

The Jordanian authorities had ownership of the above reforms and received significant technical assistance from the EU and other donors to support the implementation of these reforms. The widespread opinion among interviewed stakeholders including Jordanian authorities is that these reforms would have occurred more slowly in the absence of the MFA. The MFA II thus, played a role in accelerating the timetable for these reforms by setting concrete deadlines.

Annex 10 Detailed comparison of MFA, IMF and WB conditionalities

A10.1Tunisia

	EU		**IMF**	**WB**			**Complementary TA / technical dialogue**
	MFA I (2014-2017)	**MFA II (2016-2019)**	**EFF (2015-2019)**	**GOJ-3 (2015-2016)**	**BEE DPL (2017-2018)**	**ICI DPF (2018-2019)**	
Business environment					V		
Education sector							
Entrepreneurship and access to finance			V		V	V	
Energy sector - ad-hoc increases in fuel prices			V				
Energy sector - fuel pricing formula			V			V	
Energy sector - SOEs						V	
Energy sector - renewables						V	

	EU	IMF	WB	Complementary TA / technical dialogue
Financial Sector - bank supervision / prudential regulation		V	V	
Financial Sector - banking law	V V	V		
Financial Sector - central bank law	V	V		
Financial Sector - public banks		V	V	
Health sector				
Investment climate - Investment Code	V	V	V	
Investment climate - reform strategy			V	
Investment climate - telecom sector			V	

	EU	IMF	WB	Complementary TA / technical dialogue
Labour market	V			ILO projects
Monetary and exchange rate policy		V		
PFM - anti-corruption		V		
PFM - budgetary cycle		V		
PFM - debt strategy		V		
PFM - External audit	V V			EU funded twinning projects
PFM - Organic Budget Law		V		
PFM - public procurement	V		V	AfDB assessment of the system
PFM - Transparency			V	

	EU		**IMF**	**WB**	**Complementary TA / technical dialogue**
Public administration reform - cap on recruitments			V		
Public administration reform - other			V		
Public administration reform - Reform strategy		V	V		
Public administration reform - Tax administration reform			V		
SOEs			V		
SSN – survey of / database on vulnerable households	V	V	V		WB (MENA Transition Fund)

	EU	**IMF**	**WB**	**Complementary TA / technical dialogue**
SSN – targeting of the main social transfer programmes (strategic documents, law)	V		V	
SSN – Launch of new or reinforcement of targeted household support program (notably in relation to reform of energy subsidy)	V	V	V	WB (MENA Transition Fund)

	EU	IMF	WB	Complementary TA / technical dialogue
Social protection system reforms, (including, inter alia, the main cash transfer programmes and the pension and health care systems) (strategy and action plan)	V	V		International Labour Organisation, UNICEF and the World Bank
Statistics - chart	V			ESTAT
Tax reform - corporate tax reform		V		
Tax reform - regime forfaitaire	V			
Tax reform - tax reform plan		V		
Tax reform – VAT reform	V	V		

	EU		**IMF**	**WB**			**Complementary TA / technical dialogue**
Trade policy - standards	V						EU funded twinning projects, WB's Export Development Project
Trade policy – customs procedures					V	V	
Tourism sector		V					

Source: ICF review of documentation

IMF:

IMF Country Report No. 16/138 and MONA database

World Bank programmes:

Governance, Opportunities and Jobs (GOJ-3) DPL Development Policy Loan http://documents1.worldbank.org/curated/en/863551529601264948/pdf/Tunisia-ICR-P150950-ICR-Report-May-17-FINAL-06182018.pdf

the Business Environment and Entrepreneurship (BEE) DPL approved in 2017 http://documents1.worldbank.org/curated/en/526351497578447276/pdf/Tunisia-Business-Env-Entrepreneurship-DPF-PD-106348-TN-05192017.pdf

The Investment, Competitiveness and Inclusion (ICI) DPF approved in 2018 http://documents1.worldbank.org/curated/en/408781530329592442/pdf/PD-Tunisia-ICI-DPF-Board-Package-052518-fin-06052018.pdf

A10.2Jordan

	EU		IMF	WB		Complementary TA / technical dialogue
	MFA I (2013-2015)	**MFA II (2016-2019)**	**EFF (2016-2019)**	**DPL1 (2018-2020)**	**DPL Energy and Water Sectors (2016 – 2018)**	
Business environment				V		WB support programmes (+MENA Transition Fund), EBRD SEMED Multi Donor Account, GCFF
Business environment – improved institutional and regulatory environment for investments				V (Monitoring and Inspection Law; Jordanian exporters; Insolvency law)		WB (MENA Transition Fund), EU funded twinning projects
Education sector						WB support programmes, GCFF
Energy sector	V			V	V	REEE II-TA, CES-MED, ClimaSouth, Green Climate Fund, GCFF, WB support programmes
Financial sector			V			WB (MENA Transition Fund), SANAD TAF All focused on financial inclusion

	EU		**IMF**	**WB**		**Complementary TA / technical dialogue**
	MFA I (2013-2015)	**MFA II (2016-2019)**	**EFF (2016-2019)**	**DPL1 (2018-2020)**	**DPL Energy and Water Sectors (2016 – 2018)**	
Justice and home affairs						EU funded twinning projects
Labor market			V	V		WB (MENA Transition Fund)
Development of the local economy						WB support programmes (+MENA Transition Fund), CES-MED, GCFF
PFM – Audit bureau		V				
PFM – Debt management		V	V			
PFM - Internal audit	V	V				
PFM – Public Procurement		V				
PFM – Fiscal transparency and other fiscal measures			V			
PFM - Organic Budget Law			V			
Public administration and governance						TAIEX, SIGMA, WB (MENA Transition Fund)
Public enterprise reform and pricing			V	V		

	EU		**IMF**	**WB**		**Complementary TA / technical dialogue**
	MFA I (2013-2015)	**MFA II (2016-2019)**	**EFF (2016-2019)**	**DPL1 (2018-2020)**	**DPL Energy and Water Sectors (2016 – 2018)**	
SSN – National Unified Registry	V	V				WB (MENA Transition Fund)
SSN – unemployment and maternity funds	V					
SSN – Household Expenditure and Income Survey		V				
SSN – NAF cash transfer program and access to health care				V		GCFF
Tax reform – New income tax law	V	V	V			
Tax reform – tax exemptions		V	V	V		
Tax reform - Income and Sales Tax Department (ISTD)			V			
Trade – Regulatory framework for Investment	V					WB (MENA Transition Fund)
Trade – Metrology	V					
Trade – Public Private Partnership law	V					
Trade and employment– Vocational Training		V				SANAD TAF, WB support programmes

	EU		**IMF**	**WB**		**Complementary TA / technical dialogue**
	MFA I (2013-2015)	**MFA II (2016-2019)**	**EFF (2016-2019)**	**DPL1 (2018-2020)**	**DPL Energy and Water Sectors (2016 – 2018)**	
Trade and employment – improved opportunities for Jordanians and Syrian refugees		V (and relaxation of rules of origin)		V		EU funded twinning projects, ILO, SANAD TAF. EIB (ERI), GCFF, WB support programmes
Water sector		V	V		V	WB support programmes (+MENA Transition Fund), GCFF

Source: ICF review of documentation

European Commission (2014) Memorandum of Understanding between the European Union as lender and the Hashemite Kingdom of Jordan as borrower. Available at: https://ec.europa.eu/economy_finance/eu_borrower/mou/mou_of_macro-financial_assistance_to_jordan_en.pdf

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Annex 11 Debt Sustainability Analysis (DSA)

A11.1Introduction

The objective of this debt sustainability analysis (DSA) is to evaluate the contribution of the EU's macro-financial assistance (MFA) II operation (2017-19) towards the sustainability of Jordan's and Tunisia's public debt. Debt sustainability is assessed via modelling the key debt burden indicators and macroeconomic variables which affect the path of a country's debt and its capacity to manage its debt sustainably.

Technically, a government is solvent if its future primary balances when discounted to their present value are at least as large as its public debt stock. Therefore, analysing a country's ability to service its public debt offers us a starting point to determine whether its debt is sustainable.

The ability to service debt is reflected in the dynamics of debt-burden indicators which show a debtor's solvency and liquidity profile relative to data-based benchmarks. For Tunisia and Jordan, the analysis is focused on two debt burden indicators:

- the debt-to-GDP ratio, and
- the gross-financing-needs-to-GDP ratio.

According to the IMF and as countries with access to international financial markets, once Jordan and Tunisia's debt burden indicators breach its pre-set benchmark, the risk to their debt sustainability increases.

By comparing how these indicators responded to the MFA operation (the baseline case) against how they would have evolved under different scenarios (to be assessed in the final report), we can identify the effect of the MFA programme on the sustainability of Jordan's and Tunisia's debt.

MFA is provided as a general-purpose budgetary support, and therefore, there is no precise information on how the funding was spent when disbursed, or how it would have been replaced had it not been granted. To this end, further investigation of the options available to the decision-makers in the absence of the MFA support can reveal how the MFA support impacted debt sustainability by providing it with financing and liquidity in the first instance. In addition, MFA can also provide savings on the cost of borrowing as the interest rates underpinning MFA lending tend to be much lower compared to the interest rates offered by international and domestic financial markets, thus limiting the accumulation of debt.

The increase in (or maintaining of) government spending through the MFA operation may also have contributed towards stabilising and growing the economy, which tends to have a positive impact on debt sustainability (typically through increased tax revenues and reduced welfare spending)

This analysis focusses on both of these issues and the broader performance of Jordan's and Tunisia's economies as part of the review of the MFA's impact.

A11.2The EU MFA and IMF programmes

Following the completion of MFA I operations over 2013-15 (Jordan) and 2015-17 (Tunisia), the MFA II packages were agreed to ease the growing financing needs of these countries, The MFA II loan facilities for both countries were agreed in 2017 according to the terms outlined in Table 42.

Table 42. MFA II operations in Jordan and Tunisia - summary

	Terms of lending	Jordan	Tunisia
1st tranche	Maturity: 13.4 years Interest rate: 0.75%	EUR 100 million, disbursed in October 2017	EUR 200 million, disbursed in October 2017
2nd tranche	Maturity: 16.5 years Interest rate: 0.5%	EUR 100 million, disbursed in June 2019	EUR 150 million, disbursed in June 2019
3rd tranche (Tunisia only)	Maturity: 15 years Interest rate: 0.3%		EUR 150 million, disbursed in October 2019

Sources: European Commission.

Concurrently to the MFA II operation, the IMF provided its assistance under its Extended Fund Facility (EFF) arrangements agreed separately from MFA II in 2016. The programmes consisted of the following support:

Jordan – total agreed facility valued at USD 723 million, with the equivalent of USD 309 million disbursed by May 2019

Tunisia - total agreed facility valued at USD 2.9 billion, with the equivalent of USD 1.6 billion disbursed by June 2019

Amounts drawn under an EFF are to be repaid over 4½–10 years, which is shorter than the maturity of MFA lending, though the interest rate tends to be higher[103]. For example, the estimated interest rate on IMF EFF facilities in October 2017[104] was 1.5%, which was twice the interest rate on the MFA first tranches disbursed to Jordan and Tunisia around that time. Similarly, the estimated interest rate on IMF EFF facilities in June 2019 was close to 2.1%, which is four times higher than the interest rate offered by the second MFA tranches disbursed to Jordan and Tunisia around then.

Over the duration of MFA II operation, both countries received various other forms of support from international institutions, including the World Bank, Arab Monetary Fund, and bilateral donors, including the following countries: France[105], Germany[106], Japan[107], the US[108] [109], Kuwait, Saudi Arabia, and the United Arab Emirates[110].

The support packages from the EU and the IMF jointly provided budgetary support, which served as an alternative to other options that could be used to cover the financing gaps. In addition, the EU's and the IMF's assistance could have signalled support and confidence in the governments' ability to manage the crisis and conduct the necessary

[103] IMF, 2021. "IMF Extended Fund Facility (EFF)". Available at: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility

[104] IMF, 2021. "SDR Interest Rate Calculation". Available at: https://www.imf.org/external/np/fin/data/sdr_ir.aspx

[105] https://www.reuters.com/article/us-tunisia-france-idUSKBN1FK30W

[106] https://www.giz.de/en/worldwide/326.html

[107] https://www.mofa.go.jp/region/africa/tunisia/data.html

[108] https://www.foreignassistance.gov/explore/country/Jordan

[109] https://www.foreignassistance.gov/explore/country/Tunisia

[110] https://www.reuters.com/article/us-jordan-gulf-aid-idUSKCN1ME0WT

public finances and economic reforms. This in turn improved investors' confidence in the economy and crowded in bilateral supporters or donors. Due to the similarities between the EU and the IMF assistance to Jordan and Tunisia, this analysis will reference the IMF rescue package while keeping the focus on the EU's MFA operation.

A11.3Assessment of debt sustainability

Our approach to assess the contribution of the EU's MFA II operations towards the sustainability of Jordan's and Tunisia's public debt relies on descriptive counterfactual scenario analysis. This analysis is based on estimating the key debt-burden indicators for each country in order to analyse:

- the actual outcome (the baseline scenario),
- what would have happened without the MFA II first tranche but with the IMF assistance in place (Alternative 1: no MFA first-tranche scenario), and
- what would have happened without the MFA II second tranche (Jordan) or without second and third tranches (Tunisia), but with the IMF assistance in place (Alternative 2: no MFA second-tranche scenario), and
- what would have happened in the absence of MFA II and without the IMF assistance (Alternative 3: No MFA, no IMF scenario).

An approach based on identifying multiple counterfactual scenarios allows for straightforward comparisons of the impacts of individual MFA II disbursements (tranches), as well as the combined impact of the MFA II and IMF assistance.

Due to the relative proximity of disbursements of the second and the third tranches in Tunisia (June and October 2019, respectively), they are analysed jointly in the Alternative 2 scenario. According to the gathered evidence, the options available to the decisionmakers did not change markedly between the disbursement of the second and the third tranches, and therefore, a single counterfactual scenario can be constructed to analyse the joint impact of the two tranches.

An important factor in all analysed scenarios is the outbreak of the COVID-19 pandemic, which had a severe impact on both Jordan's and Tunisia's economies. In the wake of the deteriorating economic situation and weakening public finances in both countries, additional support was provided by the EU and the IMF in 2020. This support is described in detail in the section on the baseline scenario below. However, it is assumed to be available in all of the counterfactual scenarios analysed as part of the DSA.

Nevertheless, the COVID-19 pandemic and the support provided in response to it had a very significant effect on the trajectory of the key debt sustainability indicators from 2020-onwards. Given that the magnitude of the shock was unprecedented, the development of projections for the key debt sustainability indicators and their interpretation becomes difficult. While the MFA II operation over 2017-19 and the EFF facilities over 2016-2020 were designed to set the countries on a sustainable debt path they were not designed to withstand (or in response to) such a substantial shock. Therefore, the need for ramped-up budgetary support to provide stability in the wake of the pandemic is not necessarily an indicator of inadequacy of the MFA II or the IMF support. This is further discussed in the section on the baseline scenario below.

A11.4What happened under the baseline scenario

The baseline scenario refers to the actual state which can be observed. Therefore, the debt sustainability in the baseline scenario can be assessed using observable data and related projections. However, in instances where data are missing, the analysis relies on approximations and projections. Whenever possible these approximations draw on data from official and recognised sources such as the IMF and the World Bank, as well as from sources such as national central banks and the respective ministries of finance of each country.

Jordan

Table 43 presents the key macroeconomic indicators describing Jordan's economy over 2006-2019.

Between 2006-14 average annual real GDP growth stood at 4.2%, although after 2011 it slowed substantially and in 2015 growth was just 2.5%. Over 2016-19 GDP growth remained at close to 2%. This slowdown is mainly attributed to the effect of the 2008 financial crisis (in particular, a lasting decline in FDI[111]), and the aftermath of the 2011 Arab Spring which led to a collapse of the tourism sector in the region, and a decline in trade activity with Iraq and Syria. Other domestic issues which hindered Jordan's growth prospects in more recent years include the unsustainable public finances management and public sector subsidies which discouraged investors. Additionally, the situation was exacerbated by the increased pressure on public services due to the influx of Syrian refugees, with the highest number of arrivals in years 2011 to 2016[112].

Jordan's inflation rate declined from an average of 7.0% annually over 2006-14 to close to 2% in years 2015-19. However, the operational framework of the Central Bank of Jordan sets out a fixed exchange rate with the US Dollar as the nominal pillar of the monetary policy[113]. The fixed exchange regime in Jordan effectively prohibits the use of monetary policy as an independent policy tool, meaning that the use of interest rates or changes in money supply to influence the real economy sector would be ineffective, as any monetary changes would be cancelled out by actions simultaneously deployed by the central bank to stabilise the exchange rate.

The nominal exchange rate remained constant between 2006 and 2019, at 0.71 Jordanian Dinars per US dollar. According to the Central Bank of Jordan, a fixed exchange rate with the US dollar had a positive impact on the level of foreign investments in Jordan, while at the same time it helped contain the level of domestic inflation.

Table 43. Jordan - macroeconomic variables in the baseline scenario

	2006-2014[1]	2015	2016	2017	2018	2019
Real GDP growth (%)	4.2	2.5	2.0	2.1	1.9	2.0
Inflation (GDP deflator, %)	7.0	2.2	1.4	1.7	1.7	1.7
Nominal exchange rate (Jordanian Dinars per US dollar)	0.71	0.71	0.71	0.71	0.71	0.71

[111] OECD 2020, 'Review of Foreign Direct Investment Statistics – Jordan', https://www.oecd.org/investment/OECD-Review-of-Foreign-Direct-Investment-Statistics-Jordan.pdf

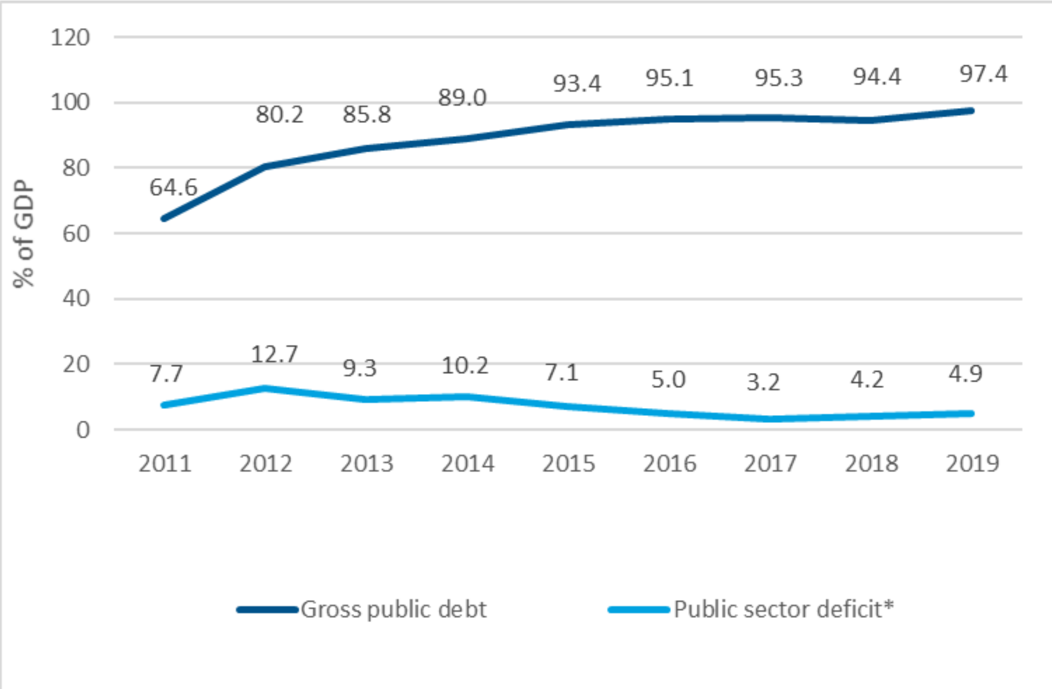
[112] UNHCR, 'Jordan: Statistics for Registered Syrian Refugees (as of 15 April 2020)', https://data2.unhcr.org/en/documents/details/75575

[113] https://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=260

Notes: 2006-2014 values represent the average for the period.
Sources: IMF World Economic Outlook database and the IMF International Financial Statistics.

The evolution of the key debt and public finances indicators between 2011 and 2019 is presented in Figure 49. The gross-public-debt-to-GDP ratio increased rapidly from 64.6% in 2011 to 80.2% in 2012. In 2015, the ratio reached 93.4% as a result of large public sector deficits during that period, at between 7.1% of GDP (2015) and up to 12.7% of GDP in 2012. During the same period, Jordan registered modest and slowing GDP growth. Over 2015-18, the gross-public-debt-to-GDP ratio remained relatively unchanged, partly as a result of lower public sector deficits in these years, ranging between 3.2% of GDP to 5.0% of GDP. However, more recently, the gross-public-debt-to-GDP ratio increased from 94.4% in 2018 to 97.4% in 2019, partly as a result of an increase in the public sector deficit in the same year (5.1% of GDP).

Figure 48. Jordan – key debt sustainability indicators in the baseline scenario



Notes: Gross public debt includes central government debt and debt of NEPCO and WAJ. Public sector deficit includes the primary balance, as well as primary balances of NEPCO and WAJ.
Sources: IMF Country reports.

The analysis of trends in the key debt sustainability indicators in the run-up to the MFA II operation shows that the large public sector deficits in years 2011-15 resulted in rapidly increasing debt-to-GDP ratio. The debt burden increase to such levels means that for an emerging market country such as Jordan, debt sustainability is impaired. As observed in the years 2016-19, even with the efforts to curb the public sector deficits and with the support from the IMF and the MFA II operation, the debt-to-GDP ratio could not be brought down to more sustainable levels. By the end of 2019, the ratio increased further, and as a result, further support from the IMF was requested in January 2020.

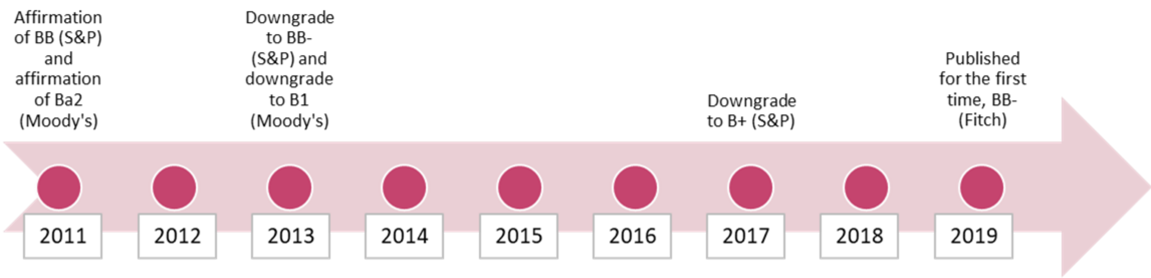
The decline in Jordan's debt sustainability is also reflected in changes to its credit ratings, as shown in Figure 50. While both S&P and Moody's affirmed their credit ratings in 2011, both agencies assessed the outlook as negative. Consequently, in 2013, S&P

and Moody's downgraded Jordan's rating, followed by one further downgrade in 2017 (S&P). In 2019, Fitch published its first rating for Jordan, at BB-, which was affirmed in March 2020.

These downgrades not only reflect the perceived increasing risk of Jordan's, but also the increasing cost of servicing debt. Credit ratings downgrades are typically associated with investors requiring higher risk premiums, thereby increasing the cost of borrowing. This effect compounded with the increasing debt-to-GDP ratio, resulting in a rapid increase in the cost of servicing debt.

Nevertheless, during the period of the MFA II operation, Jordan has retained access to international and domestic capital markets, with multiple successful issuances in 2017 and 2019.

Figure 49. Jordan - credit rating history



Notes: Ratings reported as of the end of the year.
Sources: S&P, Moody's, Fitch.

Tunisia

Table 44 presents the key macroeconomic indicators describing Tunisia's economy over 2006-19.

GDP growth averaged 3.1% per annum between 2006-14. The moderate growth rate during this period was interrupted in 2011 as a result of the unrest during the Arab Spring events. While GDP contracted in that year by 1.9%, it returned to a brisk growth of 4.1% in 2012, before easing a little to 2.8% in 2013 and 2.9% in 2014 (not shown in the table).

However, in 2015 growth slowed further to 1.2% as a result of the collapse in tourism due to two terrorist attacks in the same year. Since then, the performance of the Tunisian economy has been weak, with annual GDP growth of 1.2% in 2016 and 1.9% in 2017. While GDP growth picked up in 2018 to 2.7%, it declined to only 1.0% in 2019. The analysis of historical projections from the IMF shows that the GDP growth outturn between 2013 and 2017 was well below the expected levels. For example, the projections in the 2013 report[114] forecasted real GDP growth at 4.5% in 2014 and 5.0% in 2015. Similarly, the projections from the 2015 report[115] forecasted the real GDP growth at 3.0% in 2016 and 4.0% in 2017.

[114] IMF Country Report No. 13/161, June 2013

[115] IMF Country Report No. 15/285, October 2015

Before 2011, the Central Bank of Tunisia maintained an exchange rate anchoring regime[116]. This operational framework kept the changes in prices at moderate levels up to 2014, with the average annual inflation rate between 2006-14 of 4.1%. Similarly, the exchange rate during the same period remained relatively stable, with Tunisian Dinar depreciating against the US Dollar only moderately, with the average exchange rate of 1.4 Tunisian Dinars per US Dollar during the period. Since 2011, the Central Bank of Tunisia has moved gradually towards an inflation targeting model. However, in 2015 the Tunisian Dinar depreciated against the US Dollar by nearly 16% and the declines in its value continued. The Tunisian Dinar has lost approximately 40% of its value against the US Dollar between 2014 and 2019

This decline in the value of the currency and the continued growth of the Central Bank's balance sheet after the 2015 terrorist attacks resulted in an increased level of inflation in the subsequent years, peaking at 7.9% in 2018. However, at that time the Central Bank of Tunisia had already undertaken steps to contain inflation with monetary tightening achieved through increases in interest rates and stricter macro-prudential regulation. This helped ease the inflation pressure only slightly in 2019, with prices increasing by 7.1% in that year.

Table 44. Tunisia - macroeconomic variables in the baseline scenario

	2006-2014[1]	2015	2016	2017	2018	2019
Real GDP growth (in%)	3.1	1.2	1.2	1.9	2.7	1.0
Inflation (GDP deflator, in%)	4.1	3.5	4.7	4.8	7.9	7.1
Nominal exchange rate (Tunisian Dinars per US dollar)	1.4	2.0	2.1	2.4	2.6	2.9

Notes: 2006-2014 values represent the average for the period.
Sources: IMF World Economic Outlook database and the IMF International Financial Statistics.

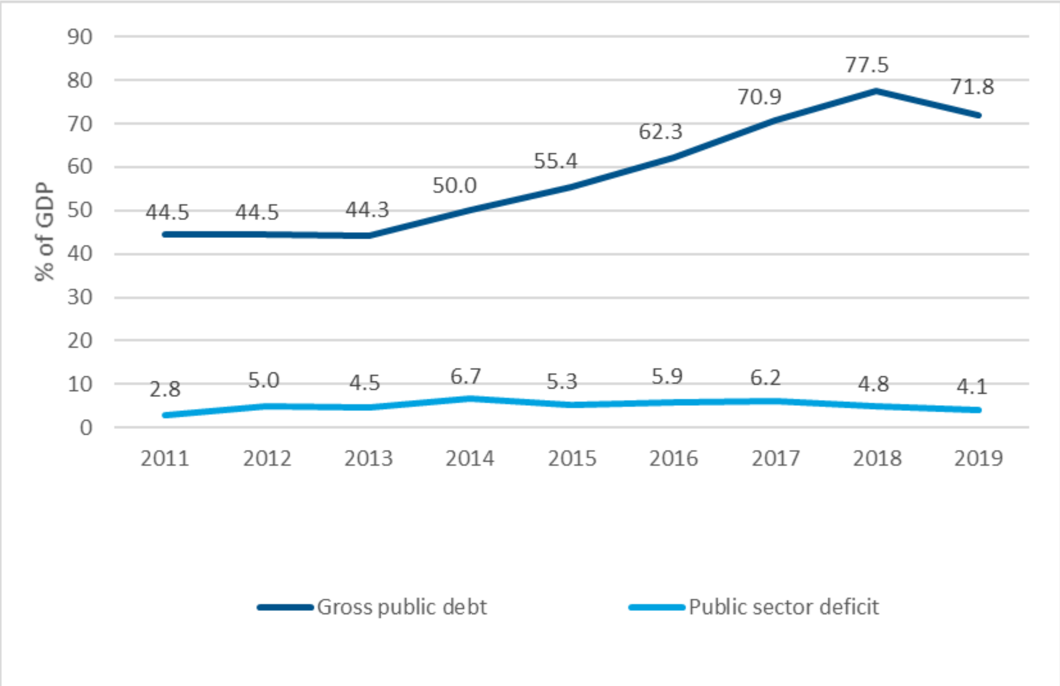
Tunisia's key debt and public finances indicators between 2011 and 2019 are presented in Figure 51. The gross-public-debt-to-GDP ratio remained nearly unchanged between 2011 and 2013, at close to 44.5%. During the same years Tunisia ran moderate public sector deficits, at between 2.8% in 2011, 5.0% in 2012 and 4.5% in 2013. However, these somewhat increased in the subsequent years. The effect of increased public sector deficits paired with a slowdown in GDP growth resulted in a rapid increase in the gross-public-debt-to-GDP ratio between 2013 and 2018, when it reached 77.5%. Fiscal tightening and better than the period average GDP growth in 2018 resulted in a decline of the ratio in 2019, which fell to 71.8%.

Nevertheless, the overall trend in the gross-public-debt-to-GDP ratio indicated a gradual deterioration in Tunisia's ability to service its debt between 2013 and 2018. Even with the continued support from the IMF, the EU and other support from bilateral donors, the growth in debt outpaced the economic growth. Similar to the projections of GDP, the IMF's historical projections of the central government deficits show that the public sector

[116] https://www.imf.org/en/Publications/WP/Issues/2020/08/21/Tunisia-Monetary-Policy-Since-the-Arab-Spring-The-Fall-of-the-Exchange-Rate-Anchor-and-Rise-49701

deficits in years 2014-18 turned out to be higher than forecast[117] [118]. This can be linked to the failed plans to reform the tax system and increase the prices of electricity, water, public transport. These plans were either achieved only partially (tax reform), or ultimately did not take effect (price hikes). By the end of the MFA II operation in 2019, the outturn in the gross-public-debt-to-GDP ratio was much higher than the projected 55.6% by the IMF in 2015[119].

Figure 50. Tunisia – key debt sustainability indicators in the baseline scenario



Notes: Gross public debt includes debt of SOEs. Public sector deficit is defined as overall central government balance (cash basis).
Sources: IMF Country reports.

Figure 52 presents the timeline of changes to Tunisia's credit ratings. All major credit rating agencies downgraded Tunisia's ratings in 2011 in the wake of Arab Spring Events. 2012 saw a further downgrade by S&P, while in 2013 all three agencies further revised down their ratings. The next time the ratings were re-visited in 2017, further downgrades ensued, with Moody's rating set to B1 and Fitch's to B+. The ratings were not re-visited in 2018 and 2019. The most recent downgrades took place in 2020 and 2021 as a result of the impact of the COVID-19 pandemic (not presented on the timeline).

Similar to Jordan, these downgrades reflect the perceived increasing risk of Tunisia's debt. Downgrades in credit ratings are typically associated with higher risk premiums, and an increased cost of borrowing. This effect compounds with the increasing debt-to-GDP ratio, a cycle that contributed to an increasing debt accumulation by Tunisia during the MFA II operation.

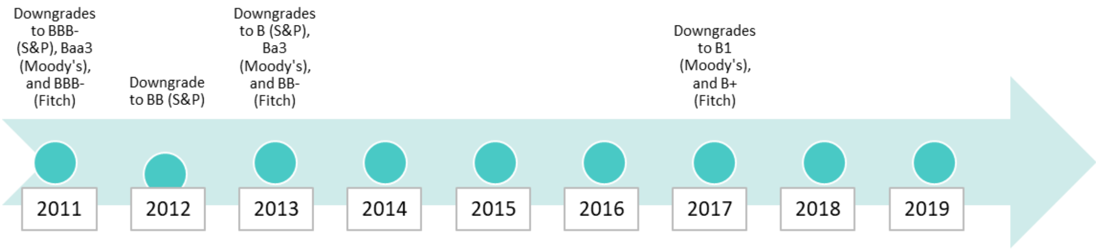
[117] IMF Country Report No. 13/161, June 2013

[118] IMF Country Report No. 15/285, October 2015

[119] Ibid.

However, it should be noted that despite these downgrades, Tunisia did not lose access to international financial markets, with successful domestic and international issuances between 2016 and 2019[120] [121].

Figure 51. Tunisia - credit rating history



Notes: Ratings reported as of the end of the year.
Sources: S&P, Moody's, Fitch.

Even with the continued support from the IMF and the EU during the period of MFA II operation (2016-19) the increasing level of debt in both Jordan and Tunisia means that both countries were highly unlikely to be on a sustainable path. This is evidenced further by the need for ramped-up support in the years subsequent to the MFA II operation. Table 45 presents the details of the support provided to Jordan and Tunisia in 2020 and afterwards by the IMF and the EU.

With the exception of the new IMF EFF operation in Jordan agreed in January 2020, all other forms of budgetary support were agreed after the outbreak of the COVID-19 pandemic. The new 4-year IMF EFF operation in Jordan aimed to bolster the country under an increasing debt burden, thereby indicating real concerns about its debt path trajectory before the outbreak of COVID-19. The new IMF EFF operation is designed to provide support equivalent to USD 1.3 billion[122] over 2020-24, nearly double the USD 723 million facility it superseded.

While the scale of the shock due to the pandemic was unprecedented and its analysis would not form a part of the normal debt sustainability assessment, it provides evidence of the fragility of both Jordan's and Tunisia's debt sustainability. Both countries have received emergency support at the early stages of the pandemic in the form of the IMF's Rapid Financing Instrument and the EU's MFA COVID support packages. Concurrently, Jordan agreed a new MFA III support package in November 2020 which ramps up the scale of the operation, at EUR 700 million agreed in total, representing a 350% increase over the MFA II support.

Table 45. International debt assistance to Jordan and Tunisia post-2019

	Jordan	**Tunisia**
MFA III	Support of EUR 700 million agreed in November 2020,	N/A

[120] IMF Country Report No. 18/291, October 2018

[121] IMF Country Report No. 21/44, February 2021

[122] This amount includes the additional support agreed after the outbreak of COVID-19 pandemic.

	EUR 250 million disbursed in Nov 2020[123]	
IMF EFF	New 4 year EFF IMF programme agreed in January 2020 with total support equivalent to USD 1.3 billion, of which USD 288 million was disbursed by Dec 2020	Requested support in April 2021, details not announced yet.
MFA COVID support packages	EUR 200 million agreed in May 2020 as a reinforcement to the MFA III operation[124]	EUR 600 million agreed in May 2020[125]
IMF Rapid Financing Instrument (RFI)	Equivalent of USD 396 million, disbursed in May 2020	Equivalent of USD 745 million, disbursed in April 2020

Sources: IMF, European Commission.

The overall conclusion based on the available evidence is that both Jordan's and Tunisia's debt were on unsustainable paths between 2011 and 2016. Over 2016-19, the support of the IMF and the MFA II operation combined with only partial successes in enacting public finances reforms that were unable to markedly reverse this trend. Both countries continued to accumulate debt at a rate much faster than their economic growth. Simultaneously, both countries were facing increasing costs of borrowing as a result of multiple credit rating downgrades.

Nevertheless, further analysis can help refine this assessment, highlighting the key differences between Tunisia and Jordan.

The IMF sets out the threshold value of the gross-debt-to-GDP ratio at 60% for emerging markets with access to capital[126]. Debt stock values above this threshold indicate an increased risk of distress event. By 2019, both countries' levels of debt were above that threshold (Jordan: 99.1%, Tunisia: 71.8%). Tunisia's gross-debt-to-GDP ratio in any year was lower than that of Jordan. Additionally, a relatively large decline in the value of the ratio was recorded in 2019, which could indicate that the reforms of public finances and debt management policies in Tunisia steered the country on a sustainable path for a brief period before the impact of the COVID-19 pandemic. This, however, could not have been sustained in the wake of the COVID-19 crisis.

It should be noted that '(…) no single metric can provide reliable cross-country risk assessments of debt sustainability'[127]. Other factors to consider include the ongoing debt

[123] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/enlargement-and-neighbouring-countries/neighbouring-countries-eu/neighbourhood-countries/jordan_en

[124] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/enlargement-and-neighbouring-countries/neighbouring-countries-eu/neighbourhood-countries/jordan_en

[125] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/enlargement-and-neighbouring-countries/neighbouring-countries-eu/neighbourhood-countries/tunisia_en

[126] IMF Staff Guidance Note For Public Debt Sustainability Analysis in Market-Access Countries, May 9, 2013

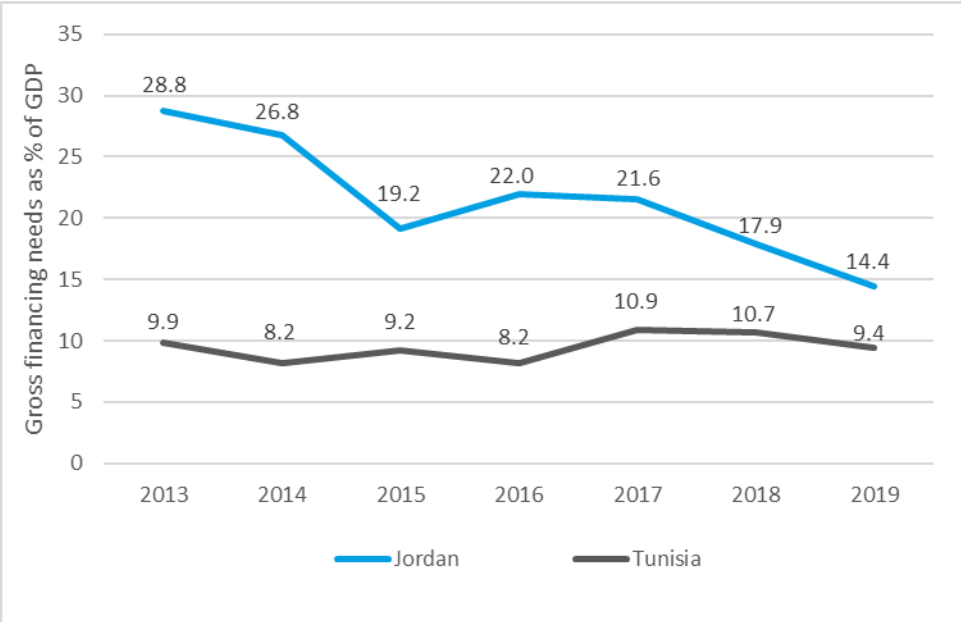
[127] ESM Working Paper Series, 24/2017

burden (measured by gross financing needs), the economic growth prospects, and the potential to conduct the necessary public finances reforms.

Gross financing needs is a measure that combines the primary public sector deficit, as well as the cost of servicing debt, which can vary from year to year based on the maturity and interest payment schedule, interest rates and other incidental sources of revenue not included in the primary public sector accounts[128]. The comparison of gross financing needs of both countries is shown in Figure 53. Jordan's gross financing needs during the MFA operation declined, from 19.2% of the GDP in 2015 to 14.4% in 2019. This decline signifies a marked progress in public finances management. However, in all years with the exception of 2019, Jordan's gross financing needs remained above 15%, a benchmark value indicating increased risk to debt sustainability set out by the IMF for market-access countries[129].

In contrast, Tunisia's gross financing needs expressed as a share of GDP did not significantly change. Gross financing needs increased only slightly from 9.2% in 2015 to 9.4% in 2019. However, it should be noted that debt accumulation over the period would likely result in increasing gross financing needs in years to come if no further steps were undertaken to reduce the public sector deficits. For example, the historical IMF projection from 2019[130] estimates that if the GDP growth and primary balances remained at historical levels in the years after 2018, the gross-financing-needs-to-GDP ratio would have reached approximately 16% by 2024.

Figure 52. Jordan's and Tunisia's gross financing needs as a share of GDP



Sources: IMF country reports.

[128] These could include revenues from privatization and other incidental expenditures or revenues.

[129] IMF Staff Guidance Note For Public Debt Sustainability Analysis in Market-Access Countries, May 9, 2013

[130] IMF Country Report No. 19/223, July 2019.

Therefore, the last step in analysis is a qualitative evaluation of how economic and public finances reforms conducted in years 2016-19 strengthened public finances and economic growth prospects in the long term.

During the MFA II operation Jordan had attempted to reform public finances through cuts to public spending and cuts to subsidies to state-owned-enterprises. The income tax reform and a crackdown on evasion were implemented and increased tax collection, although these went only to certain lengths.

The political capital to introduce further reforms in Jordan was very limited. The government tried to initiate a new tax law and hikes to costs of public services in 2018, which resulted in trade union protests and violence, leading to the resignation by the prime minister[131]. At the same time the support from international donors was not sufficient to cover the increasing cost of public services provisioning due to the influx of refugees from the surrounding regions engulfed in conflict.

During the same period, the hopes of accelerated economic growth in Jordan were built around a boost in international trade due to the re-opening of borders with Iraq in 2017[132] and Syria in 2018[133]. However, by 2019 the annual real GDP growth rate did not exceed 2.0%, a level similar to that observed in previous years.

In Tunisia, negotiations between the government and the unions resulted in a freeze of wages in the public sector in 2017, but 2018 saw increases. A pay freeze in the public sector was a conditionality of the IMF support under the EFF arrangement which could not be met, owing to an unfavourable social climate prevailing at the time. At the same time the Tunisian government had limited options to reduce public spending in other areas, owing to a large share of the budget allocated to reinforcing national security after the 2015 terrorist attacks.

The government’s efforts to increase revenues focused on tackling tax evasion and increasing the VAT rate by 1 percentage point in 2018. This resulted in a substantial growth of revenues between 2017 and 2019. However, the progress stalled in 2019 due to the general elections taking place.

The comparative assessment is that by 2019, despite the initial success at reforming public finances in Jordan, the overall debt trajectory remained worse than that of Tunisia’s, largely due to a much more unsustainable path of debt accumulation in previous years. At the same time, the options to reform public finances in Jordan have been nearly exhausted by 2019. On the other hand, Tunisia appears to have maintained a relatively larger scope to continue with the necessary public finances reforms after 2019. However, the onset of the COVID-19 pandemic halted these efforts. According to the latest projections[134], Tunisia’s debt can return to a sustainable path only if a set of ambitious structural and public finances reforms is enacted.

[131] Associated Press News, ‘Jordan PM quits over mass protests against tax increases’, https://apnews.com/article/jordan-israel-middle-east-international-news-amman-c6800788087d46f99ad69e863b4d7097

[132] Reuters, ‘Jordan border crossing with Iraq to reopen in major boost to ties’, August 29, 2017, https://www.reuters.com/article/us-mideast-crisis-jordan-iraq-idUSKCN1B92ER

[133] Reuters, ‘Jordan and Syria reopen Nassib border crossing’, October 15, 2018, https://www.reuters.com/article/us-mideast-crisis-syria-jordan-idUSKCN1MP0L4

[134] IMF Country Report No. 21/44

A11.5 Methodology and data underpinning debt sustainability analysis in counterfactual scenarios

The process of developing the assumptions underpinning each counterfactual scenario is illustrated in Figure 54. In the first step, consultations with local experts and desk research were used to identify the feasible options in the absence of financing, as well as to understand the overarching economic situation in the country to provide context for the intervention. These preliminary consultations were used to design an expert survey and stakeholder interviews which were used in step 2 to gather views on the most likely course of action in each counterfactual scenario with respect to:

the size of the financing gap in each counterfactual scenario

the preferred source(s) of finance to cover that financing gap

The size of the financing gap in each counterfactual scenario was assessed by analysing the responses to the expert survey and interviews. If these indicated that the absence of support from the EU (or the EU and the IMF) would likely have resulted in withdrawal of other donors or a loss of access to financial markets, it was assumed that the financing gap would have increased by these items. That is, the counterfactual financing gap could differ from the amount of EU or IMF funding (not) provided.

The assumptions on the preferred alternative source (or sources) of finance were based on the most frequently cited preferred options by the surveyed experts. The results of the expert survey were also triangulated with the relevant stakeholder interview responses. If two or more highest ranking options were assessed as nearly equally likely, it was assumed that the financing gap would have been covered using a mix of financing drawn from these options.

In step 3, data on public finances were used to determine the headroom for adjustment by each candidate source of financing. This was used to validate the feasibility of such adjustment against applicable thresholds or caps that could have limited the amounts raised in a given counterfactual. If more than one preferred source of financing was identified (from step 2), the mix of funds from each source was assumed to be proportional to the headroom for adjustment by source.

For example, if the assessment of public finances shows that the headroom for adjustment using source A was twice the headroom of source B, it is assumed that the financing gap would have been covered in two-thirds by source A, and in one-third by source B. This assumption takes as a premise assumption that the cost (whether political or otherwise) of tapping into each source is increasing as it approaches the maximum headroom amount. If the starting political cost of tapping into 1% of the headroom would have been equal across the available options, to minimise the cost the methods would have been used in proportion to the headroom they provide[135].

In the last step, the impact of relying on alternative sources of finance is assessed. These impacts include the impact on key debt sustainability indicators, as well as any potential impacts on macroeconomic conditions in the country, such as the level of inflation or GDP growth, as well as the impact on the cost of borrowing.

The difference in the cost of borrowing between the alternative (counterfactual) and baseline scenarios was estimated by accounting for two effects:

A direct effect of lower interest payments on IMF/MFA lending compared to the alternative cost of domestic borrowing;

An indirect effect due to the increased cost of domestic and international borrowing as a result of lower investor confidence in Jordan’s ability to cover its debt obligations in the

[135] Assuming that the marginal cost (political or any other type) is increasing at the same rate across all methods.

absence of EU/IMF support. Support from the IMF or the EU can change credit risk perception, as it sends a strong signal of the government's commitment to introduce the necessary reforms to public finances. Therefore, a lack of support from the IMF or the EU sends an opposite signal of no confidence, increasing the perceived credit risk.

The effect of an increased cost of domestic and international borrowing as a result of lower investor confidence is estimated using evidence on the relationship between sovereign interest rate spreads and debt fundamentals, as measured by debt sustainability indicators[136]. This evidence suggests that risk premia increase as a result of debt accumulation (measured by the debt-to-GDP ratio), and the increased flow of financial needs (measured by the gross-financing-needs-to-GDP ratio).

Transposing the assistance from the IMF and the EU into this framework, it is assumed that IMF and MFA financing has the same effect on risk premia as a similarly-sized reduction in gross financing needs by other means. IMF and MFA support are provided as concessional budgetary support on non-market terms, reducing the need to obtain financing from capital markets. Therefore, it is likely that investors perceived these sources as providing similar relief on government finances as reduction in gross financing needs using other means. However, given that the IMF and MFA financing are loans, it is assumed that they contribute to the stock of debt in the same way as debt obtained through financial markets.

The estimated impacts of cuts to public investment consider the long-run impact of public investment shocks on GDP. The parameters used to estimate the long run impacts are taken from the IMF study[137] for the central estimate of long run impacts of shocks to public investment on the GDP levels.

[136]Gabriele, Erce, Athanasopoulou and Rojas, 2017. "Debt Stocks Meet Gross Financing Needs: A Flow Perspective into Sustainability," Working Papers 24, European Stability Mechanism. Available at: https://www.esm.europa.eu/publications/debt-stocks-meet-gross-financing-needs-flow-perspective-sustainability

[137] Abliad, Furceri and Topalova (2015)

Figure 53. Process of building counterfactual scenario assumptions for the debt sustainability assessment

Sources: CE.

The debt sustainability analysis takes as inputs historical data on key macroeconomic and financial variables which impact debt dynamics, such as GDP, government debt, government gross financing needs, government spending, government revenues, exchange rates, and inflation. From these variables, forecasts are generated for debt stock and financing needs which are then used to calculate debt sustainability indicators. Comparing the tool's outputs across the different scenarios helps to determine the MFA's effect on debt sustainability.

Determining the path of these variables under these alternative scenarios is not straightforward, in part because of the limited information available on the most likely counterfactuals. The analysis focuses on movements in key variables such as GDP, inflation, exchange rates, government revenues and expenditures, and risk premia near the time when the MFA and IMF funding were approved or disbursed. For example, assuming financial markets would price in the approval of a large financial rescue package, a fall (or slowdown in the rate of increase) of government bond yields would reflect (part of) the MFA's impact on government debt sustainability.

Additionally, a degree of uncertainty arises as a result of the choice of parameters used to model the impacts of increases in gross-financing-needs-to-GDP ratio on the interest rate spreads, or the parameters used to model the long run impact of cuts to public investment on the GDP levels. While these parameters have been selected to be the best available approximations for each given country, a range of parameters exists in the literature that suggests heterogeneity in the magnitude of these effects, depending on specific characteristics (such as the level of economic development, or the efficiency of public investment spending). Therefore, the presented results remain sensitive to the choice of these parameters. Selection of alternative values would have an impact on the results of analysis.

A11.6Tunisia Alternative 1: no MFA first-tranche scenario

Under the Alternative 1 scenario Tunisia would not have received the first MFA tranche of EUR 200 million in October 2017. Experts' insights were obtained to determine whether the absence of MFA would have led to restricted access to other sources of financing, as well as the feasibility of alternative options available to cover the financing gap that would have opened in the absence of the first MFA.

These insights indicate that the absence of the first MFA tranche would not have resulted in the withdrawal of support from other donors, or a loss of access to international financial markets. The lack of support from the EU could have signalled a limited confidence in Tunisia's ability to manage its debt obligations, however, the scenario assumes continued support from the IMF. According to the evidence gathered, the support from the IMF alone would have most likely been sufficient for Tunisia to enjoy access to international capital markets, and also, sufficient to assure the presence of other donors.

The analysis of expert survey responses and interviews suggests that the most likely options that would have been used to cover the financing gap in the absence of the first tranche were:

- Cuts to public investment levels;
- Issuance of new debt in domestic markets.

Other options also ranked highly in the expert survey included an increased support from international donors and increased international debt issuances. However, these sources are assessed as less likely to be used in 2017. Increased support from international donors may have not been possible at short notice and may not have been a reliable source of finance, given that the support tends to vary greatly depending on the global economic conditions. Similarly, international debt issuances tend to require longer preparation compared to domestic issuances, and therefore, may not have been a feasible option in the absence of the first MFA tranche. While cuts to public investment levels also may have required time to adjust due to the budgetary approval process, the speed of such adjustment would have likely depended on the amount of cuts required to cover the financing gap. This is analysed further below.

The headroom for issuance of new debt in domestic markets and cuts to public investment is defined as the maximum feasible amount of each that could have been obtained in 2017 to cover the financing gap. Headroom is determined by analysing either the constraints that limit debt issuances (for example, inflationary pressure), or the qualitative assessment on what would have been the minimum feasible level of public investment.

In the case of Tunisia, the limiting factor determining the headroom for increased domestic borrowing would have been inflation. New debt issued by the government would increase the monetary supply in Tunisia, which would most likely have led to increased inflation. It is assessed that the maximum tolerable inflation rate would have been 7.9% in 2017. This rate was observed in 2018[138], and at the time it was the highest recorded rate in over two decades, which prompted a strong response from the Central Bank of Tunisia[139]. The Central Bank of Tunisia raised the interest rates in an effort to boost the international reserves and align the inflation rate with its goal of stabilising prices. Therefore, the maximum amount of domestic debt issuances in 2017 could only have been such that the associated inflation would not exceed 7.9%.

To establish this amount in monetary terms, an analysis of the relationship between the money supply and inflation was used. The results of the analysis are presented in Table 46. Actual inflation in 2017 stood at 4.8%. Based on the analysis of monetary supply data and inflation between 2017 and 2019, it is estimated that on average, an expansion in monetary supply of EUR 300 million was associated with a 1 percentage point increase in the annual inflation rate. Therefore, it is estimated that the maximum additional debt issuances that would not have caused the inflation rate to exceed 7.9% could not exceed EUR 1,038 million.

This amount was assessed as the absolute maximum. While such an increase could likely have been possible, it would have resulted in increased inflation, shrinking international reserves and potentially worsening the economic prospects for Tunisia. These accompanying maximum costs of higher domestic borrowing would only have been tolerable if they allowed Tunisia to avoid a worst-case scenario (such as sovereign default).

Table 46. Tunisia - headroom for adjustment to domestic borrowing in 2017

	Value
Actual inflation rate in 2017	4.8%
Maximum tolerable inflation rate	7.9%
Expansion in monetary supply associated with 1 percentage point increase in the inflation rate (EUR, millions)	300.0
Maximum tolerable expansion in monetary supply associated with 7.9% inflation rate in 2017 (EUR, millions)	1,037.8

Sources: CE analysis of Tunisia's MoF and IMF data.

The analysis of headroom to reduce public investment is presented in Table 47.

The public investment to GDP ratio stood at 5.6% in 2017. Expert views suggest that the public investment could have potentially been reduced in 2017, to the absolute minimum of about 3.0% of the GDP. This minimum is based on a qualitative assessment of the commitments to existing projects, or the necessary capital expenditures to maintain delivery of public services. Therefore, based on the amount of investment that took

[138] As measured by the GDP deflator change rate.

[139] World Bank, 2019. "Macro Poverty Outlook 177 – Tunisia". Available at: https://thedocs.worldbank.org/en/doc/528161574194294195-0280022019/original/ENMPOOCT19Tunisia.pdf

place in 2017, it is estimated that the maximum possible cuts to public investment could have been close to EUR 1,052 million.

Similar to additional domestic borrowing, cuts to public investment would have come with different political and economic costs. In particular, reduced public investment would have likely resulted in lower economic growth, both in the short and long run (the analysis of these impacts is presented further in this section). Therefore, the estimated headroom for adjustment to public investment is likely the absolute maximum that would be associated with severe political and economic costs. These costs (associated with reducing public investment to 3.0%) would only have been tolerated as a trade-off to other worst-case scenarios.

Table 47. Tunisia - headroom for adjustment to public investment in 2017

	Value
Actual public investment to GDP ratio in 2017	5.6%
Minimum feasible public investment to GDP ratio	3.0%
Maximum feasible reduction in public investment in 2017 that brings the investment to GDP ratio to 3.0% (EUR, millions)	1052.2

Sources: CE analysis of Tunisia's MoF data.

In the subsequent step, the established headroom amounts from each source are used to determine the counterfactual allocation of financing. This allocation is assumed to be proportional to their respective maximum headroom (for the reasons set out previously in section A11.5).

As presented in the estimated headroom offered by each option in 2017 was similar: additional domestic borrowing accounted for 49.7% of the total headroom provided by both sources, while cuts to public investment accounted for 50.3%. Therefore, assuming that each source would have been used according to these shares to cover the financing gap in the absence of the first MFA tranche, it is assumed that EUR 99.3 million would have been raised from domestic debt markets, while an additional EUR 100.7 million would have been obtained as a result of cuts to public investment.

Table 48. Tunisia - estimated amounts used to cover the financing gap in the Alternative 1 scenario (2017)

	Domestic debt issuance	Cuts to public investment

Estimated headroom (EUR, millions)	1,037.8	1,052.2
Estimated headroom as a share of total headroom for both options (%)	49.7%	50.3%
Estimated amount used to cover the financing gap in the absence of 1st MFA tranche (EUR, millions)	99.3	100.7

Sources: CE analysis of Tunisia's MoF data.

These assumptions are subsequently used along with other scenario assumptions to form the counterfactual scenario.

In the counterfactual scenario, government revenues in 2017 are assumed to remain unchanged – a small decline could have arisen as a result of a lower level of economic activity (discussed further in the context of GDP assumptions). However, this decline would have had a negligible effect on the total government revenues.

Government expenditures are assumed to reduce only by the amount of cuts to public investment in 2017. The expert survey responses (Question 13) indicate that MFA support either incentivised or accelerated certain public finance reforms. However, many of the MFA conditionalities on public finances were overlapping with the public finances reform plan proposed by the government and underpinning the IMF's assistance under the EFF agreement. Therefore, it is assumed that obligations to the IMF would have been sufficient to spur these reforms and that similar progress would have been made in the Alternative 1 scenario compared with the baseline, most likely leaving other government revenues and expenditures unchanged.

Gross financing needs are assumed to decrease by EUR 100.7 million in 2017, in line with the cuts to public investment. However, due to the higher interest payments on domestic debt, the gross financing needs increase from 2017 onwards (calculations on the total difference in interest payments are presented as the results of analysis below).

Macroeconomic conditions, as represented by GDP, inflation and exchange rates are assumed to moderately deviate from the actual level or the baseline projection. As a result of long-term impacts of cuts to public investment, GDP is assumed to be 0.13% lower compared to the baseline in 2017, with this gap widening in later years. By 2025, the real GDP is assumed to be 0.44% lower compared to the baseline.

As a result of increased domestic borrowing in 2017, the inflation rate is assumed to be slightly higher in that year (by 0.3 percentage points). It is also assumed that in response to increased inflation the Tunisian Dinar depreciates slightly in the same year.

It should be noted that these assumptions form the central case which is underpinned by the headroom analysis of the possible cuts to public investment and increased domestic issuances. However, experts assessed that increased support from international donors and increased international debt issuances could also have been feasible in 2017. Depending on the amounts that might have been possible to source, these two options could have proportionally decreased the need for cuts to public investment or additional domestic debt issuances. As discussed earlier, access to these sources of finance in 2017 might not have been available within the required timeframe to cover the financing gap, and the amounts that could have been raised in 2017 cannot be assessed. Therefore, the presented analysis focuses on the central case, where the financing gap is covered only by a mix of cuts to public investment and additional domestic borrowing.

Table 49. Assumptions for the Alternative 1: No MFA first-tranche scenario

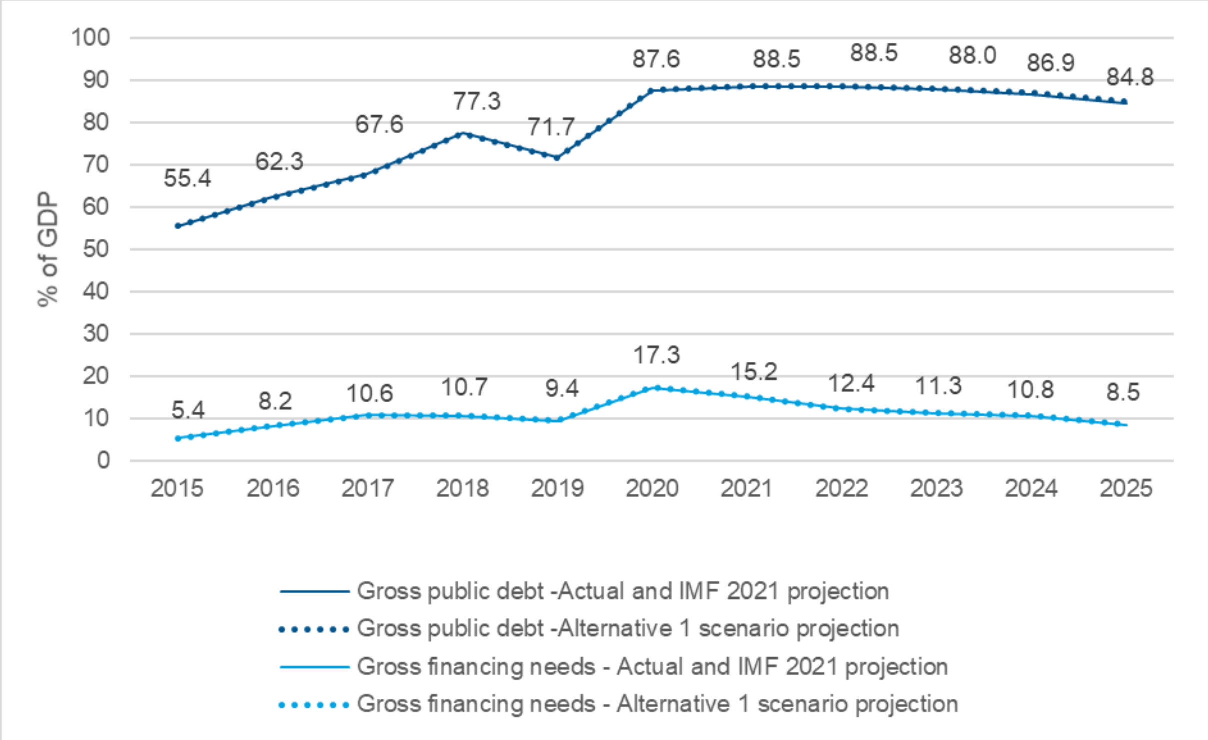
Variable	Assumptions
Government revenues	Change to government revenues is assumed to be negligible.
Government expenditures	Government expenditures decline by EUR 100.7 million as a result of cuts to public investment.
Public debt	Public debt stock changes as a result of lower borrowing in 2017 but higher interest payments add to debt accumulation in the subsequent years.
Gross financing needs	Gross financing needs decrease by EUR 100.7 million due to a smaller public deficit (from cuts to public investment, as above), but the higher cost of domestic borrowing contributes to gross financing needs in subsequent years.
GDP	GDP declines as a result of cuts to public expenditure. The impact starts in 2017, with GDP lower by 0.13% compared to the baseline in that year. By 2025, the real GDP is lower by 0.44% compared to the baseline. •
Inflation	Relative to the baseline scenario, the inflation rate in 2017 is higher by 0.3 percentage points. This introduces a constant difference in the price index over the subsequent years.
Exchange rate	The TND/USD exchange changes in line with additional inflation, with TND

Sources: CE analysis.

Based on these assumptions, the key debt sustainability indicators are projected, as presented in Figure 55 below. The estimated projected values of the gross-debt-to-GDP ratio and the gross-financing-needs-to-GDP ratio are nearly identical to the baseline values (which are based on the actual values up to 2020, as well as the IMF February 2021 projections[140]).

[140] Based on the IMF's February 2021 analysis of the reform scenario.

Figure 54. Tunisia - Debt sustainability indicators in the Alternative 1 scenario



Notes: Data labels shown only for Alternative 1 series. Projected values are based on the IMF's February 2021 projections (Reform scenario)
Sources: CE analysis of Tunisia's MoF and IMF data.

In 2017, the gross-financing-needs-to-GDP ratio in the Alternative 1 scenario is estimated at 10.6%. This is lower by 0.3 percentage points compared to the actual outcome in 2017 (observed value), and is a result of a lower public sector deficit as a result of cuts to public investment. However, in later years the gross-financing-needs-to-GDP ratio is estimated to be slightly higher under the Alternative 1 scenario compared to the baseline projection. This is a result of a lower GDP that arises due to the assumed long-term impacts of a negative shock to public investment in 2017, and slightly higher interest payments. Nevertheless, the difference in the gross-financing-needs-to-GDP ratio is not substantial, and in years 2018-2025 does not exceed 0.1 percentage points annually.

In 2017, the gross-public-debt-to-GDP ratio in the Alternative 1 scenario is estimated at 67.6%, compared to 67.9% in the baseline scenario (actual value in 2017). As discussed earlier, this is a result of lower total borrowing in 2017 assumed under the Alternative 1 scenario, since EUR 200 million of MFA borrowing is assumed to be replaced with EUR 99.3 million of additional domestic issuances. However, in the subsequent years the higher gross financing needs (as a share of the GDP) add to debt accumulation in the Alternative 1 scenario. By 2025, the debt-to-GDP ratio in this scenario would have reached 84.8%, compared to 84.4% in the baseline projection for the same year.

The changes to both debt sustainability indicators are assessed as negligible, and the overall assessment of Tunisia's debt sustainability in this scenario is the same as in the baseline scenario.

Departing from the central assumption of the Alternative 1 scenario, a hypothetical scenario can be assessed to estimate the impacts of using different proportions of domestic debt issuances and cuts to public investment to cover the financing gap in the absence of the first MFA tranche. These allocations suggest that greater cuts to public investment tend to result in higher values of the key debt sustainability indicators. For example, assuming that the government would have preferred to cover the financing gap entirely by cuts to public investment in 2017, it is estimated that by 2025 the gross-debt-to-GDP ratio would have reached 85.1% (compared to 84.4% in the baseline scenario projection). The primary driver of this difference is the negative impact of lower public investment on GDP.

Conversely, if hypothetically the government would have opted to cover the financing gap by entirely relying on domestic borrowing, the estimated debt-to-GDP ratio in this scenario would have reached 84.5% in 2015. This is higher than the 84.4% debt-to-GDP ratio in the baseline projection, with the difference solely driven by higher interest payments on the alternative debt issuances and an increase in the cost of borrowing. Regardless, these changes would have no meaningful impact on the overall qualitative assessment of debt sustainability.

The difference in interest payments between the Alternative 1 scenario and the baseline scenario was estimated by accounting for two effects:

- A direct effect of lower interest payments on the first MFA tranche compared to the alternative cost of domestic borrowing that was in part used to replace it;
- An indirect effect due to the increased cost of domestic and international borrowing[141] as a result of lower investor confidence in the absence of the first MFA tranche.

The direct effect of lower interest payments on the first MFA tranche is estimated on the basis of the assumed difference in the cost of borrowing between the first tranche MFA (interest rate of 0.75%) and the interest rate on private debt issued by Tunisia in 2017[142].

The estimates presented in Table 66 show the estimated differences in interest payments which are undiscounted and do not account for compounding of interest. The direct difference in interest payments between the first tranche of MFA and the alternative of domestic financing would have been close to EUR 4.2 million annually. This means that, over the entire term of the MFA first tranche (13.4 years), the additional, undiscounted direct cost of domestic borrowing would have been EUR 56 million.

The absence of the first MFA tranche would have likely resulted in an additional cost of borrowing due to the increased risk premia on Tunisia's new issuances[143], at 6.8 basis points in 2017, 1.6 basis points in 2018, and 1.6 basis points in 2019. This would have increased the interest payments on domestic and external debt issued by Tunisia by EUR 2.5 million in 2017, EUR 2.7 million in 2018, and EUR 2.8 million in 2019. Based on the projected debt issuances up to year 2025, the cumulative increase in interest payments in the absence of the first MFA tranche would have been EUR 70.8 million (undiscounted).

Therefore, it is estimated that the combined direct and indirect saving on the cost of borrowing enabled by the first tranche of MFA over the entire term would have been approximately EUR 127.3 million. As discussed earlier in the context of the estimated

[141] The adjustment is applied only to the estimated domestic and external debt issuances that are likely to be affected by market interest rates. The method applied is discussed in detail in section A11.5.

[142] Based on 5.8% rate on Feb 2017 Eurobond issuance according to Reuters, 2017. "UPDATE 1-Tunisia to lift bread prices for first time since revolution, sell Eurobonds". Available at: https://www.reuters.com/article/tunisia-economy-idUKL8N1NU359

[143] The affected issuances are assumed to include domestic and external issuances over 2017-25 which are assessed to be linked to market risk premia (interest rate on bilateral and multilateral external issuances are assumed to be unaffected).

debt sustainability indicators, the annual differences in the cost of borrowing would have had a very small effect on the value of debt sustainability indicators during the MFA operation and in years immediately after.

Table 50. Tunisia - difference in the cost of borrowing in the Alternative 1 scenario

	2017	2018	2019		Cumulative over the entire term
Direct effect:					
Difference in interest payments as a result of direct replacement of MFA with domestic borrowing (EUR, millions)	4.2	4.2	4.2		56.4 (13.4 years)
Indirect effect:					
Increase in demanded interest rate on new issuances in the absence of MFA first tranche (basis points)	6.8	1.6	1.6		
Difference in interest payments on new issuances in the absence of MFA first tranche (EUR, millions)	2.5	2.7	2.8		70.8 (9 years)
Total effect:					
Combined difference in the cost of borrowing enabled by the first MFA tranche (EUR, millions)	6.8	8.4	13.5		127.3 (13.4 years)

Notes: Estimated amounts do not account for the compounding effect of interest.
Sources: CE analysis of Tunisia's MoF and IMF data.

A11.7Tunisia Alternative 2: no MFA second-and-third-tranche scenario

The Alternative 2 scenario assumes that Tunisia would not have received the second and third tranches of MFA which were disbursed in 2019 and totalled EUR 300 million.

The views gathered as part of the expert survey suggest that the options available to Tunisian authorities to cover the financing gap in the absence of the second (and third) tranche in 2019 were broadly the same to these available in 2017. Therefore, in the absence of the second (and third) tranche, the Tunisian authorities would have likely covered the financing gap by simultaneously increasing domestic borrowing, and by introducing cuts to public investment in order to reduce the primary budget deficit. The same process as that described in section A11.9 is used to estimate the headroom for adjustment for both sources.

Table 51 presents the data underpinning the calculated headroom for adjustment to domestic borrowing. The actual inflation rate in 2019 was 7.1%, much closer to the maximum tolerable inflation rate of 7.9%. Based on the estimated link between expansion in monetary supply and inflation during the period, it is calculated that the maximum increase in domestic issuances that would not have led to breaching the 7.9% inflation rate could have been close to EUR 209 million.

As discussed previously, tapping into this amount would have likely resulted in inflation and deterioration of international reserves. As a result, the response from the central bank would have likely been to increase the interest rates, which could have further impacts throughout the economy (dampening economic growth, for example). Therefore, increasing domestic issuances in 2019 by the maximum headroom amount would likely come at an increased political and economic cost that would only have been tolerable as an alternative to a worst-case scenario (for example, a sovereign default).

Table 51. Tunisia - headroom for adjustment to domestic borrowing in 2019

	Value
Actual inflation rate in 2019	7.1%
Maximum tolerable inflation rate	7.9%
Expansion in monetary supply associated with 1 percentage point increase in the inflation rate (EUR, millions)	300.0
Maximum tolerable expansion in monetary supply associated with 7.9% inflation rate in 2019 (EUR, millions)	209.2

Sources: CE analysis of Tunisia's MoF and IMF data.

As shown in Table 52, public investment accounted for 5.3% of GDP in 2019. Assuming that the minimum feasible investment level in that year would have been 3.0%, it is estimated that the maximum feasible cuts to public investment would have been close to EUR 1,050 million, an amount similar to that estimated for 2017.

As noted previously, such cuts would have come at significant political and economic costs that would likely have long-term impacts on Tunisia's economy. Bringing the public investment level down to 3.0% of GDP could have serious negative consequences on the quality of public services, infrastructure or national security (as discussed in the context of the baseline scenario in section A11.4). Therefore, cuts to the full amount of the estimated headroom would only have been acceptable to the authorities as a last resort option to meet the country's debt obligations.

Table 52. Tunisia - headroom for adjustment to public investment in 2019

	Value
Actual public investment to GDP ratio in 2019	5.3%
Minimum feasible public investment to GDP ratio	3.0%
Maximum estimated feasible reduction in public investment in 2019 bringing the	1,049.7

investment to GDP ratio to 3.0% (EUR, millions)	

Sources: CE analysis of Tunisia's MoF and IMF data.

Similarly to the Alternative 1 scenario, under the Alternative 2 scenario the mix of alternative financing that would have been obtained via domestic debt issuances and cuts to public investment is assumed to be proportional to the headroom offered by each source.

Table 53 shows the estimated headroom for adjustment in 2019 for both sources. The headroom offered by additional domestic borrowing accounted for 16.6% of the total headroom available from both sources, while the headroom for cuts to public investment accounted for 83.4% of the total headroom. Accordingly, it is assumed that the financing gap in the absence of the second and the third MFA tranches would have been covered by each source according to these proportions: EUR 49.9 million would have been raised through domestic debt issuances and EUR 250.1 million would have been covered by cuts to public investment.

Table 53. Tunisia - estimated amounts used to cover the financing gap in the Alternative 2 scenario (2019)

	Domestic debt issuance	**Cuts to public investment**
Estimated headroom (EUR, millions)	209	1,049.7
Estimated headroom as a share of total headroom for both options (%)	16.6%	83.4%
Estimated amount used to cover the financing gap in the absence of MFA second tranche (EUR, millions)	49.9	250.1

Sources: CE analysis of Tunisia's MoF and IMF data.

Based on these assumptions regarding the alternative sources of financing, a comprehensive overview of the key variables describing Alternative 2 scenario is presented in Table 54.

Government revenues are assumed to remain unaffected, however a small change would have been possible as a result of lower GDP compared to the baseline scenario in the long run (discussed further). Similarly, government expenditures are assumed to decline only as a result to cuts to public investment assumed in 2019. However, the overall change in the government primary balance as a result of lower GDP is assumed to be negligible: the proportional declines in government revenues and expenditures as a result of lower economic activity would potentially have nearly cancelled out, leaving the overall primary balance in the long run nearly unchanged compared to the baseline. Therefore, these effects are assumed to be negligible for the purpose of debt sustainability analysis.

Under the assumed scenario, the gross financing needs initially decline as a result of cuts to public investment in 2019. However, the higher interest payments on domestic debt (against MFA), and the higher cost of interest on newly issued debt after 2019 increase the gross financing needs in later years against the baseline. These two effects also determine accumulation of public debt, which is modelled rather than assumed.

As a result of cuts to public investment, the GDP is assumed to decline against the baseline level. This decline in GDP is estimated at 0.3% in 2019 against the baseline level, and is estimated to lead to a decline of about 1.1% by 2025 (against the baseline level).

Given the lower reliance on domestic debt issuances to cover the financing gap relatively to the Alternative 1 scenario, the assumed impact on the inflation rate under the Alternative 2 scenario is smaller. Under these assumptions, the inflation rate would have been 0.2 percentage points greater in 2019 compared to the baseline. Consequently, this increase in inflation is assumed to lead to a proportional depreciation of the Tunisian Dinar against the US dollar, estimated at 0.2% in 2019.

It should be noted that these assumptions form the central case which is underpinned by the headroom analysis of the possible cuts to public investment and increased domestic issuances. However, experts assessed that increased support from international donors and increased tax revenues could also have been possible sources to cover the financing gap in 2019. Depending on the amounts that might have been possible to source, these two options could have proportionally decreased the need for cuts to public investment or additional domestic debt issuances. As discussed earlier, access to these sources of finance is less certain, and the amounts that could have been raised in 2019 cannot be reliably assessed. Therefore, the presented analysis focuses on the central case, where the financing gap is covered only by a mix of cuts to public investment and additional domestic borrowing.

Table 54. Assumptions for the no MFA second-tranche scenario

Variable	Assumptions
Government revenue	Change to government revenues is assumed to be negligible.
Government expenditure	Government expenditures decline by EUR 250.1 million as a result of cuts to public investment.
Public debt	Public debt stock changes as a result of lower borrowing in 2019, but the higher costs of borrowing add to accumulation of debt in the subsequent years.
Gross financing needs	Gross financing needs decrease by EUR 250.1 million due to a smaller public deficit (from cuts to public investment, as above), but the higher cost of alternative domestic borrowing contributes somewhat to gross financing needs in subsequent years.
GDP	GDP declines as a result of cuts to public expenditure. The impact is first seen in 2019, with GDP lower by 0.3%

	compared to the baseline in that year. By 2025, the real GDP is lower by 1.1% compared to the baseline.
Inflation	Relative to the baseline scenario, inflation in 2019 is higher by 0.2 percentage points. This introduces a constant difference in the price level that continues over the entire modelled period.
Exchange rate	The TND/USD exchange changes in line with additional inflation, with TND depreciating by 0.2% in 2019.

Sources: CE analysis.

These assumptions are used to project the key debt sustainability indicators presented in Figure 56 below. The projected values of the gross-debt-to-GDP ratio and the gross-financing-needs-to-GDP ratio are nearly identical to these observed in the baseline scenario (presented in section A11.4) and the Alternative 1 scenario.

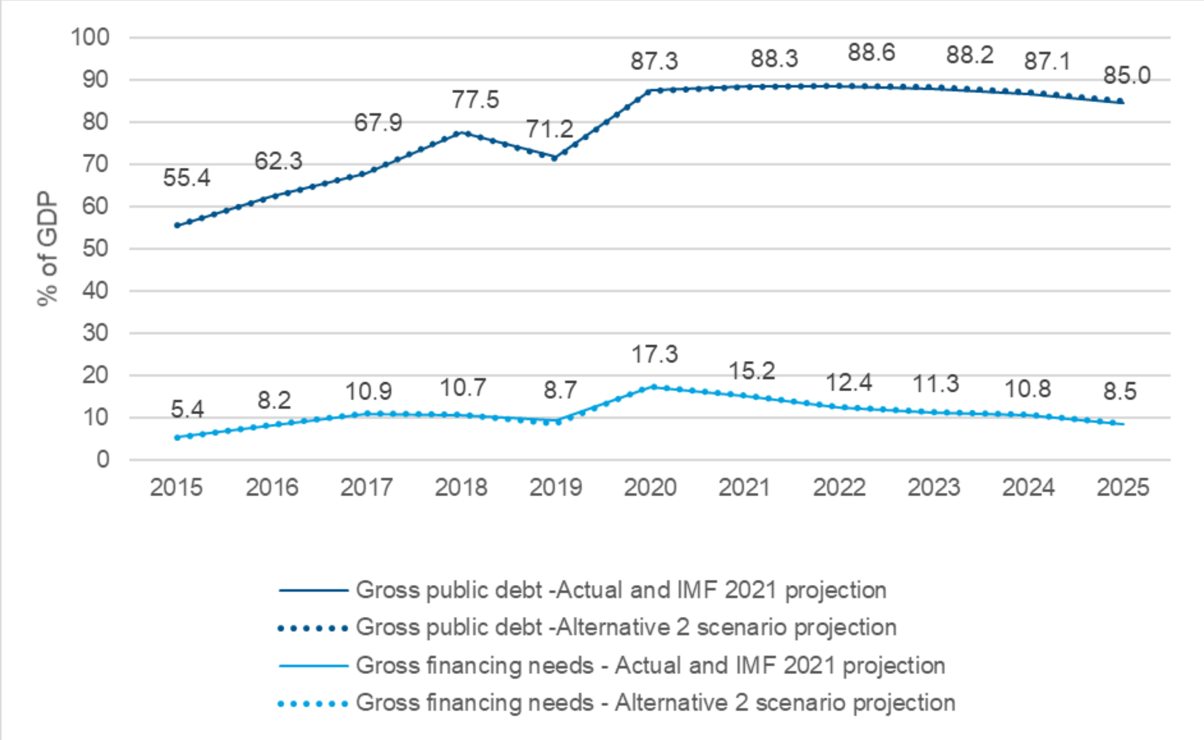
Similar to the trend observed in the Alternative 1 scenario, the gross-financing-needs-to-GDP ratio decreased in the year when the MFA financing becomes unavailable. In the Alternative 2 scenario, this means that the gross-financing-needs-to-GDP ratio would have declined by 0.7 percentage points in 2019 against the baseline. However, as a result of lower GDP assumed in the Alternative 2 scenario and the difference in the cost of borrowing, the-gross-financing-needs-to-GDP ratio in each year between 2020 and 2025 would have been approximately 0.1pp higher compared to the baseline projection.

This means that over the entire modelled period, debt accumulation (as measured by the debt-to-GDP ratio) would have followed a similar trend. In 2019, the debt-to-GDP ratio would have been lower by 0.6 percentage points under the Alternative 2 scenario. However, as a result of lower GDP and higher gross financing needs, by 2021 the value of the ratio would have been identical to the baseline projection (88.3%). As a result of the same trend continuing, in 2025, the debt-to-GDP ratio under the Alternative 2 scenario would have been 0.6 percentage points higher compared to the baseline projection (85.0% against 84.4%).

The projected increase in Tunisia’s debt accumulation is therefore slightly higher in the Alternative 2 scenario compared to both the baseline and the Alternative 1 scenario. Nevertheless, such difference would not have had a major impact on Tunisia’s debt sustainability assessment. The overall assessment is therefore the same as for the baseline scenario.

The same dynamics to these described for Alternative 1 scenario would apply with respect to the hypothetical changes in the assumed proportions of domestic borrowing and cuts to public spending used to cover the financing gap in the absence of the second MFA tranche. Greater reliance on cuts to public spending tends to result in slightly lower value of the key debt sustainability indicators in the same year cuts to public spending are assumed to be introduced. However, as cuts to public investment are assumed to have a long-run negative impact on the GDP levels, greater cuts to public investment tend to result in higher values of both gross-financing-needs-to-GDP and debt-to-GDP ratios by the end of the modelled period (2025). Nevertheless, such differences would have no meaningful impact on the overall qualitative assessment of debt sustainability regardless of the assumed proportions between domestic borrowing and cuts to public investment in the Alternative 2 scenario.

Figure 55. Debt sustainability indicators in Alternative 2 scenario



Sources: CE analysis based on Tunisia's MoF and IMF data.

The differences in the cost of interest payments between Alternative 2 and the baseline scenario were estimated using the method described in section A11.5. The presented estimates are undiscounted and do not account for the compounding nature of interest.

Table 55 presents the direct effect of higher interest payments on domestic borrowing to cover the financing gap. This is estimated by subtracting the estimated annual cost of interest on the combined MFA second and third tranche (EUR 300 million) from the cost of interest on the assumed EUR 49.9 million of additional issuance of domestic debt. Over the entire term of MFA borrowing (16.5 years), the cumulative difference in interest payments is estimated at EUR 31.1 million. This difference is lower compared to that estimated for the Alternative 1 scenario, as in the Alternative 2 scenario the absence of the second and third MFA tranches would have only in small part been covered by domestic issuances.

In addition to the direct difference in the cost of interest, the absence of the second and third MFA tranches would likely have increased the interest rate on Tunisia's new debt issuances[144] as a result of an increase in the perceived level of risk to Tunisia's debt sustainability. As evidenced by the results of the expert survey, it is likely that the continued support of the EU acted as a signal of trust in the government's ability to conduct the necessary public finances reforms that would improve the country's debt sustainability. Additionally, the investors would have adjusted their demanded risk premia to account for the impact of cuts to public spending on the GDP trajectory (as GDP levels affect the gross-financing-needs-to-GDP ratio that is used to proxy the changes in perceived risk, as described in detail in section A11.5).

[144] The affected issuances are assumed to include the estimated domestic issuances in years 2019-2025, as well as the estimated external debt issuances to private investors over the same period. External issuances of bilateral and multilateral debt between 2019-2025 are assumed to be unaffected by market risk premia.

As a result, it is estimated that in the Alternative 2 scenario, the market rates for Tunisia's new debt issuances would have increased by 1.3 basis points in 2019, 4.2 basis points in 2020, and by 5.8 basis points in 2020. This difference would have led to higher interest payments on newly issued debt in these years, estimated at EUR 0.4 million in 2019, EUR 2.5 million in 2020, and EUR 5.9 million in 2021. In the subsequent years, this difference would have continued to grow. The estimated cumulative difference over the entire modelled period (7 years) is estimated at EUR 77.4 million.

In the absence of the second and third MFA tranches, the estimated combined increase in the direct and indirect cost of borrowing across the entire period of borrowing[145] (16.5 years) would have been close to EUR 109 million. While the cumulative difference is not insubstantial, as discussed in the context of the presented debt sustainability indicator projections, the annual savings on interest during the period of MFA operation and immediately after would have only a very minor impact on the key debt sustainability indicators.

Table 55. Tunisia - difference in the cost of borrowing in the Alternative 2 scenario

	2019	2020	2021	Cumulative over the entire term
Direct effect:				
Difference in interest payments as a result of direct replacement of MFA with domestic borrowing (EUR, millions)	2.0	2.0	2.0	31.1 (16.5 years)
Indirect effect:				
Increase in demanded interest rate on new issuances in the absence of MFA second tranche (basis points)	1.3	4.2	5.8	
Difference in interest payments on new issuances in the absence of MFA second tranche (EUR, millions)	0.4	2.5	5.9	77.4 (7 years)
Total effect:				
Combined difference in the cost of borrowing enabled by the second MFA tranche (EUR, millions)	2.3	4.4	7.9	108.6 (16 years)

Notes: Estimated amounts do not account for the compounding effect of interest.
Sources: CE analysis of Tunisia's MoF and IMF data.

A11.8Tunisia Alternative 3: no IMF, no MFA scenario

The Alternative 3 scenario assumes that Tunisia would not have received the support from the IMF in the form of the disbursements under the four-year EFF arrangement between 2016 and 2019 (approximately the equivalent of EUR 1.4 billion), and also, would not have received the EUR 500 million disbursed as part of the MFA II operation.

[145] Difference in direct cost of interest over the entire MFA second and third tranche term (16.5 years) and the difference as a result of the indirect effect modelled over the period of 2019 – 2025 (7 years).

The evidence collected through an expert survey and interviews suggests that the presence of the IMF and the EU provided a strong signal indicating that both institutions deem the reforms proposed by the government as a credible solution to put the country on a sustainable debt path. This is reflected in the survey responses, where over 90% of respondents believe that the absence of the IMF and the MFA would have resulted in further credit downgrades in both 2017 and 2019.

These downgrades would likely have been severe, and therefore, it is assumed that under the Alternative 3 scenario Tunisia would have lost access to international capital markets in years 2017-2019[146]. This means that the financing gap under the scenario would be greater than the combined loss of funds, as presented in Table 56. The combined financing gap in each year would have amounted to EUR 571 million in 2016 (solely due to a loss of the first IMF EFF disbursement), EUR 2,056 million in 2017, EUR 955 million in 2018, and EUR 1,195 million in 2019.

Table 56. Tunisia – financing gap in the Alternative 3 scenario

	2016	2017	2018	2019
MFA disbursements (EUR, millions)		200		300
IMF EFF disbursements (EUR, millions)	571	217	416	219
Lost access to external debt issuances - private debt placements (EUR, millions)		1,639	539	675
Total estimated financing gap (EUR, millions)	571	2,056	955	1,195

Sources: CE analysis of Tunisia's MoF and IMF data.

The estimated financing gap in each year is therefore much higher compared to Alternative 1 and Alternative 2 scenarios, meaning that the authorities would need to undertake much greater adjustments to public finances to cover it. A headroom analysis is used to determine whether such adjustments would have been possible using the preferred options indicated in the expert survey and interviews (cuts to public investment and increased domestic issuances). The same process as that described in section A11.9 is used to estimate the headroom for adjustment of both sources.

Table 57 presents the data underpinning the calculated headroom for adjustment in domestic borrowing in years 2016-2019. The estimated headroom varied across years. As the inflation rate stood below the maximum tolerable rate in 2016 and 2017, the headroom for adjustment to domestic borrowing was likely to be relatively high, at EUR 1,201 million and EUR 1,038 million respectively. However, in years 2018 and 2019 the headroom for additional domestic borrowing was very limited. In 2018, the inflation rate was already at the maximum tolerable level, meaning that additional domestic debt issuances would not have been possible. In 2019, the inflation rate was just below the maximum tolerable rate, which could potentially have allowed additional issuances of approximately EUR 209 million.

[146] It is assumed that Tunisia would have regained access in years 2020-onwards as a result of renewed support in the form of new IMF and MFA support packages, which are discussed in detail in section A11.4,

Tapping into these amounts would have resulted in inflation and deterioration of international reserves. It should be noted that the headroom amounts should be viewed as approximate estimates based on the likely response from the central bank. The Central Bank of Tunisia would have been more likely to increase the interest rates in response to additional inflation caused by domestic debt issuances used to cover the financing gap, especially if the high inflation rate was persistent. At the same time, the central bank may also have been accommodating, if the costs of additional issuances (in the form of inflation and depreciation of the currency) were lower than the cost of not doing so (and consequently failing to meet debt obligations or destabilising the financial system).

Table 57. Tunisia - headroom for adjustment to domestic borrowing between 2016 and 2019

	2016	2017	2018	2019
Actual inflation rate	4.7%	4.8%	7.9%	7.1%
Maximum tolerable inflation rate	7.9%	7.9%	7.9%	7.9%
Expansion in monetary supply associated with 1 percentage point increase in the inflation rate (EUR, millions)	300.0	300.0	300.0	300.0
Maximum tolerable expansion in monetary supply (EUR, millions)	1,201.3	1,037.8	0.0	209.2

Sources: CE analysis of Tunisia's MoF and IMF data.

The analysis in Table 58 shows how the maximum headroom amounts for cuts to public investment have been estimated.

In years 2016-2019, annual public investments accounted for between 5.3% to 5.6% of the annual GDP. Assuming that the minimum feasible investment level would have been 3.0% in each analysed year, it is estimated that the maximum feasible cuts to public investment would have ranged between EUR 1,020 million and EUR 1,133 million, depending on the year.

The cuts approaching the maximum headroom would have likely brought significant long-run economic impacts. These would have been especially detrimental if the cuts were approaching the maximum headroom amounts in all analysed years. Persistent underinvestment would have a significant negative impact on the infrastructure, the quality of public services and the national security. As analysed further, these impacts would likely have a strong negatively effect on Tunisia's economic outlook. Therefore, the cuts to the full amount of the estimated headroom would only have been politically acceptable if they were a last resort to meet national debt obligations.

Table 58. Tunisia - headroom for adjustment to public investment in 2019

	2016	2017	2018	2019
Actual public investment to GDP ratio	5.3%	5.6%	5.6%	5.3%

Minimum feasible public investment to GDP ratio	3.0%	3.0%	3.0%	3.0%
Maximum feasible reduction in public investment that brings the investment to GDP ratio to 3.0% (EUR, millions)	1,132.9	1,052.2	1,019.7	1,049.7

Sources: CE analysis of Tunisia's MoF and IMF data.

Table 59 presents the analysis of the proportions in which domestic debt issuances and cuts to public investment would likely have been used to cover the financing gap in years 2016-2019 in the Alternative 3 scenario.

As in other counterfactual scenarios, the amounts drawn from each source are assumed to be proportional to the maximum headroom offered by that source (as a share of the total headroom offered by the two sources combined). As discussed previously, the headroom amounts would have depended on the year, and therefore, the proportions drawn from each source would vary from year to year.

While in 2016 and 2017 additional domestic borrowing and cuts to public investment would have likely been used in nearly identical proportions to cover the financing gap, in 2018 and 2019 the authorities would have likely relied predominantly on cuts to public investment to cover the financing gap.

The estimated amounts that would have likely been drawn from each source approach the maximum headroom amounts, especially in years 2017 - 2019. This would have most likely led to impacts on prices, GDP and other variables, as discussed below. Nevertheless, in all years the estimated amounts of adjustment are still below the maximum headroom. Therefore, it is assumed that Tunisia would have most likely been able to meet its debt obligations in years 2016-2019.

Table 59. Tunisia - estimated amounts used to cover the financing gap in Alternative 3 scenario (2016-2019)

	2016	**2017**	**2018**	**2019**
Estimated amount of additional domestic borrowing used to cover the financing gap (EUR, millions)	293.8	1,021.0	0.0	198.6
Estimated cuts to public investment to cover the financing gap (EUR, millions)	277.1	1,035.2	955.4	996.2

Sources: CE analysis of Tunisia's MoF and IMF data.

Based on these assumptions regarding the alternative sources of financing, a comprehensive overview of the key variables describing the Alternative 3 scenario is presented in Table 60.

Government revenues are assumed to remain unaffected, however some change would have been likely as a result of lower GDP compared to the baseline scenario, especially in the long run (discussed further). Similarly, government expenditures are assumed to decline only as a result of cuts to public investment which are assumed to take place between 2016 and 2019. However, the overall change in the government primary balance as a result of lower GDP affecting expenditures and revenues is assumed to be negligible: the proportional declines in government revenues and expenditures as a result of lower economic activity would potentially have nearly cancelled out, leaving the overall primary balance in the long run nearly unchanged compared to the baseline. Therefore, these effects are assumed to be negligible for the purpose of debt sustainability analysis.

Under the assumed scenario, the gross financing needs initially decline as a result of cuts to public investment in years 2016-2019. However, the higher interest payments on domestic debt (against MFA), and the higher cost of interest on newly issued debt after 2019 contribute to the gross financing needs in later years. These two effects also determine accumulation of public debt.

As a result of cuts to public investment, the GDP is assumed to decline against the baseline level. This decline in GDP is estimated at 0.3% in 2016 against the baseline level, and is estimated to lead to a decline of about 13% by 2025 (against the baseline projection).

Under the assumed alternative sources of financing, inflation would have been higher in years which saw increased domestic debt issuances to cover the financing gap. Inflation in the counterfactual scenario is assumed to be higher by 1.0 percentage points in 2016, 2.9 percentage points in 2017, and by 0.8 percentage points in 2019 (all relative to the baseline).

Consequently, these increases in inflation are assumed to lead to proportional depreciation of the Tunisian Dinar against the US dollar, estimated at 0.9% in 2016, 2.8% in 2017 and by 0.7% in 2019.

It should be noted that these assumptions form the central case which is underpinned by the headroom analysis of the possible cuts to public investment and increased domestic issuances. Nevertheless, surveyed experts assessed that increased support from international donors could also have been feasible between 2017 and 2019. Depending on the amounts that might have been possible to source, these two options could have proportionally decreased the need for cuts to public investment or additional domestic debt issuances. As discussed earlier, access to these sources of finance between 2017 and 2019 might not have been available within the required timeframe to cover the financing gap, and the amounts that could have been raised in the 2017-2019 period cannot be assessed. Therefore, the presented analysis focuses on the central case, where the financing gap is covered only by a mix of cuts to public investment and additional domestic borrowing.

Table 60. Tunisia - assumptions for the Alternative 3 scenario

Variable	Assumptions
Government revenue	Change to government revenues is assumed to be negligible.
Government expenditure	Government expenditures decline by the amounts of estimated cuts to public investment between 2016 and 2019.
Public debt	Public debt stock changes as a result of lower borrowing in years 2016-2019 (as the financing gap is only partly covered

	by domestic borrowing). In all years the differences in interest payments and the cost of borrowing affect the public debt trajectory.
Gross financing needs	Gross financing needs decrease in line with reduced primary deficits linked to the assumed cuts to public investment between 2016 and 2019. However, the higher cost of alternative domestic borrowing and the higher interest rate spreads contribute somewhat to gross financing needs in subsequent years.
GDP	GDP declines as a result of cuts to public expenditure. The impact is first seen in 2016, with GDP lower by 0.3% compared to the baseline in that year. The difference from the baseline projection gradually increases, and by 2025 the GDP is assumed to be 13% lower compared to the baseline projection.
Inflation	As a result of increased domestic debt issuances, the inflation rate increases by 1.0 percentage points in 2016, 2.9 percentage points in 2017, and by 0.8 percentage points in 2019.
Exchange rate	The TND/USD exchange changes in line with additional inflation, with TND depreciating by 0.9% in 2016, 2.8% in 2017 and by 0.7% in 2019.

Sources: CE analysis.

Under these assumptions, the values of the key debt sustainability indicators were modelled. As shown in Figure 57 below, the initial cuts to public investment reduce the gross-financing-needs-to-GDP and the debt-to-GDP ratios in years 2016-2019. However, the two ratios are estimated to be higher in later years, compared to the baseline projection, primary as a result of a long-run negative impact of reduced public investment on GDP growth.

From year 2020 onwards, the gross-financing-needs-to-GDP ratio is estimated to be consistently higher under the Alternative 3 scenario compared to the baseline projection. In years after 2022, the difference in gross financing needs between the Alternative 3 scenario and the baseline projection would have been over 2 percentage points annually. This difference in some years would have put Tunisia's gross financing needs even higher above the 15% of GDP threshold, which is assessed as a general indicator of increased risk to debt sustainability. As noted earlier, this is due to lower GDP levels assumed under this scenario, but also as a result of the increased cost of interest on issuances used to cover the financing gap in years 2016-2019, and the increased cost of borrowing on other new issuances in years 2016-2025 (resulting from an indirect effect of the lack of the IMF and MFA support on risk premia demanded by private investors).

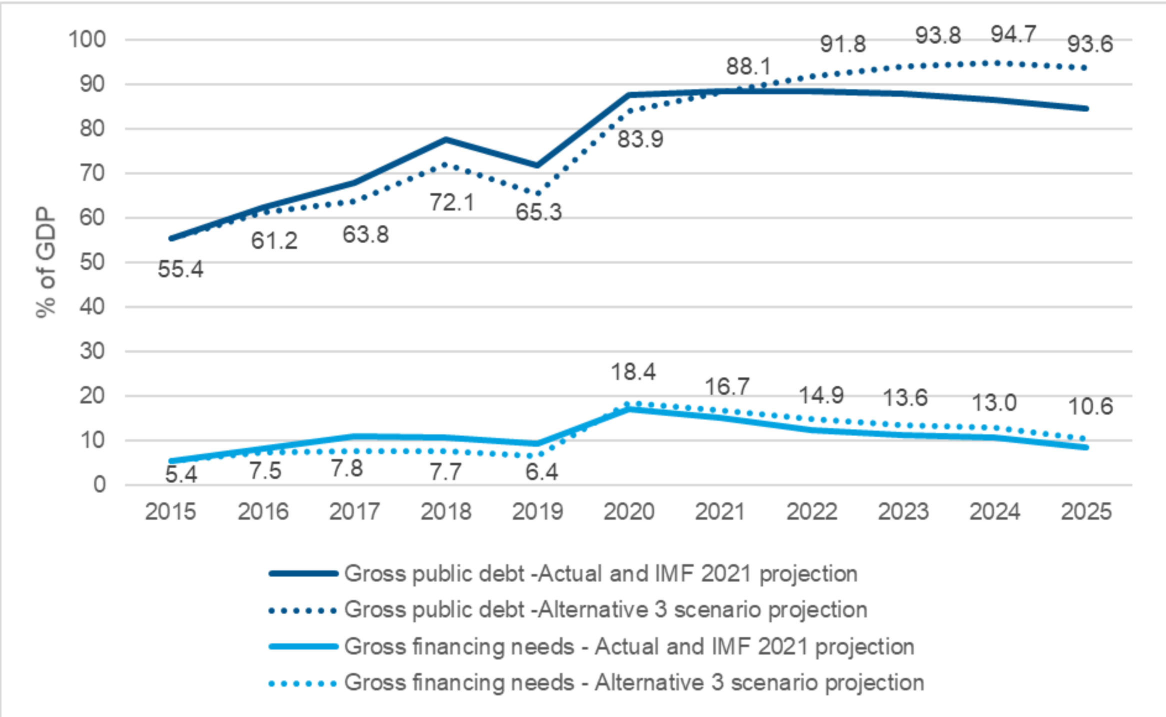
As a result of the same effects driving debt accumulation trajectory, the debt-to-GDP ratio under the Alternative 3 scenario would have reached a greater value than the baseline projection in years 2022-onwards. According to the estimates, by 2024, the debt-to-GDP ratio under the Alternative 3 scenario would have reached its maximum, at 94.8% before declining slightly in 2025 to 93.8%. These levels of debt accumulation would have been higher compared to the IMF projection used as a baseline, which estimates that in 2024 the debt-to-GDP ratio would have reached 86.5% and 84.4% in 2025. In either scenario, the debt-to-GDP ratio is estimated to be well above the 60%

threshold that is considered to indicate the increased risk to debt sustainability of a market-access country such as Tunisia. However, the trajectory of debt accumulation in the Alternative 3 scenario shows clear divergence from the baseline, indicating deteriorating situation vis-à-vis baseline projection.

Based on these findings, it is assessed that the debt trajectory of Tunisia would have been adversely affected under the assumptions of the Alternative 3 scenario. Although the values of key debt sustainability indicators do not follow an explosive path in the modelled period up to 2025, the differences from the baseline projections increase each year. This means that Tunisia's debt could have likely entered an unsustainable path. This medium-term unsustainability could have been exacerbated further in instances where investors adjust the demanded risk premia leading to even further increases in the cost of borrowing, or (in extreme cases) deny Tunisia access to capital markets. Given the uncertainties surrounding Alternative 3, this effect could not have been accounted for.

It should be noted that while the Alternative 3 scenario assumes no impact on the primary public deficits, it is possible that the lack of the IMF and the EU support would have resulted in lower political capital of Tunisia's authorities, and resulted in less progress towards the reforms of public finances conducted in years 2016-2019 that aimed to reduce the public deficits. Such reforms may not have been possible or may have been slower (as indicated by the responses to the expert survey), leading to persistently higher public sector deficits and faster debt accumulation. However, due to a high degree of uncertainty around which specific reforms would have been affected and to what degree, these effects could not have been modelled quantitatively as part of Alternative 3 scenario.

Figure 56. Tunisia - debt sustainability indicators in the Alternative 3 scenario



Sources: CE analysis based on the Tunisia's MoF and IMF data.

As discussed earlier, the two particular drivers of increasing debt accumulation (relative to GDP) under the Alternative 3 scenario are the impacts of cuts to public investment on GDP levels, as well as the increased costs of borrowing. The latter were estimated using the method described in section A11.5 and are discussed below.

Table 61 presents the direct effect of higher interest payments on domestic borrowing to cover the financing gap in the absence of the IMF and the MFA financing. The presented estimates are undiscounted and do not account for the compounding nature of interest. The difference is estimated by subtracting the estimated annual cost of interest on the MFA and the IMF financing provided from 2016 to 2019 from the cost of interest on the assumed additional issuances of domestic debt that would have been used to cover the financing gap.

The estimated differences in direct interest payments on MFA and IMF against the alternative domestic borrowing assumed in the Alternative 3 scenario are relatively small in years 2016-2019. However, over the entire term of borrowing the difference is not insubstantial. It is estimated that the cumulative cost of domestic borrowing that would have replaced MFA would have been EUR 87.5 million higher (over 18.5 years). It is estimated that the total direct saving on interest provided by the IMF lending was approximately EUR 17.7 million[147].

However, the main difference in interest payments is estimated to arise as a result of indirect effect of the IMF and the MFA lending. These two support packages provided a strong signal to financial markets. In the absence of such signal, the financial markets would have increased the demanded risk premia due to:

the increased gross-financing-needs-to-GDP ratio as a result of long-run impacts of lower public investment on GDP;

a loss of investor confidence in the authorities' capacity to conduct the necessary public finances reforms without the backing from the IMF or the EU[148].

As a result, it is estimated that in the Alternative 3 scenario, the market rates for Tunisia's new debt issuances would have been slightly higher in years 2016-2019, with the maximum difference of approximately 10 basis points. This would have led to increased cost of interest on new borrowings over that period, but the annual difference in payments would not have exceeded EUR 30 million by 2019.

In the long run, however, the difference would have grown as the difference between the gross-financing-needs-to-GDP ratio increases between the Alternative 3 and the baseline projection. It is estimated that over the entire modelled period, the cost of borrowings from private investors would have been approximately EUR 4,640 million higher in the Alternative 3 scenario compared to the baseline projection.

[147] The calculation relies on simplifying assumptions. Nonetheless, despite higher amounts of borrowing, the direct saving on IMF borrowing is lower than that for the MFA because of the IMF EFF's shorter term, different repayment schedule (with semi-annual repayments of principal over the duration of the loan), and because different alternative sources of financing are assuming in each year, For example, in 2018, the absence of the IMF disbursements would have been covered entirely by cuts to public expenditure, and hence no interest payments in the counterfactual.

[148] This adjustment logic is described in detail in section A11.5.

Table 61. Tunisia - difference in the cost of borrowing in the Alternative 3 scenario

	2016	2017	2018	2019	Cumulative over the entire term
Direct effect:					
Difference in direct interest payments between MFA and domestic borrowing (EUR, millions)	0.0	4.2	4.2	6.2	87.5 (18.5 years)
Difference in direct interest payments between IMF and domestic borrowing (EUR, millions)	8.3	11.4	1.2	0.8	17.8 (9 years)
Indirect effect:					
Increase in demanded interest rate on new issuances (basis points)	9.5	10.5	3.2	10.4	
Difference in interest payments on new issuances (EUR, millions)	6.7	17.2	20.3	29.1	4,640 (18.5 years)
Total effect:					
Combined difference in the cost of borrowing (EUR, millions)	15.0	32.8	25.7	36.0	4,745 (16.5 years)

Notes: Estimated amounts do not account for the compounding effect of interest. Simplifying assumptions are used to model the differences in interest payments, hence the numbers are approximations only.
Sources: CE analysis of Jordan's MoF and IMF data.

A11.9Jordan Alternative 1: no MFA first-tranche scenario

Under the Alternative 1 scenario Jordan would not have received the first MFA tranche of EUR 100 million in October 2017. The assumptions underpinning the analysis of the scenario are based on insights obtained through an expert survey, interviews with stakeholders, desk research and insights shared by local economic experts.

Experts consulted included academics, researchers from think tanks and the media, as well as independent fiscal policy experts and experienced commentators on Jordanian economic policy. These experts' insights were obtained to determine the feasibility of alternative options to cover the financing gap that would have opened in the absence of the first MFA tranche, and identify which of those options were most likely to be taken up.

Based on these responses, it is assumed that the absence of the first MFA tranche would not have resulted in withdrawal of support by other donors, or a loss of access to financial markets. While lack of support from the EU could have been seen as a signal of limited confidence in Jordan's ability to manage its debt obligations, the scenario assumes continued support from the IMF. The support from the IMF alone would have most likely been sufficient to assure presence of other donors and creditors.

The analysis of responses suggests that the two highly likely options that would have been used to cover the financing gap in the absence of the first tranche were:

- Issuance of new debt in domestic markets;
- Tighter enforcement of profit and income tax laws to increase tax receipts (realised tax revenues).

These two sources of finance would have been preferred over any of the other options considered (as summarised in the section presenting the results of the expert survey). While some other options were also ranked highly in the expert survey (such as reduced capital expenditures and increased support from donors), these were assessed as less plausible by the interviewed stakeholders and country experts. In 2017, it is unlikely that cuts to capital expenditure would have been the preferred option, given the pressure on infrastructure and public services in Jordan as a result of an influx of refugees from neighbouring countries. Similarly, while in years prior to 2017 foreign donors were contributing significant budgetary support or bilateral loans to Jordan, they are unlikely to have been a reliable source of finance in place of the first MFA tranche. This is because the degree of support from main donors (Gulf countries) varied significantly from year to year as a result of fluctuating oil prices.

The headroom for issuance of new debt in domestic markets and additional revenues as a result of tighter enforcement of profit and income tax laws is defined as the maximum feasible amount of each that could have been obtained in 2017. Headroom is determined by analysing either the constraints that originate in fiscal or debt management rules, or the evidence of the government's maximum capacity to conduct the necessary reforms in a given timeframe.

The results of the analysis of headroom for adjustment by domestic borrowing are presented in Table 62. The net domestic-debt-to-GDP ratio stood at 49.5% in 2017. Jordan's Public Debt Management Law Article 21[149] sets the ceiling on domestic debt at 60%. Therefore, the headroom for additional domestic borrowing in 2017 is estimated at approximately EUR 3.8 billion. It is assessed that this amount was the absolute maximum, though: while such an increase could likely have been accommodated, possible consequences (costs) include increased inflation, shrinking international reserves, lower economic growth prospects and being forced to abandon the currency peg. Therefore, this amount should be interpreted as the absolute maximum. These accompanying costs of higher domestic debt would only have been tolerable insofar as this course of action may have avoided a worst-case scenario (such as sovereign default).

Table 62. Headroom for adjustment in Jordan – domestic borrowing in 2017

	Value
Net domestic debt to GDP ratio	49.5%
Public debt management ceiling on domestic debt (% of GDP)	60.0%

[149] Ministry of Finance, Law No. (26) of 2001 Public Debt Management Law, Available at: https://www.mof.gov.jo/ebv4.0/root_storage/en/eb_list_page/public_debt_management_law_no._(_26_)_of_2001-2.pdf

Maximum amount of additional domestic borrowing not breaching the ceiling (EUR, billion)	3.8

Sources: CE analysis of Jordan's MoF and IMF data.

The analysis of headroom to generate additional tax revenues by improving enforcement of profit and income tax laws is presented in Table 63. Profit and income tax revenues in 2017 stood at EUR 1,170 million, equivalent to 3.2% of GDP that year. According to the MoF statistics[150] the ratio of profit and income taxes to GDP had increased to 3.6% by 2020. This increase is likely a result of tax reforms in previous years, as well as increased government efforts to curb tax evasion reported in 2020[151].

If the government had been able to enforce these tax laws earlier, achieving that ratio of 3.6% in 2017 rather than 2020, this could have raised an additional EUR 143 million in tax revenues in 2017. This is assessed as the upper boundary (headroom) that could potentially have been raised to cover the financing gap in 2017, although other limitations may have applied that could not have been accounted for (for example, the lack of capacity to mobilise such effort in a short period of time).

It should be noted that, while there may have been scope to raise additional revenue in this way, such action would likely have come at great political cost and risk. Also, it may not have been possible to sustain these revenues in later years, given that the governance issues persisted in Jordan during the period, and that the government backed out of some proposals aimed at increasing profit and tax revenues[152].

Table 63. Headroom for adjustment in Jordan – profit and income tax revenues in 2017

	Value
Actual profit and income tax revenues (EUR, millions)	1,170
Actual profit and income tax revenues (% of GDP)	3.2%
Hypothetical maximum profit and income tax revenues (% of GDP)	3.6%
Difference between hypothetical maximum and actual profit and income tax revenues (EUR, millions)	143

Sources: CE analysis of Jordan's MoF data.

[150] Jordan MoF 2020. "Government Finance Statistics". Available at: https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/arbic_pdfmay-2021.pdf

[151] Reuters 2020 "Jordan's crackdown on tax cheats has raised $600 million: finance minister". Available at: https://www.reuters.com/article/us-jordan-economy-finance-tax-idINKBN2682MR

[152] The New York Times, 2018. "Jordan Withdraws Tax Bill That Fuelled Nationwide Protests". Available at: https://www.nytimes.com/2018/06/07/world/middleeast/jordan-tax-bill-protests.html

Having established the maximum headroom for these sources, the counterfactual allocation of financing between those sources was assumed to be proportional to their respective maximum headroom (for the reasons set out previously).

As presented in Table 64, the estimated headroom offered by additional domestic borrowing accounts for 96.4% of the total headroom provided by both sources, while the increased profit and income tax revenues account for the remaining 3.6%. Therefore, in order to cover the EUR 100 million gap in the absence of the first tranche of MFA, it is assumed that EUR 96.4 million would have been raised from domestic debt markets, while EUR 3.6 million would have been added as a result of efforts to enforce profit and income tax laws more strongly.

Table 64. Estimated amounts used to cover the financing gap in the absence of the first MFA tranche (2017)

	Domestic debt issuance	**Increased profit and income tax revenues**
Estimated headroom (EUR, millions)	3,848	143
Estimated headroom as a share of total headroom for both options (%)	96.4%	3.6%
Estimated amount used to cover the financing gap in the absence of 1st MFA tranche (EUR, millions)	96.4	3.6

Sources: CE analysis of Jordan's MoF data.

These assumptions are subsequently used along with other scenario assumptions to form the counterfactual scenario, as summarised in Table 65.

In the counterfactual scenario, government revenues in 2017 are assumed to increase by EUR 3.6 million as a result of increased collection of profit and income taxes but return to their baseline values in subsequent years.

Government expenditures are assumed to remain unchanged in the counterfactual scenario. The expert survey responses (Question 13) indicate that MFA support either incentivised or accelerated certain public finance reforms. However, many of the MFA conditionalities on public finances were overlapping with the public finances reform plan which underpinned the IMF's assistance under the EFF agreement. Therefore, it is assumed that obligations to the IMF would have been sufficient to spur these reforms and that similar progress would have been made in the Alternative 1 scenario compared with the baseline, most likely leaving other government revenues and expenditures unchanged.

Public debt levels are also assumed to remain nearly unchanged, as MFA is replaced almost entirely by domestic borrowing (which also contributes to the stock of public debt).

Gross financing needs are assumed to decrease by EUR 3.6 million, in line with the difference between the EUR 100 million provided by the first tranche, and the assumed amount of domestic borrowing used to cover the financing gap (EUR 96.4 million). However, due to the higher interest payments on domestic debt, the gross financing needs increase offsetting this effect (calculations on the total difference in interest payments are presented below).

Macroeconomic conditions, as represented by GDP, inflation and exchange rates are assumed to remain unaffected by the absence of the first tranche. The implication is that, in this counterfactual, there are no wider macroeconomic effects that further influence the debt sustainability situation.

Table 65. Assumptions for the no MFA first-tranche scenario

Variable	Assumptions
Government revenues	Government revenues increase by EUR 3.6 million as a result of greater efforts to enforce profit and income tax laws.
Government expenditures	Government expenditures remain unchanged.
Public debt	As MFA borrowing is mostly replaced with domestic borrowing, the change to public debt levels is negligible.
Gross financing needs	Gross financing needs decrease by EUR 3.6 million due to a smaller public deficit (from slightly larger tax revenues, as above), but the higher cost of domestic borrowing more than offsets this reduction[153].
GDP	GDP remains unchanged.
Inflation	Inflation remains nearly unchanged.
Exchange rate	The JOD/USD exchange rate remains unchanged.

Sources: CE analysis.

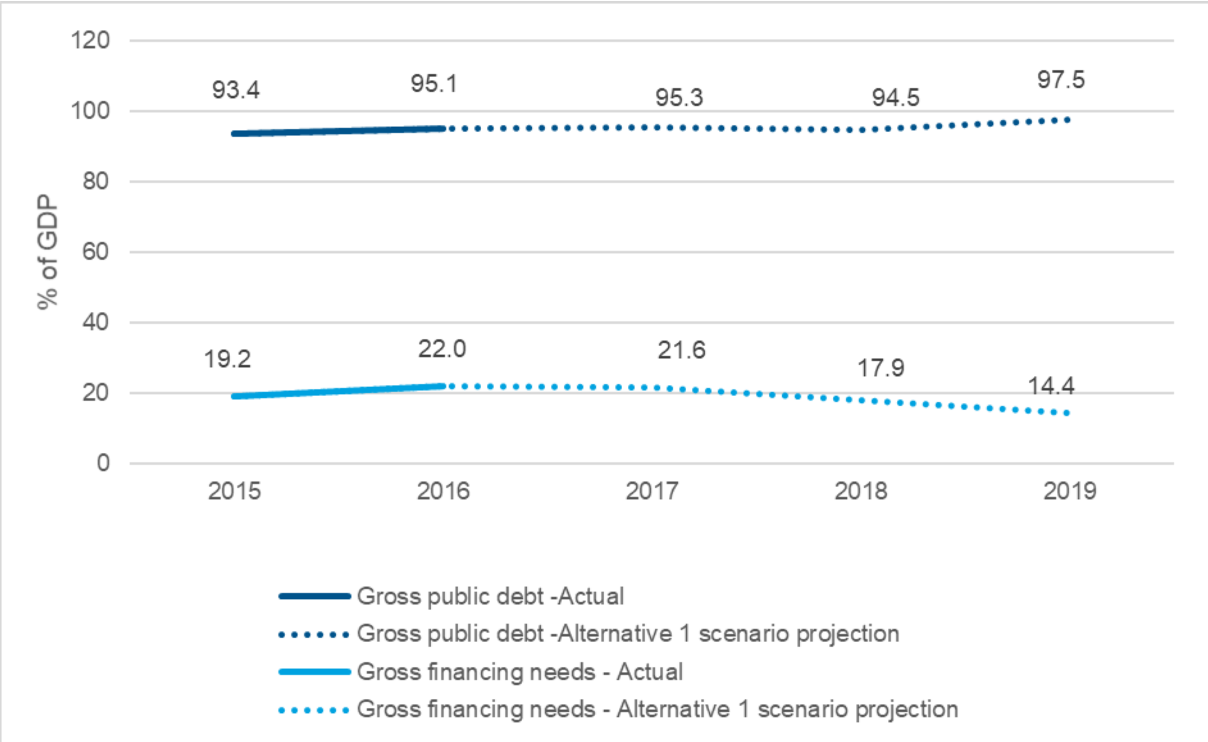
Based on these assumptions, the key debt sustainability indicators are projected, as presented in Figure 58 below. The estimated projected values of the gross-debt-to-GDP ratio and the gross-financing-needs-to-GDP ratio are nearly identical to these in the baseline scenario (presented in section A11.4 in Figure 53). By 2019, the difference from the baseline level for both indicators is estimated to be 0.1 percentage points or less. The slight differences from baseline are due to higher interest payments on increased

[153] In the absence of MFA first tranche, the financing gap would have needed to be covered by alternative sources. As MFA is provided as concessional budgetary support on non-market terms, it can be assumed to lower gross financing needs.

domestic debt in the counterfactual (described below). These increased interest payments are, however, small suggesting that the absence of the first MFA tranche would not have significantly affected Jordan's debt sustainability.

Departing from the central assumption of the Alternative 1 scenario, a hypothetical increase in the proportion of additional profit and income tax revenues used to cover the financing gap in the absence of the first MFA tranche would have little bearing on these debt sustainability indicators. For example, assuming that the government would have preferred to raise EUR 50 million (just over one-third of the available headroom for increased tax receipts) by a very strong effort to curb tax evasion, with the remaining EUR 50 million still raised in domestic debt markets, the gross financing needs ratio in 2017 would have decreased by just 0.1 percentage points, to 21.5%. This change would have no meaningful impact on the overall qualitative assessment of debt sustainability but would likely have reduced the cost of interest payments in future years somewhat. However, it is also possible that such aggressive action on tax enforcement could have come at high political cost e.g. social unrest and/or government change that could have various negative consequences to debt sustainability. No assessment of this, either way, has been considered in the above.

Figure 57. Debt sustainability indicators in the Alternative 1 scenario



Sources: CE analysis of Jordan's MoF and IMF data.

The difference in interest payments between Alternative 1 and the baseline scenario was estimated by accounting for two effects:

A direct effect of lower interest payments on the first MFA tranche compared to the alternative cost of domestic borrowing;

An indirect effect due to the increased cost of domestic and international borrowing[154] as a result of lower investor confidence in the absence of the first MFA tranche.

The direct effect of lower interest payments on the first MFA tranche is estimated on the basis of the assumed difference in the cost of borrowing between the first tranche MFA (interest rate of 0.75%) and the interest rate on domestic debt of similar maturity (15 years), which stood at 7.99% in 2017[155].

The estimates presented in Table 66 show the estimated differences in interest payments which are undiscounted and do not account for compounding of interest. The direct difference in interest payments between the first tranche of MFA and the alternative of domestic financing would have been close to EUR 7.0 million annually. This means that, over the entire term of the MFA first tranche (13.4 years), the additional, undiscounted direct cost of domestic borrowing would have been EUR 97 million.

It is estimated that the absence of the first MFA tranche would have resulted in an additional cost of borrowing due to the increased risk premia on Jordan's new issuances[156], at 12.1 basis points in 2017, 1.0 basis points in 2018, and 1.2 basis points in 2019. As a result of this, the interest payments on domestic and external debt issued by Jordan over that period would have been higher by EUR 5.2 million in 2017, EUR 5.6 million in 2018, and EUR 6.3 million in 2019. Assuming that the average maturity of the affected issuances between 2017 and 2019 was 6.4 years[157], the cumulative increase in the absence of the first MFA tranche would have been EUR 49.9(again, undiscounted).

Therefore, it is estimated that the combined direct and indirect saving on the cost of borrowing enabled by the first tranche of MFA over the entire term would have been approximately EUR 146.9 million. However, as discussed earlier in the context of the estimated debt sustainability indicators, the annual differences in the cost of borrowing would have had a negligible effect on the value of debt sustainability indicators during the MFA operation and in years immediately after. For example, by the end of 2019, debt accumulation as a result of the additional cost of borrowing (EUR 31 million) would have increased the public-gross-debt-to-GDP ratio by 0.1 percentage points.

Table 66. Difference in the cost of borrowing – Alternative 1 scenario

	2017	2018	2019	Cumulative over the entire term
Direct effect:				
Difference in interest payments as a result of direct replacement of MFA with domestic borrowing (EUR, millions)	7.0	7.0	7.0	97.0 (13.4 years)
Indirect effect:				

[154] The adjustment is applied only to domestic debt and the external issuance of a USD 500 million Eurobond in 2017. Much of Jordan's new external debt over the period 2017-2019 was issued at non-market rates, and therefore would not have been affected.

[155] Jordan MoF, 2020. "Public Debt Quarterly Report – Q4 2019". Available at: https://www.mof.gov.jo/EN/List/Bulletins_and_Government_Financial_Statements

[156] The affected issuances are assumed to include domestic issuances over 2017-19, as well as the 2017 issuance of USD 500 million Eurobond. Much of Jordan's new external debt over the period 2017-19 was issued at non-market rates, and therefore would likely not have been affected.

[157] 6.4 years was the average debt maturity at the end of 2019.

	2017	2018	2019	Cumulative over the entire term
Increase in demanded interest rate on new issuances in the absence of MFA first tranche (basis points)	12.1	1.0	1.2	
Difference in interest payments on new issuances in the absence of MFA first tranche (EUR, millions)	5.2	5.6	6.3	49.9 (6.4 years)
Total effect:				
Combined difference in the cost of borrowing enabled by the first MFA tranche (EUR, millions)	12.1	12.5	13.2	146.9 (13.4 years)

Notes: Estimated amounts do not account for the compounding effect of interest.
Sources: CE analysis of Jordan's MoF and IMF data.

A11.10 Alternative 2: no MFA second-tranche scenario

Under the Alternative 2 scenario Jordan would not have received the second MFA tranche of EUR 100 million in June 2019.

Similarly to Alternative 1 scenario, the views gathered as part of the consultation suggest that the absence of the MFA support in 2019 would not have resulted in withdrawal of support by other donors, or a loss of access to financial markets. The support from the IMF alone would have most likely guaranteed presence of other donors and creditors.

Cross-examination of the evidence obtained through desk research, expert survey and stakeholder interviews suggests that the two most likely options used to cover the financing gap in the absence of the second MFA tranche would have been the same as in the Alternative 1 scenario. Therefore, in the absence of the second tranche, the authorities of Jordan would have likely covered the financing gap by simultaneously increasing domestic borrowing, and curbing tax evasion in an effort to increase profit and tax revenues. The same process as that described in section A11.9 is used to estimate the headroom for adjustment of both sources.

As presented in Table 67, the net-domestic-debt-to-GDP-ratio in 2019, at 49.4%, remained below the 60% ceiling set by the debt management laws. The maximum amount of domestic borrowing that would not lead to breaching the 60% ceiling is estimated at EUR 4.2 billion. However, tapping into this amount in full would likely have led to significant detrimental effects on GDP growth, inflation, and financial stability. As previously, this would only have been tolerable as an alternative to a worst-case scenario (for example, a sovereign default). Therefore, the estimated headroom should not be interpreted as a readily available amount of finance for the government but, rather, as the maximum feasible amount with respect to legal constraints.

Table 67. Headroom for adjustment in Jordan – domestic borrowing in 2019

	Value
Net-domestic-debt-to-GDP ratio	49.4%
Public debt management ceiling on domestic debt (% of GDP)	60.0%
Maximum amount of additional domestic borrowing not breaching the ceiling (EUR, billions)	4.2

Sources: CE analysis of Jordan's MoF and IMF data.

Table 68 presents the analysis of headroom to increase profit and income tax revenues in 2019. The actual profit and income tax revenues in 2019 stood at EUR 1,284 million, equivalent to 3.2% of GDP. Assuming that it was feasible to increase these revenues in 2019 to 3.6% of GDP (as observed in 2020), this estimated headroom stands at EUR 140 million. It should be noted that this amount of additional revenues is assessed as technically possible but would likely come at a great political cost and risk, and therefore was not readily accessible to the government. These accompanying costs of higher domestic debt would only have been tolerable as an alternative choice to a worst-case scenario (such as sovereign default).

Table 68. Headroom for adjustment in Jordan – profit and income tax revenues in 2019

	Value
Actual profit and income tax revenues (EUR, millions)	1,284
Actual profit and income tax revenues (% of GDP)	3.2%
Hypothetical maximum profit and income tax revenues (% of GDP)	3.6%
Difference between hypothetical maximum and actual profit and income tax revenues (EUR, millions)	140

Sources: CE analysis of Jordan's MoF and IMF data.

As described in detail in section A11.9 on the Alternative 1 scenario, the mix of domestic debt issuance and increased profit and income tax revenues is assumed to be proportional to the headroom offered by each source.

The figures presented in Table 69 show that, in 2019, the headroom offered by additional domestic borrowing accounted for 97.1% of the total headroom available from both sources, while the headroom to increase profit and income tax revenues accounted for the remaining 2.9%. Accordingly, it is assumed that the financing gap in the absence of the second MFA tranche would have been covered by each source according to these proportions: EUR 97.1 million would have been raised through domestic debt issuance and EUR 2.9 million would have been added to government revenues as a result of increased efforts to improve collection of profit and income taxes.

Table 69. Estimated amounts used to cover the financing gap in the absence of the second MFA tranche (2019)

	Domestic debt issuance	**Increased profit and income tax revenues**
Estimated headroom (EUR, millions)	4,214	140
Estimated headroom as a share of total headroom for both options (%)	97.1%	2.9%
Estimated amount used to cover the financing gap in the absence of MFA second tranche (EUR, millions)	97.1	2.9

Sources: CE analysis of Jordan's MoF and IMF data.

Given the assumed most likely alternative financing method, the key variables describing the Alternative 2 scenario are presented in Table 70. The scenario assumptions are broadly similar to those of the Alternative 1 scenario for Jordan, as a result of near-identical assumptions on alternative sources to cover the financing gap.

Under the assumption of no second MFA tranche, Jordan's government revenues in 2019 are assumed to increase by EUR 2.9 million, while government expenditures are assumed to remain unchanged. Given that the second tranche would have almost entirely been replaced by domestic borrowing, the counterfactual impact on public debt levels in 2019 relative to the baseline would have been negligible. In later years, the additional cost of interest payments on more expensive domestic borrowing would, however, contribute slightly to the gross financing needs and the stock of public debt (a detailed analysis of this is presented in further analysis in this section).

As under the scenario assumptions the financing gap that would open in the absence of the second MFA tranche would have been covered nearly entirely by EUR 97.1 million of additional borrowing, the gross financing needs are assumed to remain nearly unchanged. For example, in 2019, the gross financing needs would have decreased by EUR 2.9 million as a result of increased government revenues, At the same time the higher interest on additional domestic borrowing would have added to the gross financing needs.

Other macroeconomic variables are assumed to remain unchanged or nearly unchanged. For example, the additional domestic issuance of EUR 97.1 million could have contributed to inflation in that year. However, this contribution would have been negligible, given the size of this issuance compared to the total change in monetary supply[158]. Consequently, and as in Alternative 1, implications for debt sustainability are confined to changes in sources and costs of financing.

[158] Between 2018 and 2019 the increase in M2 monetary supply of JOD 1.6 billion was associated with inflation rate of 1.7%. Assuming that the domestic issuance of EUR 97.1 million would have proportionally contributed to inflation, the increase in domestic inflation would have been close to 0.1 percentage points.

Table 70. Assumptions for the no MFA second-tranche scenario

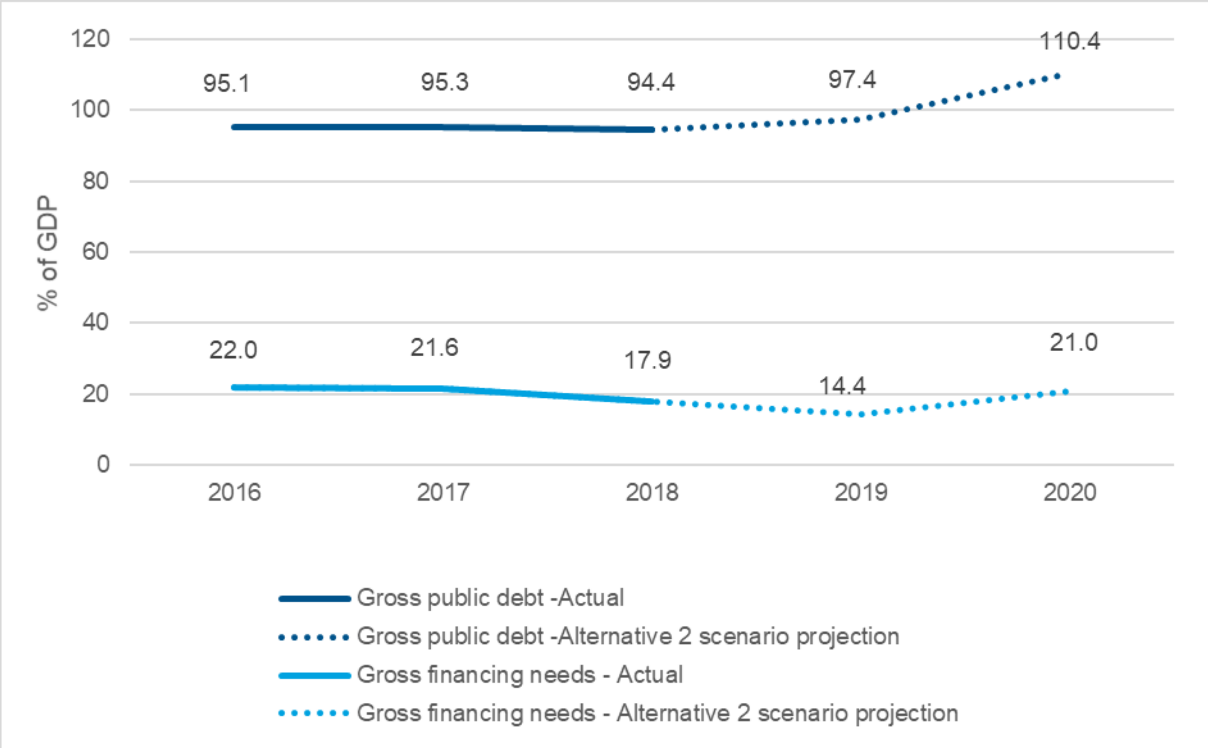
Variable	Assumptions
Government revenue	Government revenues increase by EUR 2.9 million as a result of greater efforts to enforce profit and income tax law.
Government expenditure	Government expenditures remain unchanged.
Public debt	As MFA borrowing is nearly entirely replaced with domestic borrowing, this initially reduces the stock of public debt by a small amount, but the subsequent higher interest payments offset that decline.
Gross financing needs	Gross financing needs decrease by EUR 2.9 million due to lowered public deficit, but the higher costs of borrowing add to gross financing needs.
GDP	GDP remains unchanged.
Inflation	Inflation remains nearly unchanged.
Exchange rate	The JOD/USD exchange rate remains unchanged.

Sources: CE analysis.

These assumptions are used to project the key debt sustainability indicators presented in Figure 59 below. As in the case of the Alternative 1 scenario, the projected values of the gross-debt-to-GDP ratio and the gross-financing-needs-to-GDP ratio are nearly identical to these observed in the baseline scenario (presented in section A11.4). Replacing MFA almost entirely with domestic borrowing has a negligible effect on gross public debt and gross financing needs. While domestic borrowing to cover the financing gap (EUR 97.1 million) would have been slightly lower than the amount provided by the second MFA tranche (EUR 100 million), this difference would have been more than offset by the additional cost of borrowing, leading to a slightly higher level of gross public debt and gross financing needs (not exceeding 0.1 percentage points for either of the ratios projected in 2019 and 2020). The absence of the second MFA tranche would not have led to any discernible deterioration in Jordan's debt sustainability.

Departing from the central assumption of the Alternative 2 scenario, a hypothetical increase in the proportion of additional profit and income tax revenues used to cover the financing gap would have little bearing on the debt sustainability indicators. For example, assuming that in 2019 the government would have preferred to raise EUR 50 million by a very strong effort to curb tax evasion, with the remaining EUR 50 million raised on domestic debt markers, the gross financing needs in 2019 would have decreased by 0.1 percentage points, to 14.3%. This change would have no meaningful impact on the overall qualitative assessment of debt sustainability but would potentially have reduced the cost of interest payments in future years. Nevertheless, the possibility of events that could unravel due to the high political cost of increasing profit and income tax revenues by such high amount (social unrest, government change) means that the overall impact on debt sustainability could also have been negative. No assessment of a probability and the consequences of such occurrence has been considered in the above.

Figure 58. Debt sustainability indicators in Alternative 2 scenario



Sources: CE analysis based on the Jordan's MoF and IMF data.

The differences in the cost of interest payments between Alternative 2 and the baseline scenario were estimated using the method described in section A11.5. The presented estimates are undiscounted and do not account for the compounding nature of interest.

As presented in Table 71, the direct effect of higher interest payments on domestic borrowing to cover the financing gap is estimated at EUR 6.3 million annually. The second tranche of MFA was offered at an interest rate of 0.5%, while the interest rate on domestic debt of similar maturity (15 years) stood at 6.96%[159]. Given that the term of the second MFA tranche was 16 years, its absence would have resulted in a cumulative additional direct cost of borrowing of EUR 106.6 million.

In addition, the absence of the second MFA tranche would likely have increased the interest rate on new debt issuances[160] by 17.8 basis points in 2019, and by 1.0 basis points in 2020. Compared to the baseline scenario, this difference would have led to

[159] Jordan MoF, 2020. "Public Debt Quarterly Report – Q4 2019". Available at: https://www.mof.gov.jo/EN/List/Bulletins_and_Government_Financial_Statements

[160] The affected issuances are assumed to include domestic issuances in years 2019-2020, as well as the 2020 issuance of USD 1.75 billion Eurobond. Much of Jordan's new external debt over the period 2019-2020 was issued at non-market rates, and therefore would not have been affected.

higher interest payments on newly issued debt, of EUR 13.0 million in 2019, and EUR 13.6 million in 2020. Assuming that the average maturity of the affected debt would have been 6.4 years, this means that the additional cost of interest payments over the entire term would have been EUR 87.0 million.

Therefore, it is estimated that the combined direct and indirect saving on the cost of borrowing enabled by the second tranche of MFA over the entire term (16 years) would have been approximately EUR 193.6 million. Nevertheless, as discussed in the context of the presented debt sustainability indicator projections, the annual savings on interest during the period of MFA operation and immediately after would have only a very minor impact on the key debt sustainability indicators. For example, the additional EUR 19.2 million of interest that would have been accrued by Jordan in 2019 would have increased the gross-financing-needs-to-GDP ratio by 0.05 percentage points, while by 2020, the resulting accumulation of debt would have increased the debt-to-GDP ratio by 0.1 percentage points. These increases would have a negligible impact on the assessment of Jordan's debt sustainability, which does not depart from the assessment in the baseline scenario.

Table 71. Difference in the cost of borrowing – Alternative 2 scenario

	2019	2020	Cumulative over the entire term
Direct effect:			
Difference in interest payments as a result of direct replacement of MFA with domestic borrowing (EUR, millions)	6.3	6.3	106.6 (16 years)
Indirect effect:			
Increase in demanded interest rate on new issuances in the absence of MFA first tranche (basis points)	17.8	1.0	
Difference in interest payments on new issuances in the absence of MFA first tranche (EUR, millions)	13.0	13.6	87.0 (6.4 years)
Total effect:			
Combined difference in the cost of borrowing enabled by the first MFA tranche (EUR, millions)	19.2	19.9	193.6 (16 years)

Notes: Estimates amounts do not account for the compounding effect of interest.
Sources: CE analysis based on the Jordan's MoF and IMF data.

A11.11 Alternative 3: no MFA, no IMF funding scenario

Under the no MFA, no IMF scenario Jordan would not have received the rescue packages provided by the EU or the IMF. The total amount of funding provided by these two rescue packages over 2016-19 amounted to approximately EUR 477 million[161].

However, in contrast to the no-MFA scenarios (Alternatives 1 and 2 above), it is assessed that the lack of support from the IMF and the EU could have had additional effects:

- The support from the IMF and the EU served as a signal, boosting investor confidence in Jordan's ability to fulfil its obligations to creditors. The consultations undertaken as part of this study reveal that, according to experts, the absence of support from the IMF and the EU would have very likely led to further credit downgrades. It is assessed that the most likely outcome of these downgrades would have been a loss of access to international capital markets.
- The joint support from the IMF and the EU was provided under conditions that required the government of Jordan to undertake public finance reforms. These conditionalities included requirements such as developing a medium-term debt-management strategy and a reform of income tax law. Many of these goals were stipulated as MFA conditionalities, or as plans in the financial reform program under which the EFF operation was approved by the IMF[162]. The joint pressure of these conditionalities had likely resulted in much greater progress towards fiscal consolidation. Therefore, it is likely that, in the absence of IMF and EU support, public finance reforms would have either not gone as far or been slower to occur. Either way, public sector deficits would likely have been higher over the period of MFA operation. Such an outcome would likely have raised further questions about Jordan's future ability to cover its debt obligations, leading to a further drop in confidence from the investors. As above, this may have ultimately led to a loss of access to international capital markets and withdrawal of international donors.

These considerations form the key assumptions of the counterfactual in which neither the EU or the IMF provided financial support to Jordan. Under these assumptions, informed by expert views and analysis of data on public finances, Jordan's debt sustainability would have come under extreme pressure. In this hypothetical case, default was one possible outcome.

The financing gap that would have opened consists of the EUR 477 million (equivalent) committed by the IMF and EU over 2016-19 but also any financing that would not have been raised internationally had Jordan lost access to external capital markets. According to Jordan's Ministry of Finance, the combined value of external borrowing disbursements between 2017 and 2019 totalled over JOD 4.5 billion (over EUR 5.5 billion).

As discussed in sections A1.9 and A1.10 on the Alternative 1 and Alternative 2 scenarios, the maximum headroom for adjustment through domestic borrowing over the period of interest was on the order of EUR 3.8 billion to EUR 4.2 billion. Combined with the maximum headroom for adjustment to government revenues as a result of tighter enforcement of profit and income tax laws[163], the maximum feasible financing gap that could have been

[161] This amounts includes the first disbursement of IMF EFF funds in September 2016.

[162] IMF 2016. "Request for an Extended Arrangement Under the Extended Fund Facility—Press Release; Staff Report; And Statement by the Executive Director for Jordan". Available at: https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Jordan-Request-for-an-Extended-Arrangement-Under-the-Extended-Fund-Facility-Press-Release-44267

[163] Estimated using the methodology presented in section A11.9 at EUR 143 million in 2017, EUR 151 million in 2018 and EUR 140 million in 2019. Combined total over 2017-2019: EUR 433 million.

covered over 2017-19 is estimated at close to EUR 4.5 billion. This is well below the estimated size of the financing gap that would have opened between 2017 and 2019.

Given these conditions in the counterfactual, it should be noted that, had the government tried to cover the financing gap by relying on domestic markets to buy new debt, the gross financing needs (as a share of the GDP) would have continued to increase each year, requiring even more financing over time. This is due to significantly higher domestic borrowing costs and a spike in inflation and abandonment of the currency peg, which could dampen GDP growth prospects as a result of potential turmoil and undermined investor confidence leading to a loss of FDI

In the hypothetical case of no IMF and no MFA support, it is not possible to precisely determine the profile of the deterioration of Jordan’s economic outlook and debt sustainability. Moreover, there may have been at least some willingness on the part of lenders to restructure the debt or step in with additional help. However, according to the expert survey responses, if a default were to occur in the absence of IMF and the EU support it was assessed to be more likely in 2017 than in 2019.

Further evaluation of the impacts of the scenario where no IMF and no MFA support leads to Jordan’s debts becoming unsustainable on Jordan’s economy would be purely speculative due to the level of uncertainty on the likely severity of the further economic, social and political problems. Therefore, this scenario has not been analysed using the DSA framework.

However, the evidence from the literature suggests significant costs due to, among others, a loss of reputation, exclusion from international trade, domestic impacts due to the shock in the financial system and the political cost to the authorities[164]. According to some estimates, output losses due to debt crises (and which are often associated with currency and/or banking crises) can exceed 5% per year for a sustained period: ten years, on average[165].

The precise outcomes associated with this hypothetical scenario are difficult to quantify, and would be shaped by the country-specific context of Jordan. However, consulted experts suggested that there may be insights into the no MFA and no IMF scenario which can be drawn from the situation observed recently in Lebanon. Lebanon did not receive support from the IMF or the EU in the period leading up to its crisis. Lebanon’s debt accumulation was higher than that of Jordan before 2017 but the underlying problems leading to that debt accumulation were similar: persistent high public deficits[166], political instability, and a pressure on domestic infrastructure and services linked to the influx of refugees escaping the conflict in Syria. The impact of Lebanon’s debt crisis, which started in the summer of 2019 and resulted in a default in March 2020, is difficult to assess due to the confounding effect of the COVID-19 pandemic and the explosion in the port of Beirut. However, the developments over that period included hyperinflation, a decline in GDP, a currency crisis and social unrest [167].

164 Borensztein and Panizza, 2009. "The Costs of Sovereign Default." IMF Staff Papers 56, no. 4 (2009): 683-741. Available at: http://www.jstor.org/stable/40377829.

165 De Paoli, Hoggarth and Saporta, 2009. “Output costs of sovereign crises: some empirical estimates”. Bank of England Working Paper No. 362. Available at: https://www.bankofengland.co.uk/working-paper/2009/output-costs-of-sovereign-crises-some-emperical-estimates

166 BNP Paribas, 2020. “Lebanon – an economy on the brink of collapse” Eco Emerging // 4th quarter 2020, Available at: https://economic-research.bnpparibas.com/Views/DisplayPublication.aspx?type=document&IdPdf=39409

167 Forbes, 2021. “Lebanon's Debt-Resolution Challenges Continue One Year On From The Default”. Available at: https://www.ft.com/content/811bc4c2-98ca-4e9a-a23e-3d3764d5e435

Annex 12 Social Impact Analysis

A12.1Introduction

The overarching aim of the Social Impact Analysis (SIA) is to use evidence from social indicators and primary data to assess the impact of Macro Financial Assistance (MFA) II on the social situation in Tunisia / Jordan. With regard to the timing of the support, the implementation period of the MFA is defined as 2017-19.

The analysis considers "direct impacts" transmitted through conditionalities in the Memorandum of Understanding (MoU) – through social safety nets, through tax reforms and through labour market policy. The analysis also considers "indirect impacts" of improved macroeconomic stability across a range of social indicators.

The overall approach of the SIA is, firstly, to describe how the social situation in Tunisia / Jordan evolved before, during and after MFA interventions. Once this baseline is outlined, the analysis then contrasts these outcomes with several counterfactual scenarios[168] to form an assessment of what the social situation would have been in the absence of some or all of the MFA (and IMF) support.

Direct effects are analysed in A12.2.1. The section seeks to understand – through data-driven analysis – the extent to which (as a result of policies linked to MoU conditionalities) social protection was bolstered, the tax system was made more progressive and labour market conditions were improved. Evidence from grey literature and stakeholder surveys is used in conjunction with available empirical data to form an assessment of progress made by the Tunisian / Jordanian authorities. Challenges associated with implementing the main actions are discussed and, to the extent that it is possible, evidence of tangible impacts are consulted.

Trends in variables relating to the macroeconomic situation (indirect effects) are also analysed in the report, in Section 3. The aim of this content is to assess developments in socio-economic variables, such as wage growth and unemployment, prior to, and (where possible) during/after the MFA period. The section also discusses developments in nominal variables which impact the affordability of goods and services and developments relating to poverty and living standards.

The counterfactual analysis is provided in Section 4, which aims to establish what the social situation in Tunisia / Jordan might have been in the absence of MFA first-tranche funding (Alternative 1), in the absence of MFA second-tranche (and third-tranche) funding (Alternative 2), and in the absence of both MFA and IMF funding (Alternative 3).

A12.2Tunisia

A12.2.1 Direct effects of MFA II

A12.2.1.1 Conditionalities relating to the social situation

Coupled with the financial support provided by MFA II, operations in Tunisia also include several key policy conditionalities. These conditionalities aimed to address three key social issues in Tunisia:

Social protection – The conditionalities have the overarching aim of guaranteeing the right to a minimum income, improving living conditions and access to basic services, and promoting economic inclusion.

[168] These are hypothetical scenarios formed using a combination of stakeholder engagement, local expertise, macroeconomic theory and Expert surveys.

Tax policy – The conditionalities have the overarching aim of enhancing tax collection while moving towards a simpler and more equitable tax system.

Unemployment – The conditionalities have the overarching aim of addressing high-unemployment in the region – especially long-term unemployment and youth unemployment.

Table 72. MFA II conditionalities relating to the social situation in Tunisia

	Conditionality	Tranche
Social protection	**Strategic Orientation Note** – The Centre de Recherches et d'Etudes Sociales (CRES) will submit to the Government a Strategic Orientation Note on the reform of the main social transfer programmes and will propose specific measures, including a scoring system, to improve the targeting of the programme beneficiaries.	Second tranche
	New legislative framework – The Government will submit to Parliament a new law that will replace the current legislative framework governing the social transfer programmes (Programme National d'Aide aux Familles Nécessiteuses (PNAFN) and Cartes de soins).	Second tranche
	Beneficiary survey – The Ministry of Social Affairs will complete the survey of the approximately 900.000 households currently benefitting from the main social transfer programmes.	Third tranche
	Action plan – The Government will adopt an Action Plan for the implementation of reforms aimed at improving the effectiveness and sustainability of the country's social protection system.	Third tranche
Tax reform	**Budget Law (2017)** – The 2017 Budget Law will reduce the number of goods and services subject to the intermediate VAT tax rate of 12% and the number of VAT exemptions.	Second tranche
	Budget Law (2018) – The 2018 Budget Law will reduce the number of VAT rates from three to two, through the elimination of the middle rate and will implement an additional substantial reduction of the number of exemptions to the VAT.	Third tranche
Unemployment (especially long-term unemployed)	**Active labour market policy** – With a view to enhancing active labour market policies and reducing unemployment, especially among the youth, the Government will make substantial progress in the implementation of the FORSATI programme managed by the Ministry of Employment.	Second tranche

	Long-term unemployment - The Government will launch a new active labour market policy programme ("Contrat Dignité") aimed at reinserting into the labour market job seekers who have been unemployed for over two years.	Second tranche

A12.2.1.2 Conditionality policy outcomes

Social protection

The first key domain on which the conditionalities were focussed was social protection. Based on the actions taken by Tunisian authorities, all conditionalities relating to social protection were assessed as being broadly or fully fulfilled.

Key policy outcomes associated with these conditionalities include:

Successful execution of the Strategic Orientation Note – This was published in May 2017 and provided several policy recommendations relating to social protection in Tunisia. Recommendations included: technical developments to monitoring systems; improved targeting of social protection, greater deployment of social workers; increases to PNAFN allowances and encouraging formal employment and economic activities.

Creation of new legislative framework – The government drafted new legislation relating to social protection, in line with CRES recommendations in the Orientation Note. Key changes include:

Increases in monthly PNAFN disbursements – Monthly PNAFN disbursements were increased in 2019 from TND 150 to TND 180 in line with the new legislative framework.

Additional provisions for disabled children – Additional social protection provisions were made for disabled children (TND 20 per month) in line with the new legislative framework.

Increases in the number of beneficiaries – The number of PNAFN recipients increased by 22,700 over 2016-20 (9.5% increase) and is expected to increase further (a 35,000 increase in PNAFN beneficiaries was decided upon release of the new legislative framework).

Successful rollout of beneficiary survey – By August 2019, 387,000 beneficiaries of the main social transfer programmes (PNAFN and Cartes de soins) were surveyed. Despite falling short of the 900,000 target, the survey will improve the evidence base regarding recipients of social transfers, the results of which could facilitate improved targeting and effectiveness of poverty reduction.

The only notable compliance deficit for social protection is the rollout of the beneficiary survey, which was limited by a lower-than-expected response rate of prospective survey respondents (the survey was voluntary).

Tax reform

The second key domain on which the conditionalities were focussed was tax reform. Based on the actions taken by Tunisian authorities, the second-tranche conditionality relating to tax reform was assessed as being fulfilled.

Key policy outcomes associated with these conditionalities included:

- a reduction in the number of goods and services subject to the intermediate VAT tax rate of 12% (second-tranche);
- a reduction in the number of exemptions to the VAT (second-tranche & third-tranche); and
- a reduction in the number of VAT rates from three to two (third-tranche).

The changes in VAT treatment as a result of Budget Law (2017) across categories of goods and services are presented in Table 73. Notable features include:

VAT changes affecting the fishing sector – examples include boats (0% to 6%) and fishing products (12% to 18%)

VAT changes affecting business to business purchases – examples include raw materials and semi-finished products used in manufacture of equipment used in energy sector (0% to 6%), sale of land to property developers (0 to 18%) and materials and equipment used in the craft industry (12% to 18%).

VAT changes affecting tourism and recreation – examples include cruise ship passage for tourists (0% to 6%), sales in tourist restaurants (12% to 18%) and Rides, swings, shooting ranges and other fairground attractions (12% to 18%).

VAT changes affecting education – examples include student accommodation (0% to 6%). However, this is counteracted by the decrease in VAT for the services of education establishments (12% to 6%).

Table 73. VAT changes from Budget Law (2017) by product

Cancellation of exemption 0% to 6%	Cancellation of exemption 0% to 18%	Revision from intermediate rate 12% to 6%	Revision from intermediate rate 12% to 18%
Boats intended for maritime navigation or fishing (including all equipment and all repair). Docking of cruise ships and passage for tourists through port areas. Sugar (excl. flavourings or colourings) as well as its packaging. Raw materials and semi-finished products used in the manufacture of equipment used in energy (incl. renewable) Student accommodation (incl. catering and education services).	Sale of land to property developers Self-delivery of intangible assets	Selected IT systems Selected agricultural or fishing services Coils and metal lids intended for packaging sardines School notebooks Plastic waste collection Selected catering services and cafes The services of primary, secondary, higher, technical and vocational education establishments	Rides, swings, shooting ranges and other fairground attractions Circuses, menageries and traveling theatres Mineral or chemical potassium fertilizers Materials and equipment used in the craft industry Fishery products Tourist restaurants (identified through the sale of alcoholic products) Computer training & IT services

Waste management and landfill.		Fixed internet services

Source: Paie Tunisie[169]

The changes in VAT treatment as a result of Budget Law (2018) across categories of goods and services are presented in Table 74. These revisions involve a 1 pp increase in the VAT rate across the vast majority of items. The key exception is products or services which are fully exempt (and experience no increase in VAT). These include banking interest, certain transport services, agriculture and certain food products[170].

Table 74. VAT changes from Budget Law (2018) by product

6% to 7%	12% to 13%	18% to 19%
The private sector Local transport Tourism and crafts Education and vocational training Health services and basic medical services Locally produced medicines Restaurants and coffee shops Environmental services	Services of liberal professions (lawyers, experts, consultants, accountants, architects ...) Petroleum products Low voltage electricity for domestic use, for irrigation equipment and for tourist cars.	All products previously taxed at 18%.

Source: Paie Tunisie[171]

Addressing unemployment

The third key domain on which the conditionalities were focussed was unemployment (especially long-term and youth unemployment). Based on the actions taken by Tunisian authorities, all conditionalities relating to labour market policy were assessed as being broadly or fully fulfilled.

Key social outcomes associated with these conditionalities include:

Personalised support to jobseekers (FORSATI) – over 2016-18 48,000 beneficiaries received support from the FORSATI programme (29,000 in 2017) – a programme which provides personalised support to jobseekers (typically focussed on youth unemployment). Support included training opportunities (e.g. soft-skills, languages and ICT) and an allowance[172] which can be used towards training activities and travel. 73.1% of beneficiaries were women, 56.5% were graduates and 46.1% received vocational training.

Improved capacity to support micro-enterprises (FORSATI) – Capacities relating to the national employment agency's "Espace entreprendre" have been expanded, seeking to improve monitoring, assistance and support for micro-enterprises. This also

[169] Paie Tunisie, 'The 2017 Tunisia Finance Law: Main Provisions' [Accessed online: here]

[170] Santander, 'Tunisia: Tax system' [Accessed online: here]

[171] Paie Tunisie, 'The 2018 Tunisia Finance Law: Main Provisions' [Accessed online: here]

[172] The allowance is capped at TND 150 within the first 6 months and TND 200 henceforth.

sought to address weaker-than-expected uptake of the entrepreneurial strand of FORSATI support.

Support for long-term unemployed ("Contrat Dignité") – Over 2017-19, approximately 50,000 contracts were offered to beneficiaries of the "Contrat Dignité" programme, seeking to address long-term (over two years) unemployment in Tunisia. The programme incentivises firms to hire long-term unemployed by covering two-thirds of the salary expenses and providing tax exemptions. 76.4% of these contracts were offered to women.

Engagement with private sector ("Contrat Dignité") – The private sector is a key partner co-financing the contracts subsidised under the "Contrat Dignité" programme.

Some notable issues emerged relating to these policy activities.

The FORSATI programme was halted after 2017, due to a lack of resources. The number of beneficiaries of FORSATI (48,000) was also below the original target (of 120,000) – principally due to the underestimation of the administrative burden of implementing the programme. Lastly, uptake of the entrepreneurship strand of the programme was initially weak. This was partially due to the preferences of beneficiaries (the desire for stability in the context of economic uncertainty). However, it was exacerbated by counsellors who were not sufficiently trained or informed.

There seems to have been more continuity in relation to the "Contrat Dignité". However, the number of contracts decreased considerably in 2020 (from 15,000 in 2019 to 7,000 in 2020). This was attributed to COVID and to the tightening of rules to prevent abuse of the policy.

A12.2.2 Assessing the impact channels

Social protection

Reflecting on the key outcomes linked to conditionalities, three key impact channels emerge as channels for direct impacts:

- changes to the capacity to administer and monitor social protection;
- increases in social security payments; and,
- improvements in targeting.

Evidence from the interviews with Tunisian national authorities indicate promising improvements to social security systems. Coverage of registrations to the social identifier system rose from 50-60% to 86%-98% over the course of the MFA operations (the range of coverage reflects the classification of beneficiaries – rights holders or rights openers). This enabled healthcare systems to be linked to social protection and various social security structures to be aligned (CNAM[173], CNSS[174], CNRPS[175]). The link between administrative / monitoring capacity and social impacts is difficult to quantify, both because of the indirect nature of the relationship and because of the complexity of the direction of causality. However, steps to develop and improve monitoring systems are often presented as precursors to effective targeting of social transfers and several 'success stories' exist attributing improved targeting to development of social registries

[173] Caisse nationale d'assurance maladie - National health insurance fund

[174] Caisse Nationale de Sécurité Sociale - National social security fund

[175] Caisse nationale de retraite et de prévoyance sociale - National Pension and Social Security Fund

(World Bank, 2015[176]; World Bank 2017a[177]; World Bank 2017b[178]; European Commission 2019[179]). In light of this, the administrative developments described above might lead to improvements in targeting and provision of social protection longer term.

The increases in the value of social protection payments has the potential to improve the social situation in Tunisia more immediately. The value of monthly disbursements was increased from TND 150 to TND 180 during the period of MFA operations. However, the increase in monthly disbursement (which grew by 20%) were outpaced by the increase in consumer prices (which grew by 25%). This means that, in real terms, monthly disbursements were 4% lower in 2019 (compared with 2015). The number of PNAFN recipients also increased notably, from 222,000 in 2016 (2.0% of population; 7.7% of households) to 262,000 (2.2% of population; 8.6% of households).

Evidence on the targeting of social protection is challenging to assess given the lack of available data (information on PNAFN recipients by income group is not available). However, it is possible to exploit regional detail to provide insights into targeting.

Specifically, by applying poverty rate data[180] and population by Tunisian Governorate[181] it is possible to estimate the initial levels of poverty in each region. When this is plotted against changes in the numbers of PNAFN recipients[182], this can provide an indication of improvements to (inter-regional) PNAFN targeting (as shown in Figure 60).

[176] World Bank (2015), ‘The State of Social Safety Nets’ [Accessed online: here]

[177] Clert (2017), ‘Three ways Tunisia can strengthen economic and social inclusion’, World Bank Blogs [Accessed online: here]

[178] Leite et al (2017), ‘Social Registries for Social Assistance and Beyond: A Guidance Note & Assessment Tool’, World Bank Discussion Paper No.1704 [Accessed online: here]

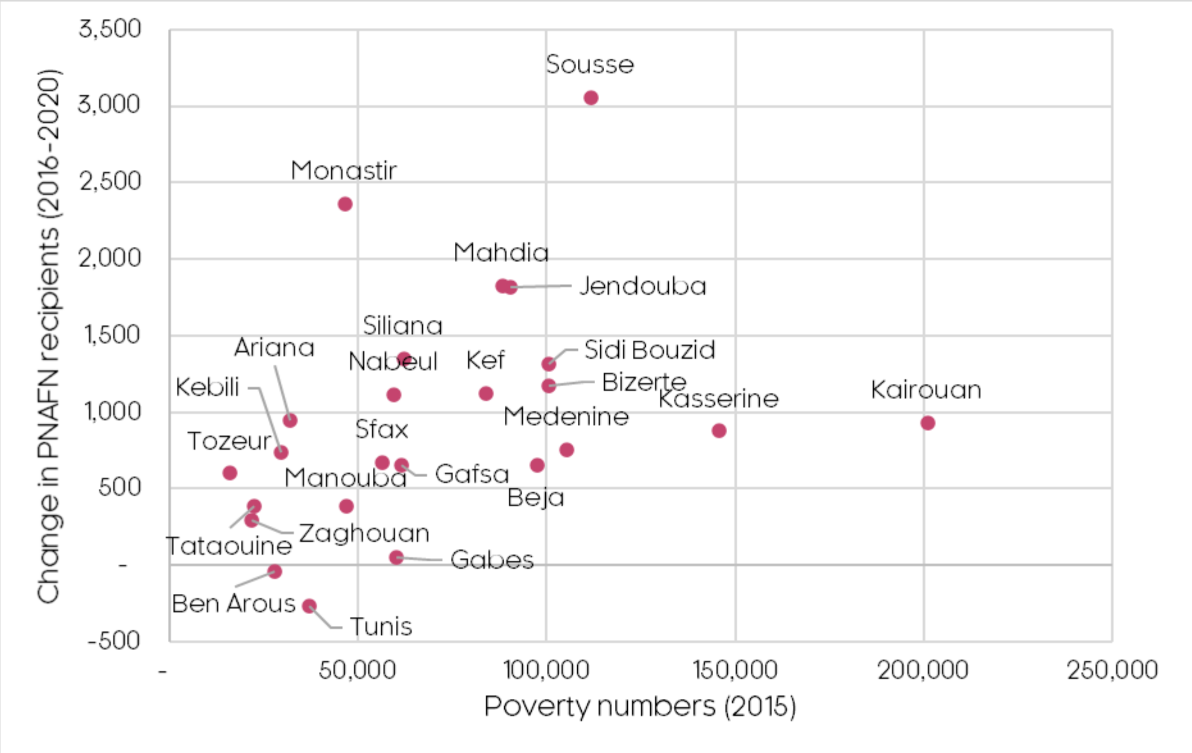
[179] European Commission (2021), ‘Ex-post evaluation of the first Macro-Financial Assistance operation in Tunisia over the period 2014 – 2017’ [Accessed online: here]

[180] INS & World Bank, ‘Carte de la pauvreté en Tunisie, Septembre 2020’ [Accessed online: here]

[181] Tunisian National Institute of Statistics (INS) [Accessed online: here]

[182] PNAFN beneficiary data is available in 2-yearly intervals. 2016 and 2020 were selected as they represent the first available year before MFA operations and the first available year after MFA operations.

Figure 59. Change in the number of PNAFN recipients (over 2016-20) and initial poverty levels



Source: Cambridge Econometrics; Tunisian National Institute of Statistics (INS); Ministry of Social Affairs

Evidence is found which suggests improved targeting of PNAFN from this inter-regional analysis. The greater the levels of initial poverty the greater the increase in PNAFN recipients over 2016-20. Similar findings are found regarding the strength of relationship between the number of PNAFN recipients and initial poverty which is stronger in 2020 than in 2016[183] (indicating likely improved targeting).

However, while this provides information regarding inter-regional targeting of social protection, no information is available regarding intra-regional targeting. This finding therefore is a necessary condition for improved overall targeting (and suggestive of this) but is not sufficient proof.

The improvement in inter-regional targeting was also compromised as a result of the recruitment freeze in the Tunisian civil service. This meant that planned recruitment and redeployment of social workers between regions was not possible.

Lastly, the inter-regional analysis described above is principally driven by the targeting of new PNAFN recipients (which tend to be concentrated in regions with high levels of initial poverty). The policy adopted by Tunisian authorities meant that existing beneficiaries (which were found to be no longer eligible based on the new scoring model) continue to benefit from the social programmes. Therefore, among existing beneficiaries there are unlikely to be improvements to targeting.

Tax reform

To assess the progressivity (and equitability) of the tax reform, this analysis investigates the key product types affected and the share these products make in household budgets

[183] PNAFN levels (2016) = 0.0582 * Initial poverty + 5825.3 (R^2 = 0.3121); PNAFN levels (2020) = 0.0711 * Initial poverty + 5858.4 (R^2 = 0.3885).

(across different household groups). If VAT is increased most on items which poorer households consume less intensively (i.e. these items make up a low share of total expenditure), then this would suggest that the tax reform is progressive, since it is likely that the policy will affect higher-income households more. If the reverse is true, then this would suggest that the policy is regressive.

The findings of this analysis are shown below:

Food and (non-alcoholic) drink expenditure – VAT remained exempt throughout the MFA operations for many agriculture and food products. This is important (and positive with regards the social situation in Tunisia) because poorer households tend to spend a high share of their budget on food.

Seafood – While seafood was not always directly targeted, many of the VAT revisions increased the VAT burden on the fishing sector (e.g. boats and fishing products). This is likely to increase the cost of fishing, some of which could be passed onto consumers through higher prices. The results of the expenditure analysis, however, show that poorer households tend to spend a very small share of their budgets on seafood, mitigating the social impacts.

Housing – A considerable increase in the VAT rate for sale of land to property developers occurred as a result of conditionality-specified reform. This is unlikely to have major direct effects on poorer households. However, as described above for seafood, it is possible that the additional costs will be passed on through higher rents. This could be a concern because poorer households (especially households which spend less than TND 500 per month) tend to spend a large share of their budgets on housing. This issue is however complicated by nuances of housing markets. Housing markets can have very high rates of operating surplus and house prices and rental prices are influenced considerably by non-cost factors (such as speculation). It is therefore not necessarily the case that the majority of the VAT rate would be passed on through higher rental prices.

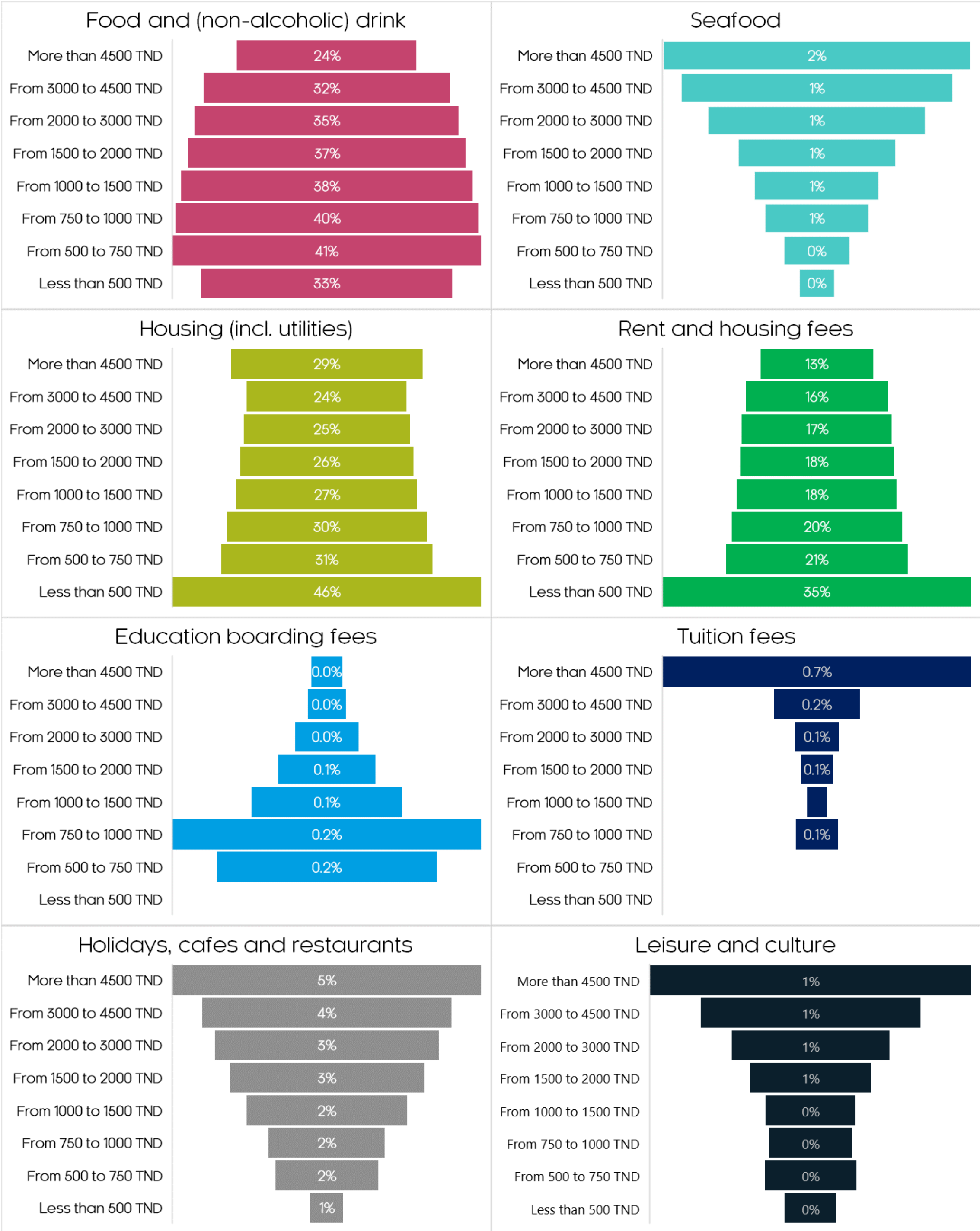
Education – VAT increased for student accommodation and decreased for services of education establishments. The expenditure analysis below suggests that these tax revisions have the potential to be regressive in nature. Poorer households tend to spend a higher share of their budget on student accommodation but a lower share of their budget on tuition fees. However, in both cases the shares of expenditure as a share of total budgets were low overall, meaning that this area of reform is less likely to have a large impact in magnitude.

Recreation – A number of VAT increases affect tourism and recreation – such as cruise ship passage for tourists, sales in tourist restaurants and Rides, swings, shooting ranges and other fairground attractions. A small share of the tax burden is likely to fall on poorer (Tunisian) households. This is firstly because many of the tax increases specifically target (foreign) tourists, for instance by identifying 'tourist' restaurants based on alcohol consumption. Secondly, poorer Tunisian households tend to spend a low share of their income on holiday, hospitality and leisure related activities, meaning that increases in the tax burden stemming from these sectors are likely to be low.

Implementation deficit – The Tunisian authorities did not fulfil the conditionalities of the third tranche, failing to eliminate the intermediate VAT rate. The reasons given were: (1) negative effects on budget revenue caused by the reduction of the VAT rate from 13% to 7% for low-voltage domestically consumed electricity; (2) negative effects linked to raise in prices of certain petroleum products (e.g., gas oil, fuel oil and gas) subsequent to the increase in the VAT rate from 13% to 19%; and (3) resistance from parliament (during election year) and alternative measures to better control taxation of the liberal professions. The social effects of this implementation deficit are mixed. As housing and utilities tend to make up a large share of poorer household budgets, the reduction in VAT rates for domestically consumed energy would have likely had a positive impact on the social situation (if they had been implemented). This might have been offset, however, by higher prices of petroleum products. Expenses linked to liberal professions tend to make up a very small share of poorer households' budgets, suggesting that impacts of VAT increases on the social situation would have been minor.

Overall, this analysis suggests that the social impacts of sales tax reform on poorer Tunisian citizens were relatively small and strong evidence was not found suggesting damage to the overall progressivity of the (sales) tax system. Of note, selected agricultural and food products which were initially exempt from VAT remained exempt after the introduction of budget laws. This was important because foodstuffs make up a large share of the budgets of poorer households. A key uncertainty surrounding this is the effect of increasing sales taxes on business purchases. Depending on the extent to which these costs are passed on to consumers, this could affect some key consumer items which make up a large share of poorer households budgets (such as housing or utilities).

Figure 60. Household spending as a share of total budget (by household type)



Source: Cambridge Econometrics; Tunisian National Institute of Statistics (INS)

Addressing unemployment

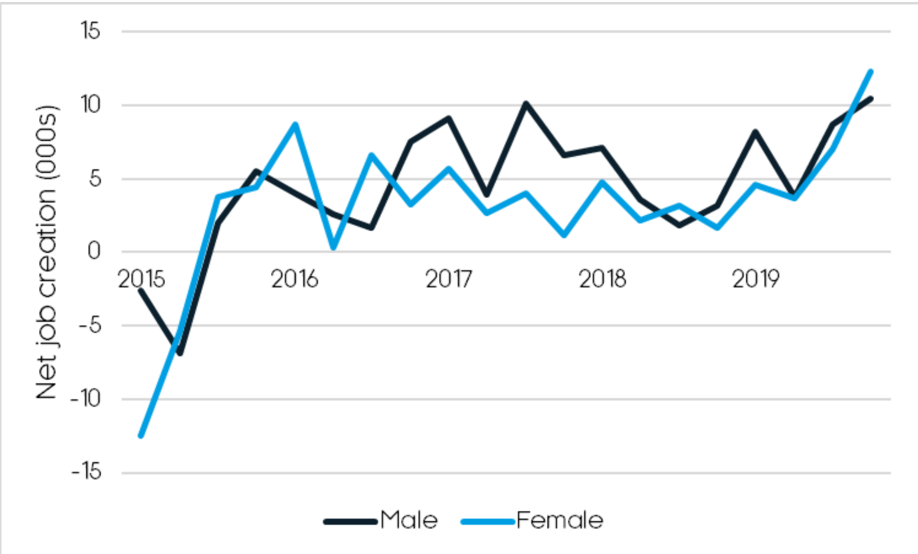
To assess potential impacts of conditionality-related labour market policies, job creation and unemployment are investigated.

Specifically, inferences might be drawn about impact by inspecting job creation by gender because a greater proportion of beneficiaries of the "Contrat Dignité" and FORSATI programmes were female. Therefore, evidence of improvements to gender imbalances in job creation and unemployment during/after the MFA operation period could indicate social benefits of conditionality-related labour market policies.

The investigation found no clear suggestion of such improvement (see Figure 62, Figure 63, and Figure 64) and female graduate unemployment in particular remains stubbornly high.

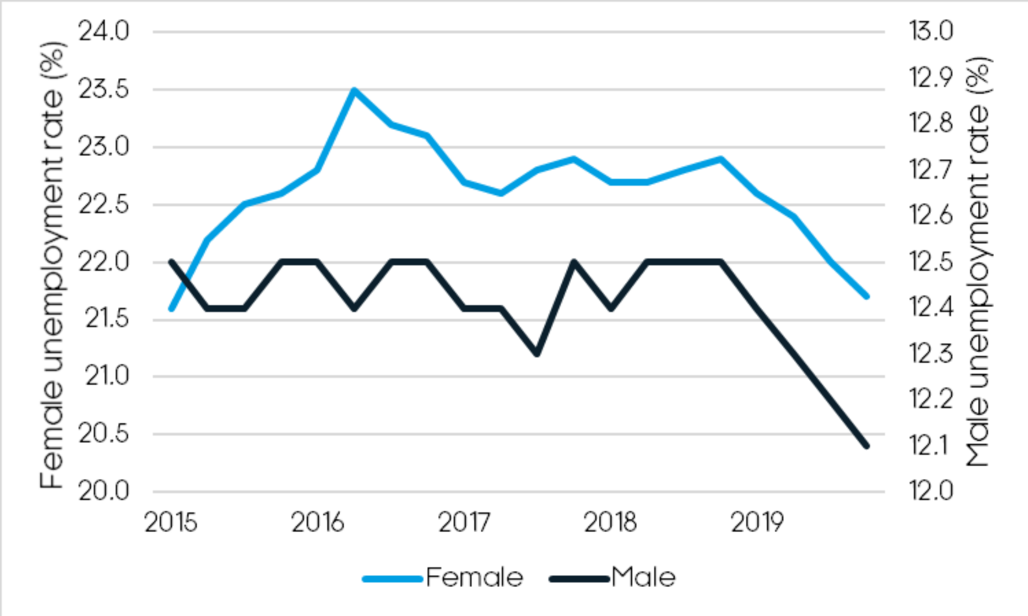
Nonetheless, the reason for this result stem from the scale of "Contrat Dignité" and FORSATI programmes. The combined number of beneficiaries of both these programmes was approximately 45,000 in 2017 while the number of unemployed in the first quarter of 2017 was 625,000. It is therefore possible that labour market benefits were generated from these programmes but that they can't be conclusively identified from Tunisian macroeconomic variables.

Figure 61. Net job creation by gender



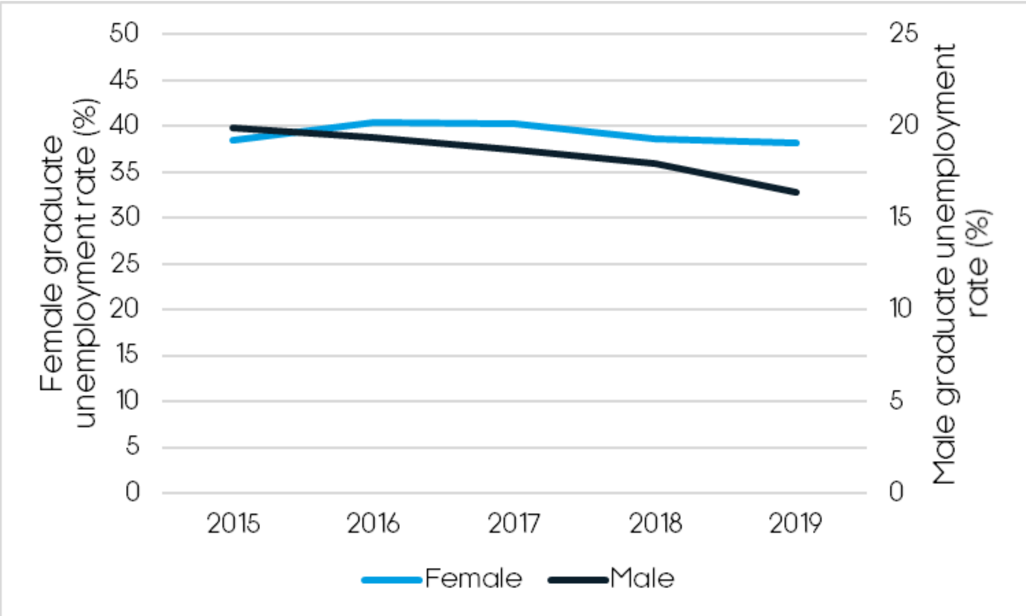
Source: Cambridge Econometrics; Tunisian National Institute of Statistics (INS)

Figure 62. Unemployment rate by gender



Source: Cambridge Econometrics; Tunisian National Institute of Statistics (INS)

Figure 63. Graduate unemployment rate by gender



Sources: Cambridge Econometrics; Tunisian National Institute of Statistics (INS)

Evidence of social impacts can also be identified from an impact assessment carried out by the national employment agency. This assessment related to long-term employment outcomes for beneficiaries of the "contrat dignite" programme. The assessment found that 35% of beneficiaries were still employed by the incentivised firm after 2 years. Outcomes for the remaining 65% were unclear – it wasn't possible to identify if these individuals had left employment or whether the company had simply not declared employment outcomes to the relevant authority.

Given the wider social context of long-term unemployment (such as mental and material stress for those affected[184]) and the policy challenges associated with reintroducing long-term unemployed into the labour market (such as potential skills mismatches), the outcome above is a promising result, even if cost effectiveness would need to be better understood. Results come at a cost for the public finances which is not insignificant. The minimum wage of "Contrat Dignité" contracts was TND 600 per month, of which two-thirds were funded by the state. This corresponds to a fiscal cost of TND 4,800 per annum per beneficiary. This cost can however be seen as a social transfer (from government to long-term unemployed) and many benefits need to be factored (in terms of human capital, other costs avoided) before making conclusions.

Beyond this, the notable weakness of these active labour market policies is that number of beneficiaries were not sustained beyond the MFA operations period. In particular, the FORSATI programme was discontinued, considerably undermining the longer term impacts of the policy. Of note, the efforts and resources required to train and recruit staff will not generate long term benefits since ANETI no longer has any similar operational programmes.

A12.2.3 Indirect effects of MFA II

Nominal variables

Prior to the MFA, inflation rates in Tunisia had been relatively high. Consumer prices rose by 9% over 2015-17. Consumer price inflation accelerated during the period of MFA operations, with prices increasing by 15% over 2017-19, potentially linked to sales tax increases in budget laws at this time. Prices of clothes and footwear grew especially rapidly throughout 2015-20. Exchange rates followed a trend of depreciation before and during MFA operations with the amount of TND necessary to purchase dollars increasing by 50% over 2015-19. This trend did not continue and in 2020 TND appreciated against the dollar.

Labour market performance

Labour market conditions were relatively stable before MFA operations (since 2015) and during MFA operations; unemployment remained at around 15%; and employment earnings (wages) grew by around 6-7% per annum. Of note, the increase in the pace of inflation in 2018 meant that in 2018 and 2019 real earnings growth was negative. Labour market conditions deteriorated after 2020, likely linked to the global pandemic.

Poverty and living standards

Poverty followed a declining trend over 2015-18 (decreasing from 1% to 0.8%). Indicators on deprivation, however, show a mixed picture with access to many key services (such as sanitation, drinking water and housing) deteriorating over 2015-18. The available data are insufficient to make an assessment of how these indicators evolved during the full period of MFA operations, or whether there is evidence of a reversal of trends.

[184] OECD, 'Long-term unemployment rate' [Accessed online: here]

Figure 64. Selection of key nominal, labour market and living standards indicators before during and after MFA operations

Sources: Cambridge Econometrics; Institute of National Statistics (Tunisia); UN Human Development Indicators; ILOSTAT, World Bank.

A12.2.4 Counterfactual analysis

This section considers three counterfactual scenarios and how the social situation in Tunisia might have differed in the absence of support of different levels.

Alternative 1: no MFA first-tranche scenario

Under the Alternative 1 scenario, Tunisia would not have received the first MFA tranche of EUR 200 million in October 2017. The assumptions underpinning the analysis of the scenario are based on insights obtained through an expert survey, interviews with stakeholders, desk research and insights shared by local economic experts.

This analysis suggests that the two most likely options that would have been used to cover the financing gap in the absence of this first tranche were (the analysis to support the split between these sources of financing is based on estimated financial headroom and is located in the Debt Sustainability Annex):

- Cuts to public investment EUR 100.7m;
- Issuance of new debt on domestic markets, EUR 99.3m.

It should be noted that these assumptions form the central case underpinned by the headroom analysis of the possible cuts to public investment and increased domestic issuances. However, experts assessed that increased support from international donors and increased international debt issuances could also have been feasible in 2017. Depending on the amounts that might have been possible to source, these two options could have proportionally decreased the need for cuts to public investment or additional domestic debt issuances. As discussed earlier, access to these sources of finance in 2017 might not have been available within the required timeframe to cover the financing gap, and the amounts possible to raise in 2017 cannot be assessed. Therefore, analysis presented further focuses on the central case, where the financing gap is covered only by a mix of cuts to public investment and additional domestic borrowing.

Cuts to public investment would exacerbate demand deficiency in the Tunisian economy, generating some (minor) GDP impacts (peaking at 0.44% reduction in GDP in 2021 relative to the baseline). This could affect incomes (and/or unemployment) generating some minor social impacts. The longer term impacts of cuts to public spending are not possible to define with confidence. Cuts to public investment would result in the cancellation of some public projects, foregoing any future returns. However, because the MFA support is in the form of budgetary support, it is not possible to identify precisely which public projects would be cancelled under Alternative 1.

The issuance of new debt would create some additional inflationary pressure (0.28ppt higher in 2017). This would affect the social situation in Tunisia because it would increase the cost of living. Of note, additional inflation would decrease the value of social protection (in real terms).

Conditionalities were solely imposed on the second and third tranche MFA disbursements and, for simplicity, their impacts will be considered in the following scenario. However, some of the benefits associated with these conditionalities should also be attributed to the first-tranche MFA. This is because the first tranche meant that Tunisia entered into the wider arrangement, and without which none of the conditionalities would have been in place.

Alternative 2: no MFA second-tranche (and third-tranche) scenario

Under the Alternative 2 scenario, Tunisia would not have received the second and third MFA tranches totalling EUR 300 million. For Alternative 2, the two most likely alternative financing options were identified to be (the analysis to support the split between these sources of financing is based on estimated financial headroom and is located in the Debt Sustainability Annex):

- Cuts to public investment EUR 250.1m;
- Issuance of new debt on domestic markets, EUR 49.9m.

It should be noted that these assumptions form the central case underpinned by the headroom analysis of the possible cuts to public investment and increased domestic issuances. However, experts assessed that increased support from international donors and increased international debt issuances could also have been feasible in 2019. Depending on the amounts that might have been possible to source, these two options could have proportionally decreased the need for cuts to public investment or additional domestic debt issuances. As discussed earlier, access to these sources of finance in 2019 might not have been available within the required timeframe to cover the financing gap, and the amounts possible to raise in 2019 cannot be assessed. Therefore, analysis presented further focuses on the central case, where the financing gap is covered only by a mix of cuts to public investment and additional domestic borrowing.

Similar to Alternative 1, these financing options would create inflationary pressure and dampen GDP, thus affecting livelihoods and the cost of living. As a greater share of the alternative financing is derived from cuts to public investment, the GDP impacts are more pronounced (peaking at a 0.99% reduction in 2022 relative to the baseline). The same caveats explained in Alternative 1 regarding the long-term effects of public project cancellation apply to Alternative 2.

The second and third MFA tranches were also conditional on a number of areas of policy reform, which themselves are likely to have generated social impacts, as discussed in Section 2. Conclusions below:

Social safety net – Policies specified in the MFA conditionalities regarding the social safety net succeeded in improving the administrative capacity of social security systems (principally through a unified social identifier). They also increased the coverage and monthly disbursements of PNAFN social security payments. Had these policy outcomes been absent, this would have resulted in negative social impacts, both in the short term (with PNAFN payments decreasing in real terms due to inflation) and in the longer term (through systemic weaknesses in the capacity to target and monitor social security payments).

Sales tax reform – With some exceptions (e.g. VAT increases on student accommodation) conditionality-specified policies relating to sales tax reform were found to have only modest social impacts. The absence of tax reform is therefore not likely to have had a considerable impact on the social situation in Tunisia.

Labour market policy – Though not clearly discernible at the macroeconomic level, conditionality-related active labour market policies are likely to have played a notable role in addressing labour market issues in Tunisia. Specifically, FORSATI helped to address youth unemployment through training, work placements and support. Contrat Dignité helped address long-term unemployment bringing around 50,000 individuals out of long-term unemployment over 2017-19[185] (at least 35% of which remained in employment after two years). The absence of these policies would therefore have had a notable impact on the social situation in Tunisia and a very real impact for those who benefitted from the policies.

Crucially, while inferences can be made about the likely social impacts of the policies described above, the extent to which policy action depended on EU intervention (i.e. under this alternative, no second tranche and third scenario) is difficult to determine.

[185] Estimated based on the number of Contrat Dignité contracts described by the national employment agency .

Responses from the expert survey seem to suggest that the MFA operations did play a role in nudging social protection reforms. Two-thirds of experts responded that, without the nudge provided by MFA conditionalities, policies relating to targeting of social assistance programmes would either have not occurred or occurred at a slower pace. In contrast, two-thirds of respondents expressed the view that VAT reform would have been unchanged without the nudge from MFA. Only two responses were made regarding active labour market policy – insufficient to make any claim about the link between MFA and policy outcomes.

Alternative 3: no MFA, no IMF scenario

Under the no MFA, no IMF scenario Tunisia would not have received the rescue packages provided by the EU and the IMF. Moreover, the absence of IMF support would likely have meant that Tunisia would have lost access to international financial markets[186]. In total, the financing gap is estimated to have been EUR 571m in 2016 (first tranche of the IMF EFF), EUR 2,056.2m in 2017, EUR 955.4m in 2018 and EUR 1,194.8m in 2019.

The fundamental assessment made by this report (based on insights obtained through an expert survey, interviews with stakeholders, desk research and insights shared by local economic experts) is that Tunisia would have continued to meet its debt obligations under this scenario. Rather, it would have pursued extreme alternative finance options, increasing domestic borrowing substantially and making considerable cuts to public investment.

It should be noted that these assumptions form the central case underpinned by the headroom analysis of the possible cuts to public investment and increased domestic issuances. Nevertheless, surveyed experts assessed that increased support from international donors could also have been feasible between 2017 and 2019. Depending on the amounts that might have been possible to source, these two options could have proportionally decreased the need for cuts to public investment or additional domestic debt issuances. As discussed earlier, access to these sources of finance in 2019 might not have been available within the required timeframe to cover the financing gap, and the amounts possible to raise in 2019 cannot be assessed. Therefore, analysis presented further focuses on the central case, where the financing gap is covered only by a mix of cuts to public investment and additional domestic borrowing.

The following conclusions are made regarding this scenario:

Deep macroeconomic deterioration – The pursuit of the two specified alternative sources of finance would have dampened GDP (demand-deficiency due to government cuts to public investment) and increased the cost of living (inflationary pressure due to domestic borrowing) in Tunisia. The magnitude of both these shocks are assessed as being very large (13% lower GDP under Alternative 3 in 2022[187]; +2.88 percentage point inflation in 2017[188]). Consequently, these shocks are likely to have exacerbated labour market issues such as long-term and youth unemployment, dampened job creation and caused permanent damage to incomes. Coupled with accelerating inflation, this would have likely had severe impacts on living conditions.

Likely long-term impacts of public investment cuts – The marginal impacts of public investment cuts are likely to become greater the more cuts are made. This is because, in the first instance, the projects which generate the least value or are least

[186] It is also possible that some bilateral loans and grants would have been affected, however these are not included in the estimated finance gap. This is because many bilateral loans or donations were linked to specific projects (such as infrastructure developments), making it unlikely that all bilateral support would have been cancelled.

[187] Selected year corresponds to the year where the impact was the worst (with the 2016-22 analysis period).

[188] Ibid.

socially sensitive are most likely to be cut. However, as greater cuts are needed to meet the financing gap, more valuable and socially sensitive projects will need to be cut. Under Alternative 3, the Tunisian authorities are expected to cut public investment by over EUR 3 billion (over 30 times that of Alternative 1). It is therefore concluded that the long term negative impacts of cancelled public investment projects under Alternative 3 would be severe.

Loss of policy support – The loss of IMF support would also have compounded issues surrounding policy reform in Tunisia as conditionalities targeted similar areas of social policies (e.g. social safety net). This would likely have meant much weaker progress in the policy areas covered under 'Direct effects'.

A12.3 Jordan

A12.3.1 Direct effects of MFA II

A12.3.1.1 Conditionalities relating to the social situation

Coupled with the financial support provided by MFA II, operations in Jordan also included six key policy conditionalities (presented in Table 75). These conditionalities relate to the following social issues in Jordan:

Social protection – The conditionalities have the overarching aim of guaranteeing the right to a minimum income, improving living conditions and providing better access to basic services.

Tax reform – The conditionalities aim to improve equity aspects of the tax system, to increase progressivity of income tax and to alleviate tax distortions to consumption. Conditionalities relating to tax, however, also had the objectives of increasing the tax base and increasing tax revenues.

Unemployment and opportunities for Syrian refugees – The conditionalities seek to address high unemployment and promote economic inclusion of Syrian refugees in Jordan – notably through issuing work permits, providing access to vocational training and improving access to job opportunities in Special Economic Zones (SEZs).

Table 75. MFA II conditionalities relating to the social situation in the Kingdom of Jordan

	Conditionality	Tranche
Social protection	**Targeting and registry** – The government will take steps to better target the social safety net. In particular, it will make substantial progress towards establishing an operational National Unified Registry (NUR).	Second tranche
	Household Expenditure and Income Survey – The Department of Statistics of Jordan will launch a new Household Expenditure and Income Survey and, as part of this exercise, will produce updated poverty indicators.	Second tranche
Tax reform	**Income tax reform –** The government will submit to Parliament a new income tax law broadening the tax base, increasing tax collection and improving the equity aspects of the tax. The law will significantly lower the exempted threshold under the personal income tax and will increase progressivity within the rate structure.	Second tranche
	Tax exemptions – The government will adopt a new framework entailing a gradual reduction of exemptions in the general sales tax and customs duties.	Second tranche
Unemployment and opportunities	**Employment opportunities for Syrians** – The government will take measures to facilitate the access of Syrian refugees to formal employment	Second tranche

for Syrian refugees	opportunities in the 18 Special Economic Zones (SEZs).	
	Vocational Training - The government will extend access of Syrian refugees to existing vocational training programmes. In addition, the Department of Statistics of Jordan will launch a survey of the educational qualifications, professional profiles and technical skills of the Syrian refugees living in Jordan.	Second tranche

A12.3.1.2 Conditionality policy outcomes

Social protection

The first key domain on which the conditionalities were focussed was social security. Based on the actions taken by Jordanian authorities, all conditionalities relating to social protection were assessed as being broadly or fully fulfilled.

Key policy outcomes associated with these conditionalities included:

Completion of the first phase of NUR – The first phase of NUR development was announced as being complete in January 2020. This includes system design, procurement and system configuration (completed in mid-2019) and a testing phase.

Implementation of the Household Expenditure and Income Survey – The survey started in August 2017 and the first results were published in November 2018. (These results are publicly available.)

The only notable compliance deficit for social protection is that it has not yet been reported whether the NUR is fully operational (only that the first phase is complete).

Tax reform

The second key domain on which the conditionalities were focussed was tax reform. Based on the actions taken by Jordanian authorities[189], all conditionalities relating to tax reform were assessed as being fulfilled.

Key policy outcomes associated with these conditionalities included:

Lowering of the threshold for taxable income - The tax exemption threshold for personal income taxation (PIT) was lowered from JOD 12,000 in 2018 to 9,000 in 2020.

Reform of tax brackets – The original three bands of income tax were replaced by six bands (see Figure 66).

Corporate tax – The standard statutory corporation tax rates for manufacturing and commercial sectors were harmonised at 20% and an additional surtax on corporate profits was implemented (ranging from 1-7% depending on the economic sector[190]).

Special tax rates – The general sales tax was increased to 10% for many commodities that were previously taxed at special (lower) rates: 0-4%. These commodities include selected agricultural products, fruit, meat and vegetables.

[189] The MFA condition was not specific as to which exact action had to be undertaken. Removal of food subsidies on bread was for instance not specifically required.

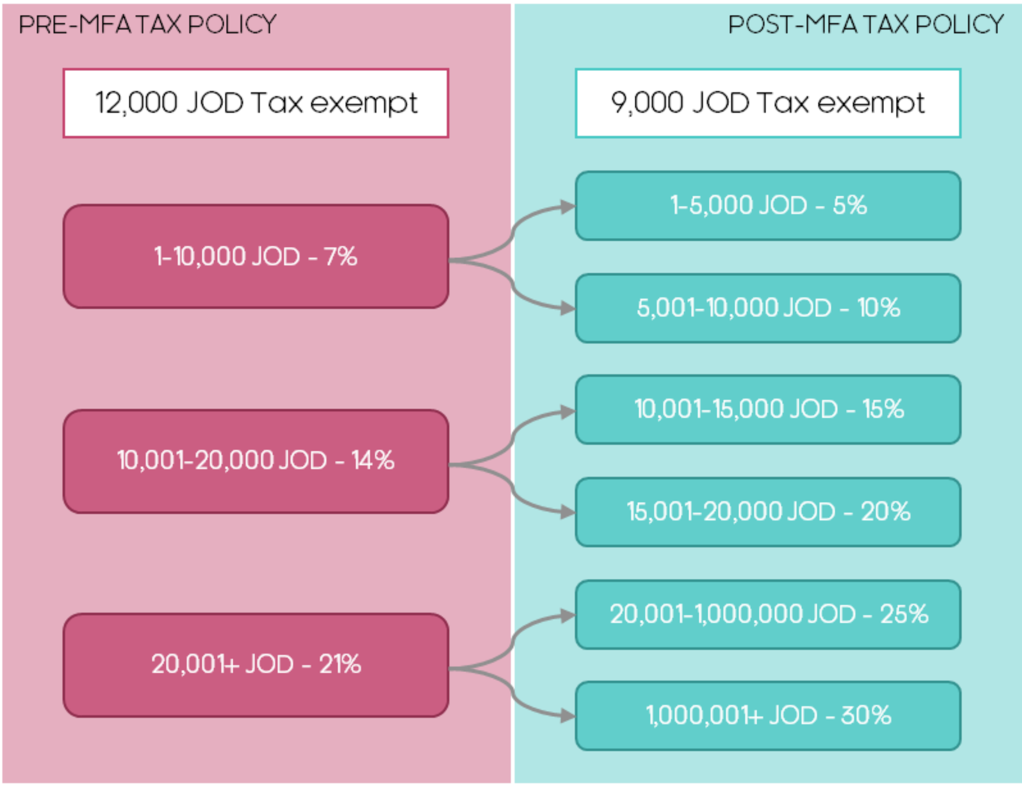
[190] Deloitte (2020), "International tax: Jordan Highlights 2020" [Accessed online: here]

Special taxes – Additional special taxes were imposed on carbonated drinks, cigarettes and high-octane fuel.

Imported cars - A levy of JOD 500 – JOD 1,500 was introduced on imported cars

Food subsidy removal – Food subsidies on bread were lifted[191].

Figure 65. Pre-MFA and Post-MFA income tax thresholds and rates



Notes: The tax bands represented in the figure are the income tax rates which correspond to non-exempt taxable income. Incomes correspond to incomes per year. Tax rates described above are marginal tax rates.
Sources: Cambridge Econometrics; FES (2018)[192].

Unemployment and opportunities for Syrian refugees

The third key domain on which the conditionalities were focussed was the promotion of economic inclusion by providing Syrian refugees with access to employment and vocational training opportunities.

Key social outcomes associated with these conditionalities included:

[191] SWD Background analysis per beneficiary country accompanying the document report from the Commission to the European Parliament and the Council on the Implementation of Macro-Financial Assistance to Third Countries in 2018

[192] FES (2018) Protest as the Last Straw – A Report on Jordan's Tax Reform in 2018

Work permits issued to Syrian refugees – 45,649 and 46,717 work permits were issued to Syrian refugees in 2017 and 2018, respectively[193] (for scale, there were around 660,000 registered Syrian refugees in Jordan[194] in 2017 and a similar number in 2018).

Vocational training was provided to Syrian refugees – 800 and 900 beneficiaries of vocational training were Syrian refugees in 2017 and 2018, respectively[195].

A12.3.1.3 Assessing the impact channels

Social protection

None of the policy steps linked to the conditionalities of the MFA relate (directly) to the provision of social protection. Instead, the conditionalities concern the administration and (statistical) monitoring of existing provision. This being the case, any assessment of the MFA's social impact must be in terms of how these changes might improve the Jordanian authorities' ability to deliver social protection.

The link between administrative/monitoring capacity and social impacts is difficult to quantify, both because of the indirect nature of the relationship and because of the complexity of the direction of causality. However, steps to develop and improve monitoring systems are often presented as precursors to effective targeting of social transfers and several 'success stories' exist attributing improved targeting to the development of social registries (World Bank 2015[196]; World Bank 2017b[197]; European Commission 2019[198]). In light of this, the rollout of new surveys is expected to contribute to strengthening institutional capacity in Jordan.

Tax reform

Various factors influence the effects of tax reform on the overall progressivity of the tax system. Such factors include:

- the relative progressivity of different types of tax (most importantly, income tax and sales tax);
- income tax minimum income thresholds;
- the structure of income tax bands across income groups;
- the income distribution of Jordanians;
- the structure of sales taxes across product categories; and
- expenditure patterns of Jordanians across income groups.

With regard to income tax, the overall policy impacts on progressivity are mixed.

The introduction of the six-tiered tax band system improves the progressivity of the tax system. All other things equal, this reform has the effect of decreasing the tax burden on lower income groups (specifically non-exempt household earnings up to JOD 5,000), and

[193] European Commission (2019), 'Statement on the Implementation of the Conditions (Structural Benchmarks) of the Second Macro-Financial Assistance to Jordan (MFA-II) as per the Memorandum of Understanding signed between Jordan and the EU on 19 September 2017'

[194] UNHCR, 'Operational Data Portal: Refugee Situations' [Accessed online: here]

[195] European Commission (2019), 'Statement on the Implementation of the Conditions (Structural Benchmarks) of the Second Macro-Financial Assistance to Jordan (MFA-II) as per the Memorandum of Understanding signed between Jordan and the EU on 19 September 2017'

[196] World Bank (2015), 'The State of Social Safety Nets' [Accessed online: here]

[197] Leite et al (2017), 'Social Registries for Social Assistance and Beyond: A Guidance Note & Assessment Tool', World Bank Discussion Paper No.1704 [Accessed online: here]

[198] European Commission (2021), 'Ex-post evaluation of the first Macro-Financial Assistance operation in Tunisia over the period 2014 – 2017' [Accessed online: here]

increasing marginal tax rates on higher income groups (the largest tax rate increases fall on the JOD 15,001-20,000 and JOD 1,000,001+ non-exempt earnings bands).

However, the reduction in the income tax threshold (the threshold above which households start paying tax) from JOD 12,000 to JOD 9,000 has the potential to make the tax system more regressive (all other things equal). This reform increases the tax burden for all (non-exempt) households, but has low proportional impacts on the tax burden for households with very high incomes (e.g. JOD 100,000+) while it increases the tax burden for low income households which were initially exempt. An important characteristic of income threshold reform is that the proportional impacts are lumpy across income groups and tend to have large impacts on earners who were close to the initial tax thresholds (e.g. households earning approximately JOD 12,000).

The combined effects of these two reforms on tax as a share of income (i.e. the average tax rate) are shown in Figure 67. Tax as a share of total income (including tax-exempt income) is a useful metric in understanding the progressivity of the reform. From this, the analysis found:

Both income tax systems (before and after reform) can be considered progressive overall – An income tax system can be considered progressive overall if the average tax rate rises with income[199]. The analysis finds that this condition is met, both before and after the tax reform.

The income tax share increases for (virtually) all income groups – With the exception of incomes of JOD 9,000 or less (which remain exempt under both tax policies) all income groups are expected to pay a greater share of their income in tax under the post-MFA tax system. This also means that, even for earners that experience a lower marginal tax rate (i.e. those that fall in the first tax band), the effects of lowering the tax threshold dominate the effects of lower starting rates of tax.

Increases in income tax shares are more pronounced in higher income groups – Higher income groups tend to experience the greatest increases in income tax as a share of their income. For example, individuals who earn JOD 14,000 pay an additional 0.8% of their income under the new tax system. This compares to an additional 3.6% for individuals who earn JOD 32,000.

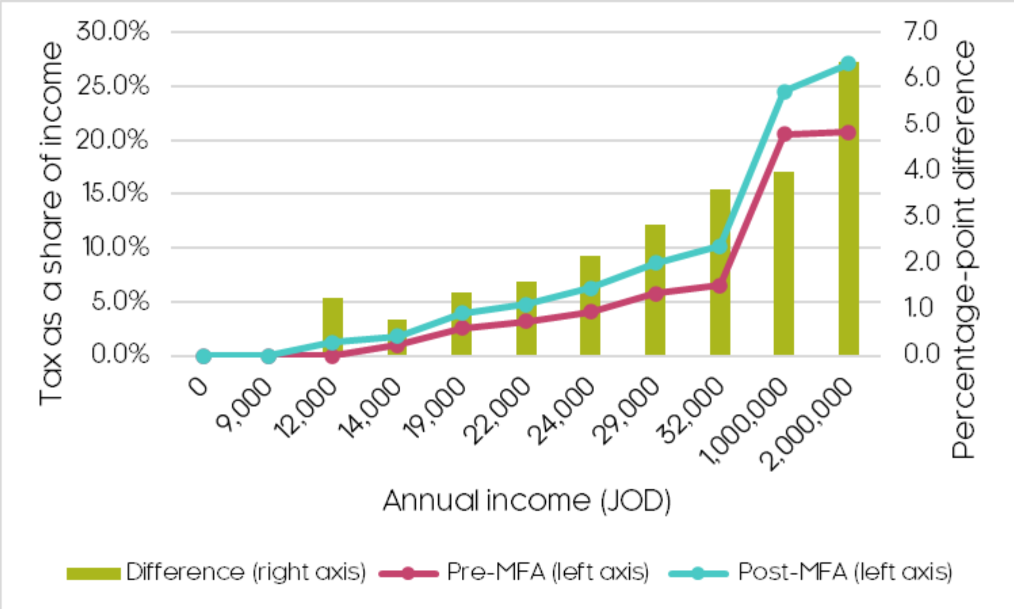
Individuals who earn around JOD 12,000 are an exception to this trend – The exception to the relationship described above are individuals who earn around JOD 12,000[200] (the previous threshold for income tax). Due to the change in tax threshold, those earning JOD 12,000 have a post-reform tax liability of 1.3% of their income (compared with zero before). This constitutes a larger percentage-point increase than for individuals earning JOD 14,000. This result is of note, because it is an instance in which households with lower incomes experience greater increases in the average tax rate.

Individuals who earn very high incomes (more than JOD 1,000,000) pay a considerably larger share of their income under the post-MFA tax system – Due to the combined effects of a 25% marginal tax rate on non-exempt earnings over JOD 20,000 and a 30% marginal rate on non-exempt earnings over JOD 1,000,000 (compared with a flat 21% rate under the previous tax system), individuals with very high incomes experience a much greater increase in average tax as a result of the reform. This is a positive development with regard to the progressivity of the tax system. This however does not consider the effects of tax avoidance and other types of exemption (beyond the minimum income threshold).

[199] IMF (2018), 'Income Tax Progressivity: Trends and Implications' [Accessed online: here]

[200] Specifically, households which earn JOD 10,700-13,999 experience a greater percentage point increase in average tax compared to households which earn JOD 14,000. Within the JOD 10,700-13,999 range, the increase in average taxes as a result of the reform peaks at JOD 12,000.

Figure 66. Tax as a share of income before and after MFA (and percentage point difference)



Notes: The figure shows the corresponding tax outcomes associated with minimum income thresholds and tax bands (previous and current). Beyond these features, tax exemptions and offset schemes are not addressed in the analysis due to insufficient detail in the available data. Similarly, tax enforcement and propensity of evasion across income groups is not addressed. The impacts of the solidarity tax (a 1 ppt increase in tax on incomes over JOD 200,000) are not addressed in the analysis because this was scrapped from the original proposal by Parliament[201].
Sources: Cambridge Econometrics; FES (2018)[202].

The analysis thus far has shown the impacts of the tax reform on various income groups of the population. To understand the overall impact of the income tax changes, it is also important to consider the income distribution of Jordan. Information on the household income distribution, from the Household Income and Expenditure Survey (HIES, 2017/2018)[203] is shown in Table 76 and a graphical representation of that income distribution is shown in Figure 68.

An important caveat of the analysis of income distributions is that data are only available on the income distribution of *households* rather than *employees*. Households which have multiple earners would generally be taxed at lower average rate. For instance, a single-earner household with an aggregate income of 18,000 would pay an average tax rate (post-reform) of 3.6%. If the household had two or more earners (and earned identical amounts) the average tax rate would be 0%. The absence of information regarding the distribution of incomes within the household is a shortfall of the analysis. However, according to the Jordanian Department of Statistics, the total number of households in Jordan exceeds the total number of (formal) employees, and there are considerable gender imbalances in employment (18.8% of employees are female)[204]. This could suggest that single-earner households are not uncommon in Jordan.

Findings from the analysis of the income distribution include:

[201] FES (2018) Protest as the Last Straw – A Report on Jordan's Tax Reform in 2018

[202] FES (2018) Protest as the Last Straw – A Report on Jordan's Tax Reform in 2018

[203] http://dosweb.dos.gov.jo/economic/expenditures-income/

[204] Jordan Department of Statistics, Tables of Employment and Unemployment [Accessed online: here]

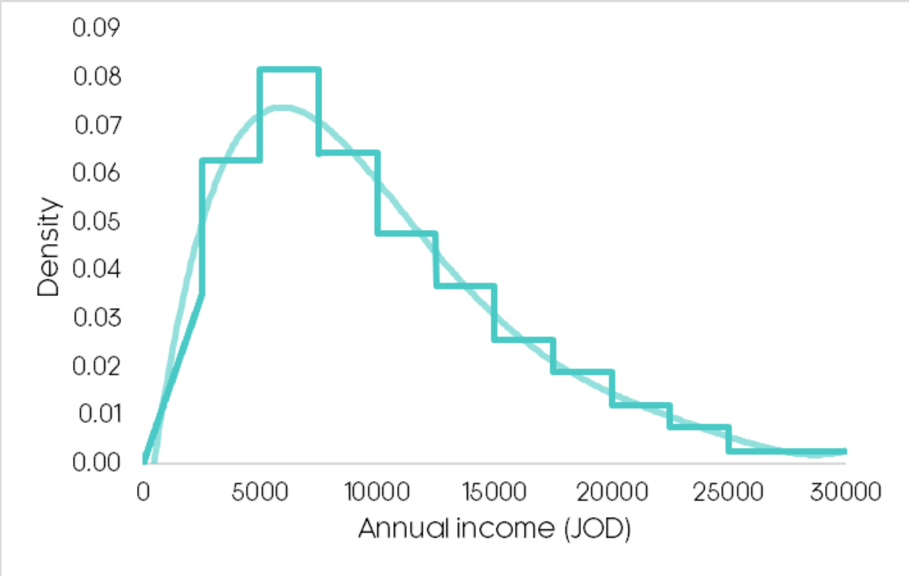
The 50% lowest earning households would be still expected to pay no income tax under the new tax system – The data suggest that median household income is approximately JOD 9,000 (if incomes across the 7,500-10,000 category are uniformly distributed the median would be JOD 8,970). This means that, even without supplementary tax allowances (e.g. for dependants), it is estimated that the 50% lowest earning individuals pay no income tax under the new tax system. This however still constitutes a substantial increase in the share of the population who pay tax compared to the previous tax system (approximately one in three based on HIES data).

There is insufficient data to make an assessment of the contribution of individuals with high incomes to tax revenue – According to HIES data, 6% of households in Jordan have incomes over JOD 25,000. However, there is no further breakdown of this income category. Because of this, and because incomes in this category could be in any of the top three tax bands, it is impossible to make detailed inferences about tax revenue streams from the top 6% of highest earning households in Jordan.

New tax revenue streams (among incomes less than JOD 25,000) are concentrated around the first tax bracket – The estimated income distribution suggests that a large share of households (24%) earn 9,000- JOD 14,000[205]. The income distribution therefore could potentially exacerbate the issue of increases in the tax burden for households with low incomes (especially households who used to earn approximately JOD 12,000– the previous tax threshold). The precise policy outcomes depend on additional tax exemptions/treatments (such as tax exemptions for dependants) and the distribution of income across earners within the household. However, of note is the tax burden on households which were approximately tax exempt under the previous tax system.

[205] This compares to 13% of households earning JOD 14,000-19,000 and 6% of households earning JOD 19,000- 24,000.

Figure 67. Income distribution of households in Jordan (Household Expenditure and Income Survey 2017/18)



Notes: The figure shows the distribution of household incomes in Jordan. The stepped line plots the data – the proportion of the population in JOD 10 intervals (assumed to be uniform between each HEIS income bracket) – with a polynomial curve fitted. Incomes from households which earn more than JOD 25,000 are extrapolated, because there is no detail on the breakdown of incomes within the > JOD 25,000 income group. Detailed inferences therefore cannot be supported but it can generally be inferred that a greater share of tax falling on this income group qualifies as a shift towards more progressive tax policy. The distribution of income corresponds to total household income from survey data, and therefore does not consider the distribution of income across individuals within each household or across different kinds of incomes (Jordan does not solely tax income from employment, but also income from other sources).

Sources: Cambridge Econometrics; Department of Statistics Jordan (2017-18 Household Income and Expenditure Survey).

Table 76. Household income distribution (Kingdom of Jordan, 2017/18)

Annual income bracket (JOD)	Number of households	Household share of total (%)	Cumulative household share of total (%)
<2,500	94,756	4.4	4.4
2,500-5,000	342,500	15.8	20.2
5,000-7,500	444,574	20.5	40.7
7,500-10,000	350,000	16.1	56.8
10,000-12,500	259,412	11.8	68.6
12,500-15,000	199,904	9.2	77.8
15,000-17,500	140,000	6.5	84.3
17,500-20,000	103,056	4.7	89.0

20,000-22,500	65,377	3.0	92.0
22,500-25,000	41,604	1.9	93.9
>25,000	132,300	6.0	100.0

Sources: Cambridge Econometrics; Department of Statistics Jordan (2017-18 Household Income and Expenditure Survey).

With regard to sales tax, there are considerable concerns over the regressive nature of the tax reform. To assess this, the issue was investigated by observing expenditure patterns across household expenditure groups[206] (see Figure 69). If sales taxes are increased on items which poorer households consume less intensively (i.e. these items make up a low share of total expenditure), then this would suggest that the tax is progressive, since it is likely that the policy will affect higher-income households more. If the reverse is true, then this would suggest that the policy is regressive.

The first (and most notable) concern is the increase in the sales tax on foodstuffs. Prior to MFA operations, special sales tax treatment meant that many agricultural products, fruit, meat and vegetables were taxed at 4% instead of at the level of the general sales tax (10%). We can see from Figure 69 that poorer households spend a considerably greater proportion of their income on food. Increases in sales tax on foodstuffs will therefore disproportionately affect poor households.

Analysis of spending by household group also suggests that the removal of subsidies on bread products is expected to affect poorer households the most. The magnitude of the change in prices is significant, with bread prices increasing 60-100% as a result of the subsidy removal[207].

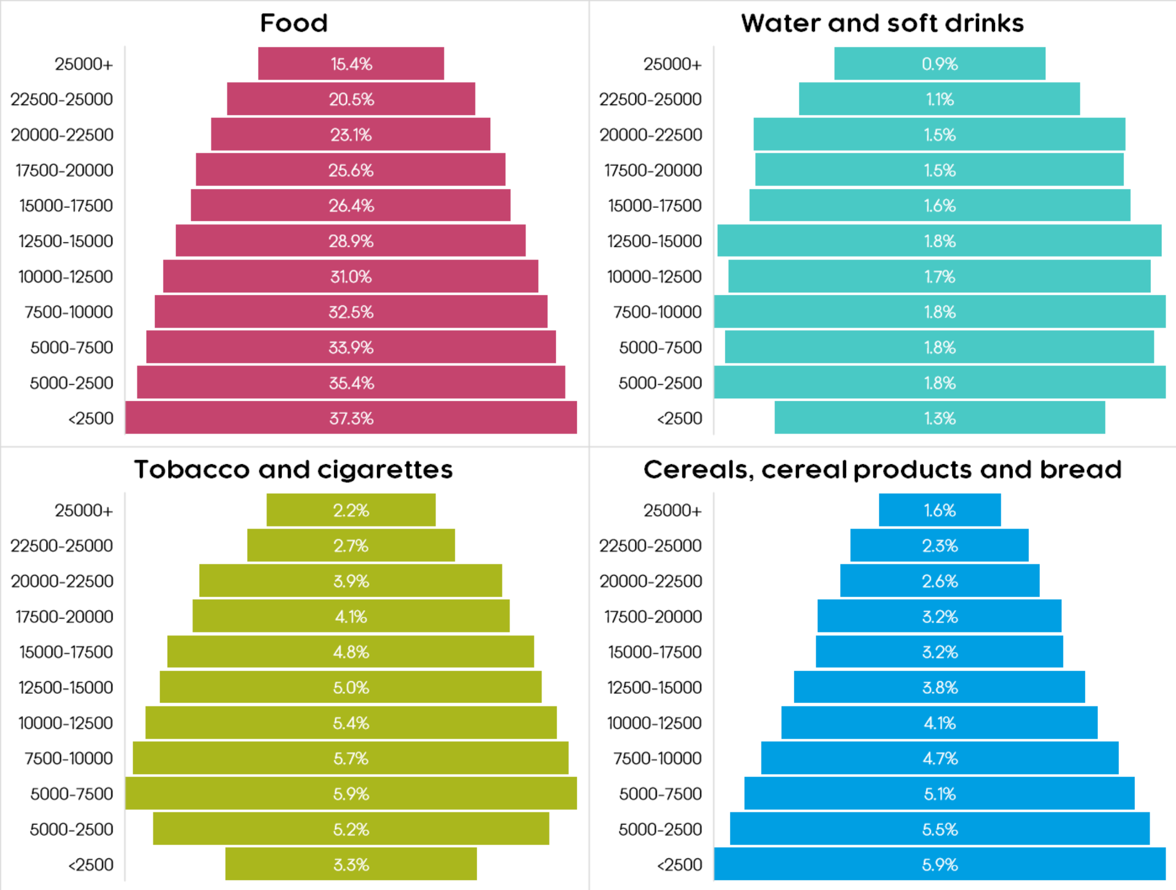
Finally, additional taxes on cigarettes and soft drinks, while less obviously regressive than those on food and bread, tend to affect the richest groups of households the least (i.e. the richest groups spend the smallest share of expenditure on these items).

It was not possible to make an assessment of the share of expenditure attributable to petrol due to the limited level of detail available in the statistics.

[206] Household groups are organised by bands of total expenditure rather than bans of household income. However, the same survey data show a strong relationship between average household expenditure and average household income. Therefore, it can be inferred that high-expenditure households are likely to be high-income households on average.

[207] REUTERS, 'Jordan ends bread subsidy, doubling some prices, to help state finances' [Accessed online: here]

Figure 68. Expenditure shares by household expenditure group



Sources: Cambridge Econometrics; Department of Statistics Jordan (2017-18 Household Income and Expenditure Survey).

Unemployment and opportunities for Syrian refugees

The conditionalities of the MFA reinforce and/or develop the wider support mechanisms specified in the Jordan Compact[208] [209] (a key international aid agreement in which Jordanian authorities agreed to support the economic inclusion of Syrian refugees).

Special economic zones

One key support mechanism is the existence of special economic zones in Jordan which are granted preferential access to EU markets (e.g. relaxed Rules of Origin) provided that a number of conditions are met, including employment of Syrian refugees[210]. The issuance of work permits to firms in special economic zones is specified as a compliance condition of MFA.

By encouraging the employment of Syrian refugees, the policy aims to tackle poverty issues (i.e. high poverty among Syrian refugees outside camps in Jordan[211]) and

[208] Betts (2017), 'The Jordan Compact – an extraordinary pilot from which there will be many lessons', University of Oxford Refugee Studies Centre [Accessed online: here]

[209] Barbelet et al (2018), The Jordan Compact Lessons learnt and implications for future refugee compacts, UNHCR Policy Briefing [Accessed online: here]

[210] European Commission (2018), 'Decision No. [1]/2018 of 04/12/2018' [Accessed online: here]

[211] European Commission (2021), 'European Civil Protection and Humanitarian Aid Operations: Jordan' [Accessed online: here]

promote the transition away from informal employment which would otherwise be associated with higher exposure to health risks and low coverage of social protection[212]. Zonal development models (such as special economic zones) are also intended to ease pressure on local labour markets by encouraging the operation of: (1) Syrian firms unable to operate in their country of origin[213]; (2) international firms that would employ both Syrian refugees and Jordanians.

Evidence of impact – albeit slight – can be discerned from MFA compliance statements. 309 Syrian employees (out of a total of 948 employees) were reported to work for 13 factories that received authorization to export under the relaxed Rules of Origin scheme. There is also evidence of relocation of Syrian firms to Jordan – notable examples include the Al-Fayha Plastics company[214] and SIGMA detergents[215] both of which relocated to the relatively more successful Sahab Special Economic Zone[216]. Lastly, there is evidence of demand derived from multi-national organisations (notable examples include IKEA and ASDA[217] [218]).

However, shortfalls of special economic zones limit the scale of social impacts. While success stories exist, challenging labour market conditions and concerns over international competitiveness limit the extent to which trade liberalisation can stimulate additional activity and materially boost jobs[219] [220] (this is also seen in the weak employment impacts discussed above). There are also practical concerns over the policy design of special economic zones, such as the costs and safety concerns with transportation given the fact that special economic zones tend to be outside major cities in Jordan[221].

Work permits

Economic inclusion is also promoted through the issuance of *total* work permits – which are predominantly issued outside of special economic zones. These are also specified as a compliance condition of MFA.

In total, 45,649 and 46,717 work permits were issued to Syrian refugees in 2017 and 2018, suggesting material steps towards the economic inclusion of Syrian refugees. Prior to April 2016 (when work permit fees were waived), approximately 50-150 work permits were issued a month (600-1,800, annualised)[222].

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[212] ILO, 'Informal economy: a hazardous activity', [Accessed online: here]

[213] Betts et al (2017), 'Help refugees help themselves: Let displaced Syrians join the labor market.' Foreign Aff. 94 (2015): 84. [Accessed online: here]

[214] Al-Fayha Plastics [Accessed online: here]

[215] Sigma detergent [Accessed online: here]

[216] Betts et al. (2017), 'Local Politics and the Syrian Refugee Crisis', University of Oxford Refugee Studies Centre [Accessed online: here]

[217] Financial Times (2017), 'A new deal for refugees' [Accessed online: here]

[218] Malik et al (2018), 'For-Profit Humanitarians. IKEA's Partnership with the Jordan River Foundation', Urban Institute Centre for International Development and Governance [Accessed online: here]

[219] International Rescue Committee (2017), 'In Search of Work. Creating Jobs for Syrian Refugees: A Case Study of the Jordan Compact' [Accessed online: here]

[220] Malik et al (2018), 'For-Profit Humanitarians. IKEA's Partnership with the Jordan River Foundation', Urban Institute Centre for International Development and Governance [Accessed online: here]

[221] International Rescue Committee (2017), 'In Search of Work. Creating Jobs for Syrian Refugees: A Case Study of the Jordan Compact' [Accessed online: here]

[222] ILO (2017) 'Work Permits and Employment of Syrian Refugees in Jordan: Towards Formalising the Work of Syrian Refugees' [Accessed online: here]

However, various issues are also present which limit social impact in practice. Firstly, the number of active work permits is lower than annual issuance (in May 2019 it was under 35,000). Secondly, as work permits correspond to each job rather than each individual (and individuals might work more than one job), the number of active permits is likely to overestimate the number of individuals supported[223].

There is also indicative evidence of skills mismatches, in part due to the skill-level of available jobs (mainly unskilled / semi-skilled) and also due to the sectoral pattern of available jobs (disproportionately in agriculture and construction). A commonly noted mismatch is access to jobs in education, medicine and business management – all are sectors in which access is limited for non-Jordanians.

Lastly, there are notable gender imbalances in the issuance of work permits (around 6% of active work permits correspond to female employees).

Address access issues to vocational training

Finally, MFA conditionalities promote economic inclusion of Syrian refugees through the condition that vocational training programmes are extended to Syrian refugees living in Jordan.

MFA compliance statements suggest that the number of Syrian refugees receiving vocational training was 800 in 2017, 900 in 2018 and 310 between January and May 2019. Vocational training can play a material role in addressing skills mismatches and employment access. It is, however, not possible to establish the link between vocational training and employment quantitatively with the available data.

A12.3.2 Indirect effects of MFA II

Nominal variables

Prior to the MFA, inflation in Jordan has been volatile. Consumer prices rose by 20% over 2010-end-2014, before entering a period of deflation in 2015-16. Consumer price inflation accelerated during the period of MFA operations, seemingly linked to the price of housing which grew strongly during this period. Due to fixed exchange rate policy, no change in exchange rates was seen before, during or after MFA operations.

Labour market performance

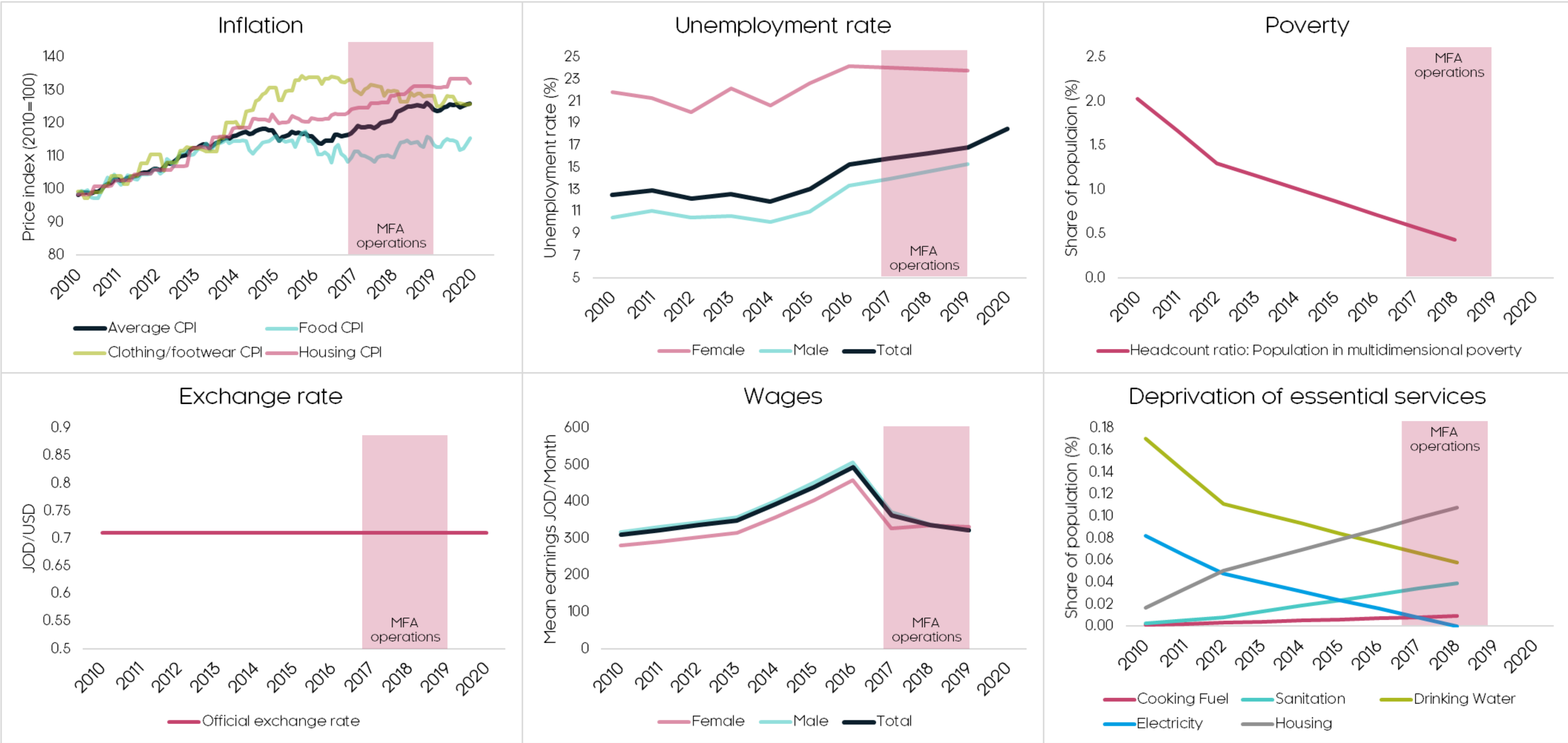
Labour market conditions were relatively stable over 2010-14; unemployment remained at around 12%; and employment earnings (wages) grew by around 6% (outpacing inflation). Labour market conditions deteriorated after 2014, with total unemployment rising to 16% in 2017 and nominal earnings contracting by 26% over 2016-17. Conditions continued to deteriorate during MFA operations (2017-19) albeit at a slower rate (17% unemployment rate in 2019 and 11% contraction in nominal pay over 2017-19).

Poverty and living standards

Poverty reduction and access to many key services (such as electricity and drinking water) improved over 2010-18. Key exceptions to otherwise promising trends were housing and sanitation, to which a greater share of households were deprived access in 2018. The available data are insufficient to make an assessment of how these indicators evolved during the full period of MFA operations, or whether there is evidence of a reversal of trends.

[223] Betts et al. (2017), 'Local Politics and the Syrian Refugee Crisis', University of Oxford Refugee Studies Centre [Accessed online: here]

Figure 69. – Selection of key nominal, labour market and living standards indicators before during and after MFA operations



Sources: Cambridge Econometrics; Jordan Department of Statistics; UN Human Development Indicators; ILOSTAT, World Bank.

A12.3.3 Counterfactual analysis

This section considers four counterfactual scenarios and how the social situation in Jordan might have differed in the absence of support of different levels.

Alternative 1: no MFA first-tranche scenario

Under the Alternative 1 scenario, Jordan would not have received the first MFA tranche of EUR 100 million in October 2017. The assumptions underpinning the analysis of the scenario are based on insights obtained through an expert survey, interviews with stakeholders, desk research and insights shared by local economic experts.

This analysis suggests that the two most likely options that would have been used to cover the financing gap in the absence of this first tranche were:

Issuance of new debt on domestic markets;

Increase in tax receipts as a result of tighter enforcement of profit and income tax laws.

Crucially, from the perspective of social impacts, the assumed alternative sources of finance do not involve cuts to government spending or pension adjustments. This means that the social impacts associated with fiscal consolidation would have been negligible under Alternative 1. Moreover, due to the size of the financing gap relative to GDP, it is unlikely that this counterfactual would have resulted in considerably weakened economic and labour market conditions. Therefore, social impacts linked to GDP and labour markets would also have been limited.

Conditionalities were solely imposed on the second-tranche MFA disbursements and, for simplicity, their impacts will be considered in the following scenario. However, some of the benefits associated with these conditionalities should also be attributed to the first-tranche MFA. This is because the first tranche meant that Jordan entered into the wider arrangement, and without which none of the conditionalities would have been in place.

Alternative 2: no MFA second-tranche scenario

Under the Alternative 2 scenario, Jordan would not have received the second MFA tranche of EUR 100 million in July 2019. For Alternative 2, similar conclusions were drawn regarding alternative sources of finance and macro-economic impacts. Over 70% of respondents to the expert survey, stated that alternative actions in 2019 (Alternative 2, here) would have been the same as that of 2017 (Alternative 1, above).

The second MFA tranche was, however, conditional on a number of areas of policy reform, which themselves are likely to have generated social impacts, as discussed in A12.2. Conclusions below:

Social safety net – Jordanian authorities made progress in improving the administrative/monitoring capacity of social security systems. The social impact that would have resulted in the absence of this policy is difficult to quantify, owing to the indirect, lagged and complex relationship between social security systems and provision. The analysis did not suggest that outcomes regarding the social safety net would've been much different under Alternative 2 during the MFA period. However, there may be future implications stemming from administrative/monitoring capacity.

Income tax reform – The analysis in this report suggests that policy changes relating to income tax would have mixed effects on the progressivity of the tax system. The absence of this reform would alleviate social concerns regarding low-income households brought into the tax system due to a reduction in income thresholds. However, this would come at the cost of not imposing higher taxes on higher-income households, which has contributed to greater progressivity in the current system.

Sales tax reform – Expenditure patterns across household expenditure groups strongly suggest that sales tax reforms (including special taxes, general sales tax exceptions and the removal of subsidies on bread) had negative impacts on the progressivity of the tax system. The absence of this policy reform would therefore imply a positive social impact (especially among low-income households who spend a larger share of their budget on foodstuffs).

Access to employment and training for Syrian refugees – Almost 100,000 work permits were issued to Syrian refugees in 2017 and 2018, the absence of which would likely have had a marked social impact on these people. Restrictions to access to training programmes and the absence of policies relating to special economic zones would also likely have had negative social impacts, albeit lower in magnitude (owing to the relatively small number of beneficiaries identified in the analysis).

Crucially, while inferences can be made about the likely social impacts of the policies described above, the extent to which policy action depended on EU intervention (i.e. under this alternative, no second tranche scenario) is difficult to determine. Due to the lack of familiarity with conditionality areas relating to social impacts (social safety net, employment opportunities for refugees and sales tax reform), there were few (2) responses from the expert survey relating to these reform areas. Responses were slightly higher (8) for income tax reform, which found that 50% of experts believed that income tax reform would have taken place regardless of EU intervention. The other 50% of experts also thought that income tax reform would have occurred without MFA conditionalities, just at a slower pace and/or with policy gaps.

Alternative 3: no MFA, no IMF scenario

Under the no MFA, no IMF scenario Jordan would not have received the rescue packages provided by the EU and the IMF. The total amount of funding provided by these two rescue packages over 2017-19 amounted to over EUR 477 million. Due to political and legal constraints, cuts to public spending and increases in government revenues would either have been infeasible or insufficient to cover the gap in budgetary support. It is also unlikely that Jordan would have been able to obtain sufficient financing from other bi-lateral/multi-lateral sources.

For these reasons, under this scenario, the expert view is that debt sustainability in Jordan would have been severely affected, weakening the economy to a great degree and exacerbating key social issues. Historically, debt crises are often associated with economic recession, increased rates of unemployment (sometimes sustained in the medium term), high levels of inflation and cuts to public services and wages[224]. These factors all typically have the effect of deteriorating the living conditions of households living through such crises.

However, while the impacts of the hypothetical "no MFA, no IMF" scenario could plausibly have been negative and far-reaching, it is not straightforward to estimate the potential magnitude of such a deterioration for Jordan. This is because past crises tend to be a product of individual countries' circumstances, making it difficult to distinguish and quantify cause and effect.[225].

The effects of the crisis are also shaped considerably by the economic context of the country, the context of the time and the policy response of the country. For instance, sovereign debt default by the Russian Federation in 1998 differed considerably from the Greek experience of the Eurozone crisis. The Russian crisis involved high inflation (19% and 72% in 1998 and 1999) and a short sharp recession, whereas the Greek debt crisis

[224] This is based on the experiences of Mediterranean economies during the Eurozone debt crisis (2009-12), Argentina during the debt crisis of 2001-02, Ecuador following the default of the 2012 and 2030 Global Bonds (2008-09) and the Russian debt default of 1998.

[225] Yeyati, Eduardo Levy, and Ugo Panizza. (2011) "The elusive costs of sovereign defaults." Journal of Development Economics.

involved only moderate inflation but was followed by sustained issues with unemployment and GDP growth.

Inferences regarding possible impacts of the hypothetical "no MFA, no IMF" scenario in Jordan (Alternative 3) might possibly be drawn from the ongoing crisis in Lebanon. In 2020, Lebanon defaulted on a $1.2bn Eurobond repayment[226], the first sovereign default in the country's history. In the same year, GDP per capita fell by around 40% in dollar terms (albeit partly due to the COVID-19 pandemic), the World Bank average exchange rate depreciated by 129% and inflation surged (averaging 84.3% in 2020)[227]. Real GDP is expected to contract by a further 9.5% in 2021[228]. From a social perspective, deterioration in the delivery of essential public services in Lebanon is also highly concerning, having several long-term implications: "mass migration, loss of learning, poor health outcomes, lack of adequate safety nets, among others"[229].

[226] Economist (2020), "Resilient no more: For the first time, Lebanon defaults on its debts" [Accessed online: here]

[227] World Bank (2021), "Lebanon Sinking into One of the Most Severe Global Crises Episodes, amidst Deliberate Inaction" [Accessed online: here]

[228] Ibid.

[229] Ibid.

Annex 13 Evaluation framework

Table 77. Framework for answering the Evaluation Question on Relevance: To what extent was the MFA operation design (including adequateness of financing envelope, focus of conditionality) appropriate in relation to the outputs to be produced and objectives to be achieved?

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
The size of the financial assistance was adequate in relation to the financing needs of the beneficiary country; Form of support was appropriate given the beneficiary country debt position and income status; MFA conditions were consistent with and relevant to Tunisian needs and realistic given the nature of the instrument; The MFA package was generally regarded as relevant to Tunisian needs by stakeholders, local economists, media etc.	Financing needs in 2016 and 2018 and how these were met Analysis of financing needs in 2017-19 (as done by IMF) and the role of MFA in meeting these needs; Comparison between projected and actual financing needs – reasons for deviations and relevance and appropriateness of MFA in light of any changes; Analysis of how Tunisia meets criteria defining eligibility to grants and of EU budgetary constraints;	Degree of consensus among key stakeholders/ key informants regarding the relevance and importance of the MFA (in absolute and relative terms); Stakeholders and local economists' assessment of the use of the loan (and absence of grant) and focus of the conditions; Examination of whether the focus of MFA conditionality was relevant and the ambition level appropriate in the local context, bearing also in mind the characteristics of the MFA instrument.	Documentary analysis: Ex-ante evaluation of MFA II to Tunisia and Jordan; Memoranda of Understanding (MoU) and Loan Agreements Reports and supporting documentation submitted by the authorities to the European Commission on the fulfilment of the structural reform criteria; Commission's assessment of compliance with conditionality requirements (eg.. after mission reviews); IMF mission reviews; WB summary reports; Other reports / needs assessments (2015 PEFA report for Tunisia covering years 2011-2013[230], 2016 PEFA report for Jordan covering years 2013-2015[231]) Various Indexes e.g. The Open Budget Index[232], WB Doing Business Ranking, World Economic Forum Competitiveness Index[233]. Semi-structured interviews: EC officials: DG ECFIN, DG NEAR

[230] PEFA, 2015. Assessment for Tunisia. Available at: https://pefa.org/assessments/tunisia-2015

[231] PEFA, 2016. Assessment for Jordan. Available at: https://www.pefa.org/sites/pefa/files/2020-04/JO-Mar17-PFMPR-Public.pdf

[232] IBP, 2018. The Open Budget Index. Available at: https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/

[233] WEF, 2018. Competitiveness Index. Available at: https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/

	Debt sustainability analysis.		EEAS Key representatives of Member States IMF/ WB officials; Authorities including also Ministries of Finance, Social Affairs and Central Banks; EU Delegation in Tunis and Amman. Case studies Experts' Survey Focus Group

Table 78. Framework for answering the Evaluation Question on Coherence: Were the measures of the MFA operation in line with key principles, objectives and measures taken in other EU external actions towards Jordan and Tunisia?

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
The MFA II was fully in line with EU objectives and reinforced EU action deployed via other instruments MFA conditionalities were consistent with and relevant to EU's and other donors' programmes	Not applicable	Stakeholders assessment of the coherence of the MFA II operation with other EU external actions Mapping of conditions, qualitative assessment of the adequacy of the conditionality, potential synergies/ overlaps with other EU instruments (i.e. deployed under ENI). Analysis of synergies with the IMF SBA/EFF programmes / WB programme(s)	Document and data review MFA II documentation including ex-ante evaluations of MFA to Jordan and Tunisia; Identification of relevant programs/ actions and review of their documentation (e.g. IMF, WB) Semi-structured interviews EC officials: DG ECFIN, DG NEAR, EEAS. EU Delegation in Jordan /Tunisia; Jordan authorities including , Ministry of Finance and Central Bank ;

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
			Tunisian and Jordanian authorities including, Ministry of Finance and Central Bank representatives ; Key representatives of Member States IMF/ WB officials; Other IFIs / other donors Focus Group

Table 79. Framework for answering Evaluation Question on Effectiveness: To what extent have the objectives of the MFA operation been achieved?

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
Macroeconomic impact There has been an improvement in the macroeconomic situation of both countries including external financial sustainability The role and contribution of MFA can be identified MFA had a positive social impact The evidence suggests that Tunisia would have been worst off in absence of the MFA Structural reforms There is evidence of progress with reforms There is evidence to suggest that MFA accelerated, reinforced or promoted reform in certain areas	Analysis of trends in key indicators (National accounts, Balance of payments statistics, Government finance statistics, Monetary statistics, External sustainability) before, during and after MFAs II Analysis of data on lending conditions available for both countries (focusing on financing available from bilateral / multilateral donors and to some extent from national and international capital markets) Debt Sustainability Analysis Social Impact Analysis – evolution of key indicators relating to unemployment, poverty, *etc*,	Counterfactual analysis Stakeholders and local economists' views on the specific contribution of MFA to short-term macroeconomic stabilization of Tunisia and Jordan; Stakeholders and local economists' assessment of the contribution of MFA to progress with structural reform	Document and data review: Macroeconomic data sourced from IMF/WB and national sources (for Tunisia, Jordan and MENA in general) MFA documentation IMF reviews and country reports; Credit rating agency reports (e.g. Moody's) Academic and grey literature on Tunisian and Jordanian economy; Data on public borrowing (scale/ maturity/ costs) and prevailing market conditions at the time of MFA/IMF programmes. Semi-structured interviews: EC officials: DG ECFIN; IMF/ WB officials; Tunisian / Jordanian authorities, in particular Ministry of Finance and Central Bank; EU Delegation in Tunis and Amman. Inputs from local experts Expert Survey Focus Group

Table 80. Framework for answering the Evaluation questions on Efficiency:

Evaluation question	Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
EQ1: Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country	MFA disbursements were timely given Tunisia / Jordan financing needs MFA disbursements were coherent with the EU stance in Tunisia and Jordan	Timing of disbursements in relation to key macroeconomic developments and financing needs in Tunisia and Jordan	Analysis of the timing of disbursements of both MFA and IMF and factors affecting disbursements Time taken between Tunisian authorities request for MFA assistance and approval/ disbursement of MFA Consistent of disbursement or non-disbursement decisions with the EU stance in the country	Document and data review: MFA documentation IMF/ WB documentation Semi-structured interviews EC officials: DG ECFIN, DG NEAR EEAS IMF/ WB officials Tunisian/ Jordanian authorities EU Delegation in Tunis / Amman

Evaluation question	Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
EQ2: In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?	There were favourable entry conditions for the MFA operation e.g. political commitment; public buy-in, capacity to implement reform There was effective dialogue between the European Commission and national authorities The design of the MFA operation was flexible, and it adjusted to changes in context and/or feedback mechanisms There was effective monitoring of the MFA operation The MFA operation was well perceived in Tunisia/ Jordan	Not applicable	The extent of liaison between the European Commission and national authorities Whether there was effective monitoring of the MFA operation The communication channels used, and media treatment received Stakeholders' feedback on what could have been done differently with the benefit of hindsight Identification of good practice / lesson learned from the design and implementation of MFA operation in Tunisia / Jordan, comparing the experiences in both countries	Document and data review: Macroeconomic data sourced from IMF and national sources MFA documentation Semi-structured interviews: EC officials: DG ECFIN, DG NEAR EEAS IMF/ WB officials Tunisian authorities EU Delegation in Tunis / Amman Expert Survey Focus group

Table 81. Framework for answering the Evaluation Question on Added Value: What was the rationale for an intervention at EU level and to what extent did the MFA operation add value compared to other interventions by other international donors?

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
There is clear financial added value of EU support – over intervention at MS level There is demonstrable evidence of signalling and confidence building effect of MFA operation – building investor and private sector confidence EU had a discernible influence on the design and application of conditionalities	Trends in confidence indicators and proxy indicators of confidence such as interest rates for T-bills and longer-term bonds denominated in local/ foreign currency and key indicators of the foreign exchange market	Qualitative assessment of links between wider fluctuations in confidence indicators and EU assistance Mapping of conditionalities (see also relevance) Stakeholders' views on the role and influence of EU in the design and application of support package	Document and data review: Macroeconomic data sourced from IMF and national sources; MFA documentation; IMF reviews and country reports; Academic and grey literature; Credit Rating Agencies reports; Financial markets data; Any relevant press monitoring reports Semi-structured interviews: EC officials: DG ECFIN, DG NEAR; IMF/ WB officials; Other key bilateral/ multilateral donors; Tunisian / Jordanian authorities; EU Delegation in Tunisia/ Jordan; Focus Group Expert Survey Insights from study experts

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